Aviva Health UK Limited

Registered in England and Wales: No. 2464270

Annual Report and Financial Statements 2019

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Directors and officers

Directors

R Barker
P C Brencher
O C Morris
S Bridger
A P D Larkin

Officer – Company Secretary

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

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

8 Surrey Street
Norwich
Norfolk
NR1 3NG

Company number

Registered in England and Wales: No. 2464270

Other information

Aviva Health UK Limited (the Company) is a member of the Association of British Insurers, is covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority.

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

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2019.

Review of the Company's business

Principal activities

The principal activity of the Company continues to be the marketing and administration of healthcare products. The Company is authorised to act as an intermediary for the sale and administration of private medical insurance business and wellness products on behalf of the underwriting business, Aviva Insurance Limited (AIL). The Company also administers non insurance trust business .

As a result of the historical interaction with Aviva Life's insurance business, the Company also provides a small amount of residual services to Aviva Life & Pensions UK Limited.

Financial position and performance

The financial position of the Company as at 31 December 2019 is shown in the statement of financial position on page 20, with the trading results shown in the income statement on page 17.

Future outlook

Strategies for the wider Aviva Group as a whole are determined by the Board of Aviva plc and these are shown in the Aviva plc Annual Report and Accounts 2019 and Preliminary Announcement for the year ended 31 December 2019. The Company will work with the Group to support the implementation of these strategies. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

Health business volumes are expected to rise in future years as the business continues its growth strategy. Income is expected to rise modestly, as expense efficiency initiatives are dampened by the costs of servicing higher volumes and inflationary pressures.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 15 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- *Exit of the UK from the EU & UK-EU Free Trade Agreement (FTA) negotiations*. In preparing for the end of the transition period on 31 December 2020 under the UK-EU withdrawal agreement, the Company has already taken the operational measures necessary irrespective of the outcome of UK-EU FTA negotiations. However, beyond 2020 the consequences of the UK's withdrawal from the EU on future financial services regulation and the UK economy will require careful monitoring; and
- *Coronavirus* as noted within the post balance sheet event section of the directors report on page 7.

Section 172 statement

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

The Board is responsible for monitoring and upholding the culture, values, standards, ethics, and reputation of the Company, and the Aviva Group, to ensure that the Directors' obligations to its shareholders and to its stakeholders are met. The Board monitors adherence to the Aviva Group business standards and compliance with local corporate governance requirements and is committed to acting if our businesses should fail to act in the manner the Board expects of them.

For each matter which comes before the Board, stakeholders who may be affected are identified and their interests are carefully considered as part of the Board's decision-making process.

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

Our culture

As the provider of vital health insurance services to thousands of customers, the Company seeks to earn customers' trust by acting with integrity and responsibility at all times. The Company looks to build relationships with all our stakeholders based on openness and continuing dialogue.

The Company's culture is shaped in conjunction with its immediate parent Company, Aviva Insurance Limited (AIL) and its ultimate shareholder, Aviva plc (Aviva Group), by jointly held and clearly defined values to help ensure it does the right thing. The Company values diversity and inclusivity in its workforce and beyond. The commitment the Company makes to each customer extends to all the Company's stakeholders; that is 'with you today, for a better tomorrow.' Throughout the Company's business, the Board is proud that our people live by our core value of Caring More for our customers, for each other and for the communities they serve.

Strategic report continued

Section 172 statement continued

Key strategic decisions in 2019

Within the wider Aviva Group, key decisions were made during 2019 to split Aviva UK General Insurance from Aviva UK Life business, with Colm Holmes becoming CEO of the General Insurance division. Mr Holmes delivered his General Insurance Operating Model plan which focuses on driving a better customer experience and reducing complexity in business processes and products. The Board have mirrored this philosophy in seeking to simplify the business for the customer wherever possible and ensure clear accountabilities throughout the business.

Stakeholder engagement

(i) Engagement with employees

The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, the Company's employees enjoy the benefit of the Aviva Group policies and benefits made available to them. The Company's engagement mechanisms align with those of the Aviva Group, such as employee forums, internal communication channels, and informal meetings with the Directors and employee engagement surveys.

The Company's people share in the business' success as shareholders through membership of the Group's global share plans.

(ii) Our customers

During 2019, the Board, in conjunction with Aviva plc, reviewed and redesigned the Company's Operating Model, aiming to reduce complexity in structure and processes to drive better customer experiences. The Board receives regular reporting on customer outcomes and has utilised feedback, especially negative points, to develop actions to improve on products, customer user experience and retention as a result of this feedback. The Board also receives strong risk and conduct reporting to ensure the products and services of the Company deliver customer value and operate in the customers best interests.

The Company's parent entity, AIL, is supported by the Conduct Committee to enable it to monitor customer metrics, and subsequently engage with the senior leaders to address any issues that may arise from customer complaints, feedback and our approach to good customer outcomes. The Company's Board can escalate any matters it feels necessary to the Conduct Committee for further scrutiny.

The Board receives regular reporting on strategic initiatives throughout the year, undertaking deep dives into areas that impact customers in order to re-align strategy where applicable.

The Board also works closely with the Company's business partners to focus on new approaches to health provision and pricing in the health insurance industry. The Board monitors and reviews developments concerning changes to the Company's IT platforms, and any IT issues, to enable the Company to respond to customer service delivery issues.

