The Lancashire and Yorkshire Reversionary Interest Company Limited

Directors and Officers

Directors

J C Baddeley
K J Bye
O Stowe

Officer - Company Secretary

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

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

Registered Office

Aviva
Wellington Row
York
YO90 1WR

Company Number

Registered in England and Wales: No. 19770

Other Information

The Lancashire and Yorkshire Reversionary Interest Company Limited ("the Company") is a member of the Aviva plc group of companies ("the Group")

Contents

The directors present their strategic report for The Lancashire and Yorkshire Reversionary Interest Company Limited (the Company) for the year ended 31 December 2018.

Review of the Company's business

The Company is a limited liability company incorporated in England and Wales. The principal activity of the Company was the purchase of, and secured lending on, life interests and reversions. The Company is no longer open to new business.

Financial position and performance

Total operating expenses incurred decreased to £52,000 for 2018 *(2017: £55,000).*

Total equity increased by £166,000 *(2017: decreased by £207,000),* reflecting the profit for the year *(2017: profit for the year less dividend paid).*

Future outlook

The directors consider that the Company will continue to operate in a manner consistent with 2018 into the foreseeable future.

Principal risks and uncertainties

The Company is exposed to financial risk through its financial assets and liabilities in the ordinary course of its business. It is also exposed to operational risk of loss resulting from internal processes, people and systems, or from external events, including regulatory risk.

The Company is indirectly exposed to market risk as it has an interest in the underlying trust assets, and income receivable may be affected by the value of those underlying investments. To reduce the risk that income receivable is not sufficient to recover the initial cost of the Company's investment, the Company has taken out life insurance policies for all life interest customers. The principal risk facing the Company remains credit risk, should counterparties fail to meet all or part of their obligations in a timely fashion.

The Company uses a number of metrics to measure, monitor and manage risks and a fuller explanation of these risks, other than operational risk, may be found in note 12 to the financial statements.

Key performance indicators (KPIs)

Revenue represents gross receipts from life interests and property, including interest on loans. Income for the year has increased by 65% to £454,000 *(2017: £275,000).* The movement is due to £188,000 income from life insurance policies on 4 fallen in cases *(2017: £33,000)* and £22,000 from a rectification case *(2017: £nil).* Income on live policies is in line with 2017 *(decreased in 2017: £31,000).* This is in line with expectations as the business is in run-off and the number of remaining policies is falling year on year.

Profit for the year is £166,000 *(2017: £143,000).* Total equity has increased by £166,000 *(2017: decreased by £207,000),* reflecting the profit for the year *(2017: profit for the year less dividend paid).*

By order of the Board

Aviva Company Secretarial Services Limited
Company Secretary

8 *July 2019*

The directors present their annual report and audited financial statements for The Lancashire and Yorkshire Reversionary Interest Company Limited (the Company) for the year ended 31 December 2018.

Directors

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

K J Bye was appointed as a director of the Company on 22 January 2018.

S A Hampson resigned as a director of the Company on 10 September 2018. O Stowe was appointed as a director of the Company on the same date.

Dividend

During the year the Company paid no dividend *(2017: £350,000)*.

Financial risk management

Details of financial risk management are discussed in the principal risks and uncertainties section of the Strategic Report on page 3.

Employees

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

Disclosure of information to the auditors

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

- so far as the director is aware, there is no relevant audit information of which the auditors are unaware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

Independent auditors

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

Qualifying indemnity provisions

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

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

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual 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. 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;
- 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;
- 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 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 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.

By order of the Board

Aviva Company Secretarial Services Limited
Company Secretary — *8 July 2019*

Report on the audit of the financial statements

Opinion

In our opinion, The Lancashire and Yorkshire Reversionary Interest Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 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 audited financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the income statement, 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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 2018 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 5, 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.

Martin Cross (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

8 July 2019

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), was involved in the purchase of, and secured lending on, life interests and reversions. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) 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 are prepared on the going concern basis.

The financial statements are stated in 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 amendments to standards which became effective for the annual reporting period beginning on 1 January 2018:

(i) IFRS 9, Financial Instruments

In July 2014, the IASB published IFRS 9, Financial Instruments which replaced 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.