(iii) Our suppliers

All supplier related activity is managed in line with the Group Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual, and brand damage caused by inadequate oversight or supplier failure. Our Directors are closely involved in the management and oversight of our most critical or important suppliers and the Board regularly review reports on their performance.

The Board reviews the actions the Group has taken to prevent modern slavery and associated practices in any part of our supply chain and approves the Group's Modern Slavery Act statement each year.

In the UK, the Company's ultimate parent, Aviva plc, is a signatory of the Prompt Payment Code which sets standards for high payment practices. The Group is a Living Wage employer in the UK, and the Company's supplier contracts include a commitment by the supplier to pay their eligible employees not less than the Living Wage in respect of work provided to the Company at its premises in the UK.

Strategic report continued

Section 172 statement continued

(iv) Communities

The Aviva Health business conceived and continues to develop Wellbeing@Aviva, a health and wellbeing proposition for UK employees, providing products, improved policies and better support to enhance our employees' mental, physical, community and financial welling. With a focus on prevention and early intervention of illness, Wellbeing@Aviva utilises a dynamic group of 'Health Hero's' across our sites to promote physical, mental and community wellbeing. This has led to our people creating of a number of internal communities to enable colleagues to connect over activities they are passionate about.

The Aviva plc Board members and key Board attendees took part in numerous charitable and/or sponsored events in 2019 that supported the communities and its charities/organisations. These included utilising one of the Group's national call centres to support Children in Need, taking over 1,500 calls on the night and £50,000 in charitable donations, with Board members in attendance.

The Aviva plc Board actively encourage employees to utilise their 21 hours of volunteer time, and many Board members have participated themselves, volunteering for local and national charities such as Grief Encounters that continues the support to wards those affected by the Manchester bombing and Black History Month, which highlighted the culture, heritage and achievements of BAME employees.

The Board continue to support the Aviva Community Fund, Red Cross Appeals and Mapathon's within the Company's communications and events, as well supporting and help sponsoring Pride across their local communities, and the Hearing Dog Association. Support is also given to local trade and businesses with office events and trade fairs across offices.

(v) Shareholders

The Company's ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board. Any matters requiring escalation are escalated by the Board through the Chair to its parent, AIL. Additionally, members of th e Aviva plc board can attend the Company's board meetings by invitation.

(vi) Our regulators

As a subsidiary of the UK General Insurance business, the Company's senior management and its compliance function engage in meetings with the FCA.

As a solo regulated entity under the Senior Manager's Certification Regime, the Company produces a Management Responsibilities Map which is shared with the Regulator on a quarterly basis.

Key performance indicators

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

	2019	2018
	£000	£000
(Decrease) / increase in revenue	**(1%)**	1%
Profit for the year after tax	**2,490**	1,163
Increase / (decrease) in shareholders' equity	**1,183**	(3,337)

Revenue primarily represents fees charged by the Company for the provision of operational assets and services to Group companies during the year. Profit for the year after tax has increased due to the overall cost based reducing due to cost saving projects run in 2019.

By order of the Board on 9 December 2020

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

Directors' report

The directors present their annual report and audited financial statements for the Company for the year ended 31 December 2019.

Directors

The names of the present directors of the Company appear on page 3. Details of Board appointments and resignations during the year are shown below:

M A Noble resigned as a director of the Company on 30 March 2019.

R Barker was appointed as a director of the Company on 2 April 2019.

A L Nye resigned as a director of the Company on 30 April 2019.

M P Woods was appointed as a director of the Company on 3 September 2019.

O C Morris was appointed as a director of the Company on 1 September 2020.

S Bridger was appointed as a director of the Company on 27 October 2020.

A Beckett resigned as a director of the Company on 9 November 2020.

M P Woods resigned as a director of the Company on 25 November 2020.

A P D Larkin was appointed as a director of the Company on 26 November 2020.

Company Secretary

The name of the present Company Secretary appears on page 3.

Dividends

No ordinary dividends were declared or paid during the year ended 31 December 2019 *(2018: £4.5 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, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on the Company's management of its major risks (see note 15).

The Company and its ultimate parent, 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 a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Post balance sheet events

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. On 1 May 2020, the Financial Conduct Authority (FCA) issued guidance which made it clear that they expect financial services organisations to ensure that products continue to offer value and are appropriate for customers, considering the impact of coronavirus and the organisations' ability to deliver the benefits promised.

As the situation remains uncertain, the FCA has proposed to give insurers up to six months to assess this, so that the effects of coronavirus can be more fully reviewed and the Company will comply with their final proposals. If the Company's current assessment or wider circumstances change, the Company will update its position and communicate with customers again.

The Company has pledged that for individual and SME UK PMI policyholders, treatment may be delayed as a result of COVID-19 and this may result in overall claims costs being lower than expected in the short-term. However, treatment is expected to be delayed rather than cancelled and overall claims costs are anticipated to subsequently be higher. The period of lower claims is expected to be broadly offset by the period of higher claims. However, if PMI claims to Aviva are lower than planned over this entire period, expected to be over 2020 and 2021, Aviva have promised to return the difference to UK PMI policyholders.

For large corporate PMI and Healthcare Trust clients, the Company are seeking to apply similar principles, but due to the complex nature of its corporate health products, the approach will vary on a case-by-case basis and will naturally need to differ across fully insured, corporate excess and trust schemes, given the differing nature in the way each type of policy operates.

Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

Directors' report continued

Post balance sheet events continued

The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. At 31 December 2019 the Company had strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained and IT systems remaining operational. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures and operations. As at 30 September 2020, the impact on the Company's expected profitability has been calculated at £400 thousand.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 4.

Disclosure of information to the auditors

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

Independent auditors

It is the intention of the directors to reappoint the auditors, PricewaterhouseCoopers LLP, under the deemed appointment rules of section 487 of the Companies Act 2006.

Qualifying indemnity provisions

Aviva plc, the Company's immediate parent, granted in 2004 an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of section 309A to section 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, schedule 3 of the Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). 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 the 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 EU and IFRSs issued by 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.

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.

Directors' report continued

By order of the Board on 9 December 2020

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

Independent auditors' report to the members of Aviva Health UK Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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.

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 2019; 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.

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 o pinion.

Independence

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

Conclusions relating to going concern

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

- 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.

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.

Independent auditors' report to the members of Aviva Health UK Limited continued

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

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.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
December 2020

Accounting policies

The Company is a private limited company incorporated and domiciled in the United Kingdom (UK) and limited by shares. The Company's principal activity is managing and collecting the debt from the sale of Aviva Health products. 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 (IFRSs) 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 financial statements have been prepared on the going concern basis as explained in the directors' report on page 7.

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

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

The Company has adopted the following new standard which became effective for the annual reporting period beginning on 1 January 2019:

(i) IFRS 16, Leases

In January 2016, the IASB published IFRS 16 Leases. This standard replaces IAS 17 Leases and applies to annual reporting periods beginning on or after 1 January 2019. The standard has been endorsed by the EU.

The adoption of IFRS 16 has resulted in an update to the Company's stated accounting policy for leases. The standard has introduced a definition of a lease with a single lessee accounting model, eliminating the previous classification of either operating or finance leases. Lessees are required to recognise lease assets and liabilities on the statement of financial position for all leases, with the exception of short term and low value leases. Further information can be found in accounting policy F.

The Company has chosen to adopt the modified retrospective approach on transition permitted by IFRS 16. This approach does not require prior period comparatives to be restated, and the impact of adoption of the standard on retained earnings is shown as an adjustment to opening retained earnings. On transition, and where applicable, the Company has applied the following practical expedients:

- Applied a single discount to a portfolio of leases with reasonably similar characteristics;
- Relied on existing assessments on whether leases are onerous as an alternative to performing an impairment review. Where such leases existed, the onerous lease provision held at 31 December 2018 was offset against the initial right-of-use asset at the date of initial application as permitted by IFRS 16;
- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

The company has reviewed existing service and outsourcing contracts to determine whether they are either a lease or contain a lease at the date of initial application. This has not resulted in any additional contracts being recognised as leases in the statement of financial position.

Application of the modified retrospective approach on transition has resulted in a reduction in retained earnings of £1,307 thousand at 1 January 2019. This reflects the fact that the right-of-use assets and lease liabilities amortise to nil at different rates over the lease term. A higher initial amortisation of the right-of-use asset compared to the lease liability results in the asset value being lower than the lease liability during the lease term, with the difference between the two generally converging to nil as the lease term ends. There have been corresponding increases in the value of assets (£1,571 thousand) and liabilities (£2,878 thousand) at 1 January 2019, representing the right-of-use assets and liabilities, net of any tax impacts, not previously recognised on the statement of financial position in accordance with IAS 17 (see note 7). There has been no material impact on profit before tax.

The weighted average discount rate applied to the lease liabilities recognised at 1 January 2019 was 2.71%.

Future contractual aggregate minimum lease payments under non-cancellable operating leases, as disclosed in note 12 of the Company's 2018 financial statements, were £1,937 thousand at 31 December 2018. Lease liabilities in respect of operating leases brought on to the balance sheet at 1 January 2019 following the adoption of IFRS 16 were £2,878 thousand. The balance shown at 1 January 2019 represents a present value of lease payments, whereas the figure disclosed at 31 December 2018 is the aggregated undiscounted payments.

Lessor accounting remains similar to the previous approach set out in IAS 17. The Company's lessor accounting policies have not changed as a result of the introduction of IFRS 16.

Leased property classified as investment property is held at fair value and measured in accordance with IAS 40 Investment Property. This is consistent with the approach adopted under IAS 17.

Accounting policies continued

(A) Basis of preparation continued

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning 1 January 2019 or earlier, and do not have a significant impact on the Company's financial statements:

(i) 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.

(ii) Annual Improvements to IFRS Standards 2015-2017 Cycle

These improvements consist of amendments to four IFRSs including IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes, and IAS 23 Borrowing Costs. The amendments are effective for annual reporting beginning on or after 1 January 2019.

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 have been issued, are not yet effective and are not expected to have a significant impact on the Company's financial statements:

(i) Amendments to References to the Conceptual Framework in IFRS Standards

Published by the IASB in March 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have been endorsed by the EU.

(ii) Amendment to IFRS 3 Business Combinations

Published by the IASB in October 2018. The amendment is effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

(iii) Amendments to IAS 1 and IAS 8: Definition of material

Published by the IASB in October 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have been endorsed by the EU.