IFRS 9 was effective for the Company from 1 January 2018 as it was not eligible to apply the deferral option available to insurers. The adoption of IFRS 9 did not have a significant impact on the Company's financial statements.

(ii) IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU. This standard replaced IAS 18 Revenue.

The scope of IFRS 15 includes all contracts where the Company has agreed to provide goods or services to a customer, except for the following:

- Insurance contracts (IFRS 4/IFRS 17)
- Financial instruments (IAS 39/IFRS 9)
- Leases (IAS 17/IFRS 16)

The adoption of IFRS 15 does not have a significant impact on the Company's financial statements.

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

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment. The amendments are effective from 1 January 2018. The adoption of this amendment does not have an impact on the Company's financial statements.

(iv) 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 adoption of this amendment does not have an impact on the Company's financial statements as the clarifications are consistent with our existing interpretation.

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

In December 2016, the IASB published amendments to IAS 40 Investment Property. The amendments are effective from 1 January 2018 and have been endorsed by the EU. The adoption of this amendment does not have an impact on the Company's financial statements.

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

In December 2016, the IASB published IFRIC 22 Foreign Currency Transactions and Advance Consideration. The standard is effective for annual reporting beginning on or after 1 January 2018 and has been endorsed by the EU. The adoption of this amendment does not have an impact on the Company's financial statements.

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) IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts are, as follows: the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured every reporting period (the fulfilment cash flows); a contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The adoption of IFRS 17 is not expected to have a significant impact on the Company's financial statements. This standard applies to annual reporting periods beginning on or after 1 January 2022 and has not yet been endorsed by the EU.

(ii) IFRS 16 Leases

In January 2016, the IASB published IFRS 16 Leases which will replace IAS 17 Leases. IFRS 16 introduces a definition of a lease with a single lessee accounting model eliminating the classification of either operating or finance leases. Lessees will be required to account for all leases in a similar manner to the current finance lease accounting recognising lease assets and liabilities on the statement of financial position. Lessor accounting remains similar to current practice. The adoption of this standard has had 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.

(iv) Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

In February 2018, the IASB published Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments are effective for annual reporting beginning on or after 1 January 2019 and have not yet been endorsed by the EU.

(v) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

In October 2017, the IASB published Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28). The amendments are effective for annual reporting beginning on or after 1 January 2019 and have not yet been endorsed by the EU.

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

These improvements consist of amendments to three 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 and have not yet been endorsed by the EU.

(vii) 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 not yet been endorsed by the EU.

(viii) Amendment to IFRS 3 Business Combinations

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

(B) Critical accounting estimates and judgements

The preparation of the Company's financial statements, in accordance with IFRS, requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. There are no major areas of judgement on policy application for the Company.

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly. There are no items considered to be particularly susceptible to changes in estimates and assumptions for the Company.

(C) Revenue

Revenue represents gross receipts from life interests and property, including interest on loans. The basis of recognition of revenue is as follows:

Life interests	- when they become receivable
Interest on loans	- on an accruals basis

(D) Cost of sales

Cost of sales represents report fees and costs, life insurance premiums payable, management fees and the value of derecognised loans in relation to fallen in cases.

(E) Interest receivable and similar income

Interest income is recognised as it accrues.

(F) Investments

Investments with fixed or determinable payments and where repayments consist solely of principal and interest are classified as loans and receivables and carried at amortised cost using the effective interest rate method. Other investments are classed as mandatorily held at fair value through profit and loss. For these investments the carrying value is equal to cost, being a reasonable approximation of fair value The Company does not intend to dispose of these investments.

Investments are derecognised and treated as realisations when the right to receive cash flows from the asset has expired. These are included within cost of sales in the income statement.

Investments are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, should for example the value of the asset on which the loan is secured ever fall below the loan amount. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. Impairments in value are charged to the income statement.

(G) Receivables and payables

The classification and measurement of financial assets, including receivables, is driven by an assessment of the Company's business model for managing financial assets, and the extent to which the financial assets' contractual cash flows are solely payment of principal and interest. Based on the outcome of this assessment, receivables are initially recognised at the transaction price, with subsequent measurement being at amortised cost.

The Company calculates expected credit losses for all financial assets held at either amortised cost or fair value through other comprehensive income. Expected credit losses are calculated on either a 12-month or lifetime basis depending on the extent to which credit risk has increased significantly since initial recognition. The Company makes use of a simplified approach for trade receivables such that expected credit losses are always calculated on a lifetime basis.

Payables are initially recognised at their fair value, with subsequent measurement being at amortised cost.

(H) Statement of cash flows

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

(I) Income taxes

The current tax expense is based on the 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 tax and amounts charged or credited to components of other comprehensive income and equity as appropriate.

(J) Share capital

Equity instruments

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

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

The Lancashire and Yorkshire Reversionary Interest Company Limited
Income statement
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Income			
Revenue	C	**454**	275
Cost of sales	D	**(199)**	(45)
Gross profit		**255**	230
Interest receivable and similar income	E	**2**	2
		257	232
Expenses			
Operating expenses	1	**(52)**	(55)
Profit before tax		**205**	177
Tax charge	I & 3	**(39)**	(34)
Profit for the year		**166**	143

The Company has no other comprehensive income.

The accounting policies (identified alphabetically) on pages 8 to 11 and the notes (identified numerically) on pages 16 to 22 are an integral part of these financial statements.

The Lancashire and Yorkshire Reversionary Interest Company Limited
Statement of financial position
As at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Investments	F & 4	**706**	892
Tax assets	I & 7	**4**	-
Receivables	G & 8	**468**	69
Prepayments and accrued income		**13**	78
Cash and cash equivalents	H & 10	**-**	1
Total assets		**1,191**	1,040
Equity			
Ordinary share capital	J & 5	**462**	462
Retained earnings	6	**643**	477
Total equity		**1,105**	939
Liabilities			
Payables and other financial liabilities	G & 9	**86**	88
Tax liability	I & 7	**-**	13
Total liabilities		**86**	101
Total equity and liabilities		**1,191**	1,040

The financial statements were approved by the Board of directors on 8 July 2019 and were signed on its behalf by

O Stowe *Director*

The accounting policies (identified alphabetically) on pages 8 to 11 and the notes (identified numerically) on pages 16 to 22 are an integral part of these financial statements.

The Lancashire and Yorkshire Reversionary Interest Company Limited
Statement of changes in equity
For the year ended 31 December 2018

	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017		462	684	1,146
Profit for the year	6	-	143	143
Dividends	J & 6	-	(350)	(350)
Balance at 31 December 2017		**462**	**477**	**939**
Profit for the year	6	-	**166**	**166**
Balance at 31 December 2018		**462**	**643**	**1,105**

The accounting policies (identified alphabetically) on pages 8 to 11 and the notes (identified numerically) on pages 16 to 22 are an integral part of these financial statements.

The Lancashire and Yorkshire Reversionary Interest Company Limited
Statement of cash flows
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash (used in)/generated from operations	10	(1)	351
Net cash (used in)/generated from operating activities		(1)	351
Cash flows from financing activities			
Dividends paid	6	-	(350)
Net cash used in financing activities		-	(350)
Net (decrease)/increase in cash and cash equivalents		(1)	1
Cash and cash equivalents at 1 January		1	-
Cash and cash equivalents at 31 December	10	-	1

The accounting policies (identified alphabetically) on pages 8 to 11 and the notes (identified numerically) on pages 16 to 22 are an integral part of these financial statements.

1. Operating expenses

Under a management agreement Aviva Life Services UK Limited (UKLS), a fellow group undertaking, supplies and makes charges for the provision of operational assets and staff to the Company. The agreement specifies the amounts payable to UKLS which are shown in note 13(c).

Directors' emoluments

All directors were remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc. The emoluments are recharged, as part of a head office management charge under management service agreements, to all operating divisions of the Aviva Group. No direct recharge has been made to the Company in respect of these emoluments as these directors were not primarily remunerated for their services to the Company. Accordingly, no emoluments are disclosed in respect of these directors.