(iv) Interest Rate Benchmark Reform

Published by the IASB in October 2019. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have been endorsed by the EU.

(v) Amendments to IAS 1 Presentation of Financial Statements: Classification of liabilities as current or non-current

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have been endorsed by the EU.

(B) Critical accounting policies and the use of estimates

The preparation of financial statements requires 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. Although these estimates are based on management's best knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions, actual results ultimately may differ from those estimates, possibly significantly.

Critical accounting policies and critical estimates

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

Accounting policies continued

(C) Revenue recognition

The Company derives revenue from the marketing and administration of healthcare products and is recognised when its performance obligation is satisfied, at the fair value of consideration receivable. Revenue can be split into the following streams:

(i) Revenue generated from services provided for the administration of insurance business
Revenue represents fees charged by the Company for the provision of operational assets and services during the year. The performance obligation is satisfied over time as the service is delivered. Revenue is recognised in the accounting period in which the services are provided when there are probable future economic benefits and when these can be reliably measured. Transaction price and timing of payment are in accordance with terms specified by the underlying contract.

(ii) Revenue generated from the administration of non-insurance trust policies
Trusts are held by Aviva Health UK Limited on behalf of its customers, who pay an administration fee for the service provided. Revenue is recognised in the accounting period in which the services are provided when there are probable future economic benefits and when these can be reliably measured. Revenue is measured at the fair value of consideration receivable. The performance obligation is satisfied over time as the service is delivered. Transaction price and timing of payment are in accordance with terms specified by the underlying contract.

(iii) Revenue generated from rebates on hospital contracts
Contracts are arranged with hospital operators for the provision of medical treatment under the medical insurance business administered by Aviva Health UK Limited. For fixed rebates, revenue is recognised based on a set benchmark as determined in the contract. Revenue is accounted for across the length of the contract, in line with the service provided. For variable rebates, consideration is contingent on a future event specified in the contract. Revenue is recognised at a point in time when this condition is met. Transaction price and timing of payment are in accordance with terms specified by the underlying contract.

(iv) Other income
Revenue represents fees charged by the Company for the provision of ad hoc services. Revenue is recognised in the accounting period in which the services are provided when there are probable future economic benefits and when these can be reliably measured. Revenue is measured at the fair value of consideration receivable. The performance obligation is satisfied over time when the service is delivered. Transaction price and timing of payment are in accordance with terms specified by the underlying contract.

The Company has applied the practical expedient so it need not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

(D) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for expected credit losses. The Company makes use of the simplified approach when calculated expected credit losses on trade and other receivables and therefore calculates expected credit losses over the lifetime of the instrument in question. Expected credit losses on third party trade receivables and accrued income are calculated with reference to the Company's historical experience of losses, along with an analysis of payment terms. Short term financial assets (where all amounts are receivable within 12 months from the reporting date) do not generally attract an expected credit loss charge, unless there is objective evidence that losses are likely to arise. The Company does not expect any material credit losses on trade receivables with related parties.

(E) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

Accounting policies continued

(F) Leases

Where the Company is the lessee, a lease liability equal to the present value of outstanding lease payments and a corresponding right-of use asset equal to cost are initially recognised. The right-of-use asset is subsequently measured at amortised cost and depreciated on a straight-line basis over the length of the lease term. Depreciation on lease assets and interest on lease liabilities is recognised in the income statement.

The Company has made use of the election available under IFRS 16 to not recognise any amounts on the balance sheet associated with leases that are either deemed to be short term, or where the underlying asset is of low value. A short-term lease in this context is defined as any arrangement which has a lease term of 12 months or less. Lease payments associated with such arrangements are recognised in the income statement as an expense on a straight-line basis.

Where the Company is the lessor, leases are classified as finance leases if the risks and rewards of ownership are substantially transferred to the lessee and operating leases if they are not substantially transferred. Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term. When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable. The Company has not entered into any material finance lease arrangements as lessor.

Comparative figures

Prior period comparatives have not been restated to reflect the adoption of IFRS 16. The accounting policy relating to leases applied to comparatives is set out below.

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Where the Company is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the relevant leases.

Where the Company is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

(G) Income taxes

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

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

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

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

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

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

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

(H) Trade and other payables and other liabilities

Trade and other payables and other liabilities are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

Accounting policies continued

(I) 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 o n 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.

Income statement
For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Income			
Revenue	C & 1	**94,921**	96,207
		94,921	96,207
Expenses	2		
Operating expenses		**(92,483)**	(94,810)
Finance costs		**(40)**	-
Profit for the year before tax		**2,398**	1,397
Tax credit/(charge)	5	**92**	(234)
Profit for the year after tax		**2,490**	1,163

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 32 are an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2019

	2019	2018
	£000	£000
Profit for the year	**2,490**	1,163
Total comprehensive income for the year	**2,490**	1,163

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 32 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 31 December 2019

	Note	Ordinary share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018		7,700	5,528	13,228
Profit for the year after tax		-	1,163	1,163
Total comprehensive income for the year		-	1,163	1,163
Dividends paid	10	-	(4,500)	(4,500)
Balance at 31 December 2018		**7,700**	**2,191**	**9,891**
Adjustment at 1 January for adoption of IFRS 16	7	**-**	**(1,307)**	**(1,307)**
Balance at 1 January 2019		**7,700**	**884**	**8,584**
Profit for the year after tax		**-**	**2,490**	**2,490**
Total comprehensive income for the year		**-**	**2,490**	**2,490**
Balance at 31 December 2019		**7,700**	**3,374**	**11,074**

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 32 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2019

	Note	**2019** £000	2018 £000
Assets			
Receivables	D & 8	**16,977**	35,846
Deferred tax assets	G & 11(b)	**246**	120
Cash and cash equivalents	E & 13(b)	**54,566**	35,517
Total assets		**71,789**	71,483
Equity			
Ordinary share capital	I & 9	**7,700**	7,700
Retained earnings	10	**3,374**	2,191
Total equity		**11,074**	9,891
Liabilities			
Trade and other payables	H & 12	**60,715**	61,358
Current tax liabilities	G & 11(a)	**-**	234
Total liabilities		**60,715**	61,592
Total equity and liabilities		**71,789**	71,483

The financial statements were approved by the Board of Directors on 9 December 2020 and signed on its behalf by

S Bridger
Director

Registered in England and Wales: No. 2464270

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 32 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities	13(a)	**19,049**	(25,470)
Net cash from operating activities		**19,049**	(25,470)
Cash flows from investing activities			
Dividend paid		**-**	(4,500)
Net cash from financing activities		**-**	(4,500)
Total net increase/(decrease) in cash and cash equivalents		**19,049**	(29,970)
Cash and cash equivalents at 1 January		**35,517**	65,487
Cash and cash equivalents at 31 December	13(b)	**54,566**	35,517

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 22 to 32 are an integral part of these financial statements.

Notes to the financial statements

1. Revenue

Revenue has been disaggregated by revenue stream as follows:

	2019 £000	2018 £000
Administration of insurance business	**91,675**	93,182
Administration of non-insurance trust policies	**1,875**	1,974
Other income	**1,371**	1,051
Total revenue	**94,921**	96,207

2. Details of expenses

Under management agreements, fellow group undertakings, including Aviva Central Services UK Limited, Aviva Life Services UK Limited, Aviva Insurance Limited and Aviva Employment Services Limited supply and make a charge for the provision of operational assets, services and staff to the Company. These are included in other expenses below.

	Note	2019 £000	2018 £000
Operating expenses			
Other expenses		**92,044**	94,810
Depreciation of equipment	6	**439**	-
		92,483	94,810
Finance costs			
Interest on lease liability	7	**40**	-
Total expenses		**92,523**	94,810

3. Directors' emoluments

Emoluments of directors in office during the year were:

	2019 £000	2018 £000
Aggregate emoluments in respect of qualifying services	**1,189**	1,473
Company pension contributions to money purchase scheme	**17**	23
Accrued pension at end of year from defined benefit pension scheme	**122**	139
Termination benefits	**451**	-
	1,779	1,635
Emoluments of the highest paid director:		
Aggregate emoluments in respect of qualifying services	**416**	577
Company pension contributions to money purchase scheme	**3**	4
Accrued pension at end of year from defined benefit pension scheme	**49**	68
	468	649

The highest paid director received shares under the executive long-term incentive schemes.

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

No lump sum in relation to the defined benefit pension scheme had accrued at the end of the current or previous year.

During the year three of the directors, including the highest paid director, exercised share options *(2018: none)* and three of the directors, including the highest paid director, received shares under long term incentive schemes *(2018: five)* in relation to shares of the Company's ultimate parent company, Aviva plc. Details may be found in the annual report and financial statements of Aviva plc.

Notes to the financial statements continued

4. Auditors' remuneration

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

	2019 £000	2018 £000
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**57**	55
	57	55

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

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies.

5. Tax

(a) Tax (credited)/charged to the income statement

The total tax (credit)/charge comprises:

	2019 £000	2018 £000
Current tax		
For this year	**-**	234
Prior year adjustments	**(234)**	(26)
Total current tax	**(234)**	208
Deferred tax		
Origination and reversal of temporary differences	**159**	29
Changes in tax rates or tax laws	**(17)**	(3)
Total deferred tax	**142**	26
Total tax (credited)/charged to income statement	**(92)**	234

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

There was no tax credited or charged to other comprehensive income in either 2019 or 2018.

(c) Tax reconciliation

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

	2019 £000	2018 £000
Profit for the year before tax	**2,398**	1,397
Tax calculated at standard UK corporation tax rate of 19% *(2018: 19%)*	**456**	265
Adjustments in respect of prior years	**(234)**	(26)
Non-assessable dividends	**(4)**	(2)
Surrender of losses from group undertakings for no charge	**(293)**	-
Impact of change in rate of tax	**(17)**	(3)
Tax (credit)/charge for the year	**(92)**	234

Finance Act 2016 introduced legislation reducing the UK corporation tax rate from 1 April 2020 to 17%. This reduced rate was used in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2019. In the Budget of 11 March 2020 the UK Government reversed this rate reduction, announcing that the UK corporation tax rate will remain at 19% from 1 April 2020 and this was substantively enacted on 17 March 2020.

As of 31 December 2019, this measure had not been substantively enacted and therefore no impact is reflected in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2019.