2. Auditors' remuneration

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

	2018 **£'000**	2017 £'000
Fees payable for the audit of the Company's financial statements	**3**	3

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

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

3. Tax charge

(a) Tax charged to the income statement

The total tax charge comprises:

Current tax	**2018** **£'000**	2017 £'000
For the year	**39**	34
Total tax charged to the income statement	**39**	34

(b) Tax reconciliation

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

	2018	2017
	£'000	£'000
Total Profit before tax	**205**	177
Tax calculated at standard UK corporation tax rate of 19.0% *(2017:19.25%)*	**39**	34
Total tax charged to the income statement (note 3(a))	**39**	34

The Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further to 17% from 1 April 2020. There is no impact on the Company's net assets and liabilities from the reduction in the future corporation tax rate as the Company does not have any recognised deferred tax balances.

4. Investments

Carrying amounts	**Life interests**	**Loans and interest outstanding**	**Total**
	£'000	**£'000**	**£'000**
Balance at 1 January 2017	845	75	920
Realisations	(30)	-	(30)
Additions	-	2	2
Balance at 31 December 2017	815	77	892
Realisations	**(179)**	**-**	**(179)**
Additions	**-**	**1**	**1**
Impairment	**-**	**(8)**	**(8)**
Balance at 31 December 2018	**636**	**70**	**706**

For life interest cases the Company purchased the right to all or part of a set amount of income due from portfolios of assets held in trust (based on an estimate of the yield from the portfolio within the trust and estimated lifespan of the client). The Company receives this income over the lifetime of the client.

Loan balances are secured against assets. These balances accrue and compound interest, which is repaid in its entirety on death from the residual estate of the client. The value of one of the loans, plus accrued interest, is now higher than the assets upon which it is secured and the loan value was therefore impaired during 2018.

All investments are considered to be recoverable in more than one year due to the uncertainty surrounding the timing of derecognition.

5. Ordinary share capital

Details of the ordinary share capital of the Company at 31 December are as follows:

	2018	2017
	£'000	£'000
The allotted, called up and fully paid share capital of the Company was:		
50,000 *(2017: 50,000)* ordinary shares of £9.25 each	**462**	462

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.

6. Retained earnings

	2018	2017
	£'000	£'000
Balance at 1 January	**477**	684
Profit for the year	**166**	143
Dividend of £nil per share *(2017: £7.00 per share)*	**-**	(350)
Balance at 31 December	**643**	477

7. Tax

(a) General

Current tax assets recoverable and liabilities payable in less than one year are £4,000 and £nil *(2017: £nil and £13,000)* respectively.

(b) Deferred tax

The Company had no recognised or unrecognised deferred tax amounts at the year end *(2017: £nil)*.

8. Receivables

	2018	2017
	£'000	£'000
Amounts owed by group undertakings	**468**	69

Of the above total, £nil *(2017: £nil)* is expected to be received more than one year after the statement of financial position date.

9. Payables and other financial liabilities

	2018	2017
	£'000	£'000
Amounts owed to group undertakings	**86**	88

Of the above total, £nil *(2017: £nil)* is expected to be paid more than one year after the statement of financial position date.

10. Statement of cash flows

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

	2018 £'000	2017 £'000
Profit before tax	**205**	177
Changes in working capital:		
(Increase)/decrease in receivables	**(399)**	238
Decrease/(increase) in prepayments and accrued income	**65**	(78)
Decrease in payables and other financial liabilities	**(58)**	(14)
Net movement of operating assets		
Investments	**186**	28
Cash (used in)/generated from operations	**(1)**	351

There were £nil cash and cash equivalents held at 31 December 2018 *(2017: £1,000).*

11. Capital

In managing its capital, the Company seeks to:

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

The Company manages total equity of £1,105,000 *(2017: £939,000)* as capital.

The Company is not subject to any externally imposed capital requirements.

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

12. Risk management

(a) Risk management framework

The ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates (collectively known as "the Group") operate a risk management framework ("RMF"), which forms an integral part of the management and board processes and decision-making framework across the Group. The key elements of our risk management framework comprise risk strategy and risk appetite, risk policy categorisation, enterprise-wide approach to managing risks, including how to identify, measure, manage, monitor and report risks, and risk governance and oversight (including boards and board committees, risk policies and business standards, delegated authorities and management committees, and roles and responsibilities). The Group's approach to risk management ensures that significant existing or emerging risks are actively identified, measured, managed, monitored and reported on a continuous basis. The RMF has been adopted by the boards of the legal entities within the businesses collectively referred to as "UK Life" (including this Company).