Notes to the financial statements continued

6. Property and Equipment

	Note	Leasehold Property £000	Total £000
Cost or valuation			
At 31 December 2018		**-**	**-**
Adjustment at 1 January 2019 for adoption of IFRS 16		**1,303**	**1,303**
At 1 January 2019		**1,303**	**1,303**
Termination of lease contract		**(1,303)**	**(1,303)**
At 31 December 2019		**-**	**-**
Depreciation			
At 31 December 2018		**-**	**-**
Adjustment at 1 January 2019 for adoption of IFRS 16		**-**	**-**
At 1 January 2019		**-**	**-**
Charge for the year	2	**(439)**	**(439)**
Termination of lease contract		**439**	**439**
At 31 December 2019		**-**	**-**
Carrying amount			
At 31 December 2018		-	-
At 31 December 2019		**-**	**-**

7. Lease assets and liabilities

From 1 January 2019 the Company has adopted IFRS 16 Leases, the standard which replaces IAS 17 Leases. Adoption of the standard has resulted in assets previously held under operating leases (and their corresponding lease liabilities) being recognised on the statement of financial position for the first time. Adoption of the standard resulted in the following assets and liabilities being included within the statement of financial position for the first time at 1 January 2019:

- £1,303 thousand owner-occupied property assets, included within property and equipment (see note 6);
- £268 thousand adjustment to opening retained earnings for tax adjustments on IFRS 16 capital allowances;
- £2,878 thousand lease liabilities, included within other liabilities (£nil at 31 December 2019).

The adjustments above result in an adjustment to opening retained earnings of £1,307 thousand at 1 January 2019 (see note 10).

The Company's leased assets primarily consist of property occupied by the Company (see note 6);

(i) Total interest expense included in the income statement in respect of lease liabilities is £40 thousand. Total cash outflows recognised in the year in relation to leases were £757 thousand. Expenses recognised in the Company income statement in relation to short term and low value leases were £nil. Variable lease payments not included in the measurement of lease liabilities were £nil.

(ii) The following table analyses the right of use assets relating to leased properties occupied by the Company:

	Note	Property and equipment £000	Total £000
Balance at 1 January 2019		**1,303**	**1,303**
Depreciation	2	**(439)**	**(439)**
Termination of lease contract		**(864)**	**(864)**
Balance at 31 December 2019		**-**	**-**

(iii) Future contractual aggregate minimum lease payments are £nil.

Notes to the financial statements continued

8. Receivables

	2019 £000	2018 £000
Trade receivables	**13,498**	20,512
Amounts due from fellow subsidiaries	**1,830**	13,922
Other receivables	**1,649**	1,412
Total at 31 December	**16,977**	35,846
Expected to be received in less than one year	**16,977**	35,846
Total at 31 December	**16,977**	35,846

Of the above total, £nil *(2018: £nil)* is expected to be recovered more than one year after the statement of financial position date.

As at 31 December 2019 £3,000 thousand of trade receivables was due from an overseas governing body *(2018: £3,000 thousand)*. The amount of provision in relation to this balance was determined based on the estimated likelihoods and recovery values of each of the potential outcomes using the extensive experience of the Aviva Legal teams at the statement of financial position date. Subsequent to this, on 2 November 2020, a balance of £4,250 thousand was received.

9. Ordinary share capital

	2019 £000	2018 £000
Allotted, called up and fully paid share capital		
7,700,000 *(2018: 7,700,000)* ordinary shares of £1 each	**7,700**	7,700

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.

10. Retained earnings

	Note	2019 £000	2018 £000
At 1 January		**2,191**	5,528
Adjustment for adoption of IFRS 16	7	**(1,307)**	-
Balance at 1 January		**884**	5,528
Profit for the year		**2,490**	1,163
Dividends paid		**-**	(4,500)
At 31 December		**3,374**	2,191

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to intermediary firms imposed by the Financial Conduct Authority (FCA). Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital.

Notes to the financial statements continued

11. Tax assets and liabilities

(a) Current tax

Tax liabilities expected to be paid in more than one year are £nil *(2018: £234 thousand)*.

(b) Deferred tax

(i) The balance at 31 December comprises:

	2019 £000	2018 £000
Accelerated capital allowances	**98**	120
Provisions and other temporary differences	**148**	-
Net deferred tax asset	**246**	120

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

	Note	2019 £000	2018 £000
Net asset at 1 January		**120**	146
Adjustment at 1 January for the adoption of IFRS 16	7	**268**	-
Amounts charged to profit	5(a)	**(142)**	(26)
Net asset at 31 December		**246**	120

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

The Company has unrecognised temporary differences of £nil *(2018: £nil)* to carry forward.

12. Trade and other payables

	2019 £000	2018 £000
Trade payables	**6,903**	9,060
Amounts owed to fellow subsidiaries	**26,653**	30,412
Deferred income	**1,244**	3,621
Other payables	**25,915**	18,265
Total at 31 December	**60,715**	61,358
Expected to be paid in less than one year	**60,715**	61,358
Total at 31 December	**60,715**	61,358

13. Statement of cash flows

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

	Note	2019 £000	2018 £000
Profit before tax		**2,398**	1,397
Changes in working capital:			
Decrease/(increase) in trade and other receivables		**18,869**	1,268
Adjustment for lease asset	7	**1,303**	
(Decrease)/increase in trade and other payables		**(643)**	(28,135)
Adjustment for lease liability	7	**(2,878)**	
		16,651	(26,867)
Net cash inflow/(outflow) from operating activities		**19,049**	(25,470)

Notes to the financial statements continued

13. Statement of cash flows continued

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	2019	2018
	£000	£000
Cash and cash equivalents	**54,566**	35,517
Total at 31 December	**54,566**	35,517

14. Capital structure

In managing its capital, the Company seeks to:

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

The Company is subject to the capital requirements applicable to intermediary firms imposed by the FCA. The Company fully complied with these regulatory requirements during the year.