For the purposes of risk identification and measurement, in UK Life risks are usually grouped by risk type: market, credit, life insurance, liquidity and operational risk. Risks falling within these types may affect a number of key metrics, including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to our brand and reputation or as conduct risk.

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

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

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

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

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

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

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

(b) Market risk

Market risk is the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices.

The Company is indirectly exposed to market risk as it has an interest in the underlying trust assets, and income receivable may be affected by the value of those underlying investments. Independent trustees are responsible for maintaining the trust assets in accordance with the trustee agreements. To reduce the risk that income receivable is not sufficient to recover the initial cost of the Company's investment, the Company has taken out life insurance policies for all life interest customers.

(c) Credit risk

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

An assessment is carried out over all categories of financial asset to determine to what extent assets held can be considered to have low credit risk as at the reporting date. In making this assessment, the Company makes use of both internal and external credit risk ratings, along with other qualitative and quantitative factors where external ratings are not available. Where a financial asset is deemed to have low credit risk, it is assumed that the credit risk on the respective assets has not increased significantly since initial recognition.

A financial asset is considered to be in default where contractual payments are past due, or there is objective evidence that the counterparty will be unable to subsequently meet their payment obligations. A financial asset is written off only when all other available measures have been taken to recover amounts due.

Where external credit ratings are available for financial assets, a significant increase in the credit risk of a financial asset is identified where there has been a significant deterioration in the respective credit rating. All financial assets at the reporting date are unrated.

Expected credit losses on material trade receivables and other assets are calculated with reference to the Company's historical experience of losses, along with an analysis of payment terms. The Company makes use of the simplified approach when calculating expected credit losses on trade receivables which don't include a significant financing component, and therefore calculates expected credit losses over the lifetime of the instrument in question. Expected credit losses have been calculated where changes in circumstances indicate that the carrying amount of the investment may not be recoverable, should for example the value of the asset on which the loan is secured ever fall below the loan amount.

The following table sets out expected credit losses recognised in the year.

	Expected credit losses relating to investments recognised in year £'000
Opening expected credit losses	25
Recognised on instruments during the reporting period	8
Closing expected credit losses	**33**

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure. Credit risk for all life interest and contingent reversion customers is mitigated by the life insurance policies referred to in section (b) above. This covers £636,000 of the total £706,000 investment balance.

(d) Liquidity risk

The nature of the business means that the Company is not exposed to significant liquidity risk. Management seeks to determine that the Company has sufficient financial resources to meet its obligations as they fall due.

(e) Sensitivity analysis and capital management

No profit sensitivity analysis has been provided as there is a negligible impact on profit and shareholders' equity of reasonably possible changes in market risk variables.

13. Related party transactions

(a) The members of the Board of Directors are listed on page 1 of these financial statements. There are no amounts receivable from or payments due to members of the Board of Directors.

(b) Income from related parties

During the year the Company received interest of £1,000 from the parent undertaking *(2017: £1,000).*

Amounts receivable at year end were £468,000 *(2017: £69,000)* due from the parent undertaking.

The related party receivables 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 *(2017: £nil).*

(c) Services provided by related parties

Under a management agreement UKLS supplies and makes charges for the provision of operational assets and staff to the Company. The agreement specifies the amounts payable to UKLS in respect of these expenses, which were £52,000 *(2017: £52,000).*

Amounts payable at year end were £86,000 *(2017: £88,000)* due to fellow group undertakings.

The related party payables are not secured and no guarantees were received in respect thereof.

(d) Key management compensation

No charge is disclosed by the Company for key management personnel as they are key management of a number of fellow subsidiary undertakings and it is not possible to make an accurate apportionment of their compensation in respect or each of the individual subsidiary undertakings.

(e) Ultimate parent undertaking and controlling party

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

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

Aviva plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2018. The consolidated financial statements of Aviva plc are available at www.aviva.com or by application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London, EC3P 3DQ.