The analysis below sets out the Company's capital resources available to meet its regulatory capital requirements:

	2019	2018
	£000	£000
Total equity	**11,074**	9,891
Adjustments onto a regulatory basis:		
Deferred tax assets	**(246)**	(120)
Total available capital resources	**10,828**	9,771

The intangible assets deduction relates to the deferred tax asset, which is inadmissible for FCA purposes.

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

15. Risk management

(a) Risk management framework

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

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit. They may also affect the performance of the products the Company delivers to its customers and the service to its customers and distributors, which can be categorised as risks to brand and reputation or as conduct risk.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. The business chief executive officer make an annual declaration that the system of governance and internal controls was effective and fit for purpose for their business throughout the year; this declaration is supported by an opinion from the chief risk officer.

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

Further information on the types and management of specific risk types is given in sections (b) to (g) below.

Notes to the financial statements continued

15. Risk management continued

(b) 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 to the Company, or variations in market values as a result of changes in expectation related to these risks.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's credit ris ks arise principally through exposures to internal counterparties.

The Company's management of credit risk includes implementation of credit risk management processes (including limits and frameworks), the operation of specific risk management committees, and detailed reporting and monitoring of exposures against pre-established risk criteria.

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date equates to carrying value. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

The Company makes use of the simplified approach when calculating expected credit losses on trade and other receivables and therefore calculates expected credit losses over the lifetime of the instrument in question. Expected credit losses on third party trade receivables are calculated with reference to the Company's historical experience of losses, along with an analysis of payment terms. Short-term financial assets (where all amounts are receivable within 12 months from the reporting date) do not generally attract an expected credit loss charge, unless there is objective evidence that losses are likely to arise. The Company does not expect any material credit losses on receivables with related parties.

(c) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, inflation, foreign currency exchange rates and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held.

The management of market risk is undertaken at business unit and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Capital is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

The Company has limited exposure to market risk.

(d) Liquidity risk

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

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due. The Company monitors its position relative to its agreed liquidity risk appetite.

In extreme circumstances, the Company would approach the Group for additional short-term borrowing whilst the Company liquidated other assets.

(e) Operational risk

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

The Company has limited appetite for operational risk and aims to reduce these risks as far as is commercially sensible.

The Company's Operational Risk and Control Management Framework, integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence. Operational risks are initially identified and assessed against implemented controls. Residual risk, outside tolerance, is given prioritised management action to reduce it within tolerance.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

(f) Exit of the UK from the EU & UK-EU Free Trade Agreement (FTA) negotiations

In preparing for the end of the transition period on 31 December 2020 under the UK-EU withdrawal agreement, we have already taken the operational measures necessary irrespective of the outcome of UK-EU Free Trade Agreement negotiations. However, beyond 2020 the consequences of the UK's withdrawal from the EU on future financial services regulation and the UK economy will require careful monitoring.

Notes to the financial statements continued

15. Risk management continued

(g) Coronavirus

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. On 1 May 2020, the Financial Conduct Authority (FCA) issued guidance which made it clear that they expect financial services organisations to ensure that products continue to offer value and are appropriate for customers, considering the impact of coronavirus and the organisations' ability to deliver the benefits promised.

As the situation remains uncertain, the FCA has proposed to give insurers up to six months to assess this, so that the effects of coronavirus can be more fully reviewed and the Company will comply with their final proposals. If the Company's current assessment or wider circumstances change, the Company will update its position and communicate with customers again.

The Company has pledged that for individual and SME UK PMI policyholders, treatment may be delayed as a result of COVID-19 and this may result in overall claims costs being lower than expected in the short-term. However, treatment is expected to be delayed rather than cancelled and overall claims costs are anticipated to subsequently be higher. The period of lower claims is expected to be broadly offset by the period of higher claims. However, if PMI claims to Aviva are lower than planned over this entire period, expected to be over 2020 and 2021, Aviva have promised to return the difference to UK PMI policyholders. This calculation will be independently audited.

For large corporate PMI and Healthcare Trust clients, the Company are seeking to apply similar principles, but due to the complex nature of its corporate health products, the approach will vary on a case-by-case basis and will naturally need to differ across fully insured, corporate excess and trust schemes, given the differing nature in the way each type of policy operates.

Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. At 31 December 2019 the Company had strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained and IT systems remaining operational. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures and operations. As at 30 September 2020, the impact on the Company's expected profitability has been calculated at £400 thousand.

16. Related party transactions

The members of the Board of Directors are listed on page 3 of these financial statements. There are no amounts receivable from or payments due to members of the Board of Directors.

Amounts receivable from, or payments due to, related parties are disclosed separately in the relevant notes. The related parties' receivables (note 8) and payables (note 12) are not secured and no guarantees were received in respect thereof. No provision or expense has been recognised during the year in respect of bad and doubtful debts *(2018: £nil)*.

The Company had the following transactions with related parties, which include parent companies, subsidiaries, and fellow Group companies in the normal course of business.

(a) The Company had the following related party transactions

(i) Income receivable from related parties

During the year, the Company received income of £91,675 thousand (*2018: £93,683 thousand*), from fellow group undertakings.

(ii) Services provided by related parties

Under management agreements Group companies supply and make charges for the provision of operational assets and services to the Company. The agreements specify the amounts payable in respect of these services. Details of these charges are included in note 2 to the financial statements.

Amounts payable in respect of services from Healthcode Limited were £607 thousand (*2018: £502 thousand*). At the end of the year £nil remained outstanding (2018: £nil).

Amounts payable in respect of services from Health and Case Management Limited were £3,835 thousand (*2018: £5,712 thousand*).

Notes to the financial statements continued

16. Related party transactions continued

(c) Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the executive directors, is as follows:

	2019	2018
	£000	£000
Salary and other short-term benefits	**1,189**	1,473
Termination benefits	**451**	-
Other long-term benefits	**139**	162
	1,779	1,635

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

The directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate holding company, Aviva plc. The emoluments of these directors are recharged to Aviva Health UK Limited, and details of their emoluments are given in note 3.

(d) Parent entity

The immediate parent entity is Aviva Insurance Limited, registered in Scotland.

(e) Ultimate parent entity

The ultimate parent entity and controlling party is Aviva plc, a public limited company incorporated and domiciled in the United Kingdom, which 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.

Notes to the financial statements continued

17. Related undertakings

The Company's Act 2006 requires disclosure of certain information about the Company's related undertakings which is set out in this note. Related undertakings comprise associates.

The Company's related undertakings along with the country of incorporation, the registered address, the class of shares held and the effective percentage of equity owned at 31 December 2019 are listed below.

The direct related undertakings of the Company as at 31 December 2019 are listed below:

Name of undertaking	Registered address	Country of incorporation	Share class	% held
Healthcode Limited	Swan Court Waterman's Business Park, Kingsbury Crescent, Staines, Surry, TW18 3BA	United Kingdom	Ordinary	20.00
Ballard Investment Company Limited	42 Dingwall Road, Croydon, Surrey, CR0 2NE	United Kingdom	Preference	25.10
Ballard Investment Company Limited	42 Dingwall Road, Croydon, Surrey, CR0 2NE	United Kingdom	Ordinary	25.10
Healthcare Purchasing Alliance Limited	8 Surrey Street, Norwich, Norfolk, NR1 3NG	United Kingdom	Preference	50.00

The Company holds an equity investment in Ballard Investment Company Limited (Ballard). A subsidiary undertaking of Ballard, Health and Case Management Limited (HCML) provides professional rehabilitation case management for the Company's customers on its behalf. The acquisition was in furtherance of the Company's strategy to become a Solutions Provider. The equity investment was fully impaired in 2011.

The equity investment in Healthcode Limited has been fully impaired. The investments were deemed to have no fair value on the basis that no income would be received from Healthcode Limited.

On 20 October 2015, the Company entered into a joint venture with Vitality Corporate Services Limited to form Healthcare Purchasing Alliance Limited (HPA) for the purpose of procuring hospital treatment on behalf of Aviva and Vitality.

18. Subsequent events

Coronavirus

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. On 1 May 2020, the Financial Conduct Authority (FCA) issued guidance which made it clear that they expect financial services organisations to ensure that products continue to offer value and are appropriate for customers, considering the impact of coronavirus and the organisations' ability to deliver the benefits promised.

As the situation remains uncertain, the FCA has proposed to give insurers up to six months to assess this, so that the effects of coronavirus can be more fully reviewed and the Company will comply with their final proposals. If the Company's current assessment or wider circumstances change, the Company will update its position and communicate with customers again.

The Company has pledged that for individual and SME UK PMI policyholders, treatment may be delayed as a result of COVID-19 and this may result in overall claims costs being lower than expected in the short-term. However, treatment is expected to be delayed rather than cancelled and overall claims costs are anticipated to subsequently be higher. The period of lower claims is expected to be broadly offset by the period of higher claims. However, if PMI claims to Aviva are lower than planned over this entire period, expected to be over 2020 and 2021, Aviva have promised to return the difference to UK PMI policyholders. This calculation will be independently audited.

For large corporate PMI and Healthcare Trust clients, the Company are seeking to apply similar principles, but due to the complex nature of its corporate health products, the approach will vary on a case-by-case basis and will naturally need to differ across fully insured, corporate excess and trust schemes, given the differing nature in the way each type of policy operates.

Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. At 31 December 2019 the Company had strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained and IT systems remaining operational. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures and operations. As at 30 September 2020, the impact on the Company's expected profitability has been calculated at £400 thousand.

Notes to the financial statements continued

18. Subsequent events continued

Receivables

As at 31 December 2019 £3,000 thousand of trade receivables was due from an overseas governing body *(2018: £3,000 thousand)*. The amount of provision in relation to this balance was determined based on the estimated likelihoods and recovery values of each of the potential outcomes using the extensive experience of the Aviva Legal teams at the statement of financial position date. Subsequent to this, on 2 November 2020, a balance of £4,250 thousand was received.