Aviva Pension Trustees UK Limited

Directors and Officers

Directors

W E Burnside
J D Green
M R McGill
T R Orton
S E Robinson
P C P Tiernan

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. 2407799

Other Information

Aviva Pension Trustees UK Limited ("the Company") is covered by the Financial Ombudsman Services and is authorised and regulated by the Financial Conduct Authority ("FCA")

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

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The directors present their strategic report for Aviva Pension Trustees UK Limited (the Company) for the year ended 31st December 2017.

Review of the Company's business

The principal activity of the Company is to act as a trustee and scheme administrator to Aviva Personal Pension Scheme (APPS) and Aviva Free Standing Additional Voluntary Contribution (AFSAVC) pension schemes, written by Aviva.

The Company is regulated by the Financial Conduct Authority (FCA) to carry on activities as an Investment Management Firm.

The Company offers SIPP products distributed through two platforms, the Advisor Platform, which provides platform technology to IFA's and the Aviva Online Investment Service, which is a direct to consumer platform. The advised platform technology is provided by Genpact UK Limited (Genpact) and by FNZ (UK) Limited (FNZ) for the Aviva Online Investment Service.

Products on the Aviva Online Investment Service platform, which includes products written by the Company, are distributed through Aviva UK Digital Limited (UKD). In addition, Aviva launched 'Aviva Financial Advice' (AFA) in November 2016, providing pension decumulation advice to existing customers. This service is expected to support business growth across a number of Aviva products, including those written by the Company.

On 1 October 2017, a transfer of the Friends Life and Pensions Limited (FLP) SIPP business to Aviva Life & Pensions UK Limited (UKLAP) was completed under a Part VII scheme of the Financial Services and Markets Act 2000. As a result, the SIPP business written on Aviva's MyMoney Corporate Pension platform transferred from FLP to UKPTL and business since this date is included within the Company's results.

Financial position and performance

Revenue for the year increased to £32.4 million *(2016: £19.5 million)* as a result of the large rise in assets under administration (AUA). AUA increased from £8,307 million to £16,712 million during the year. Total equity has increased by £3.6 million *(2016: increase of £9.7 million)*, reflecting the loss for the year of £16.4 million, which was more than offset by share capital injections of £20 million during the year.

New business sales in 2017 for SIPP business are 71% higher than the previous year at £6,019 million (2016: £3,520 million) of PVNBP (present value of new business premiums). It should be noted that this includes £342 million from the MyMoney Platform. Transfer out rates remained stable throughout the year. Overall the markets increased by 7.6% in 2017 (as measured by the movement in the FTSE100), which has had a positive impact on AMC (annual management charge) income.

Loss after tax for the year is £16.4 million *(2016: £20.3 million)*, the movement being due to higher revenue driven by higher AUA.

The Company is seeking to expand market share and is loss making during this phase of development. The directors expect the Company to become profitable as economies of scale are achieved.

Future outlook

The directors continue to believe that the Aviva Platform business has a viable future, driven by significant growth in AUA, and the executive management team of Aviva UK Insurance are investing significantly to back this success.

New business sales are forecast to continue to grow in 2018 as a result of the pension reforms and Aviva continuing to build on the momentum and scale on the platform in a challenging market environment.

During 2016, Aviva announced it's intention to migrate the advised platform business from the current administration technology, provided by Genpact, to FNZ technology, in line with its consumer direct business and in support of future growth ambitions. Consequently notice to terminate the existing contract was given to Genpact in 2016 and the migration to FNZ was completed in January 2018.

Principal risks and uncertainties

The major risk facing the business is operational risk, which is in line with FCA expectations for investment businesses which hold assets in a fiduciary capacity and off balance sheet.

Operational risk of loss would arise as a result of inadequate or failed internal processes, people or systems, or from external events, including regulatory risk. This definition is intended to include all risk exposures to which the Company is exposed, other than the financial risks. Hence, operational risks include IT, information security, projects, outsourcing, legal and fraud and regulatory risks. Operational risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputational criteria.

Management are responsible for the identification, measurement, management and monitoring of operational risks and for reporting these in accordance with the Group's escalation criteria in terms of their probability and impact in accordance with Group policy.

A description of the risks and uncertainties facing the Company and its risk management policies are set out in note 13 to the financial statements.

Key performance indicators (KPIs)

Revenue primarily represents annual management charges on all contributions into the investor accounts. Revenue for the year increased to £32.4 million *(2016: £19.5 million),* as detailed in the review of the Company's business.

Under a management agreement, Aviva Life Services UK Limited (UKLS) supplies and makes charges for the provision of operational assets and services to the Company. The agreement specifies the amounts payable to UKLS in respect of these expenses, which are included within operating expenses. The amount of this recharge is £51.0 million *(2016: £44.6 million).*

Loss after tax for the year is £16.4 million *(2016: loss of £20.3 million).*

By order of the Board

Aviva Company Secretarial Services Limited
Company Secretary

18 April 2018

The directors present their annual report and audited financial statements for Aviva Pension Trustees UK Limited (the Company) for the year ended 31 December 2017.

Directors

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

R P Prezeau resigned as a director of the Company on 30 April 2017.

M R McGill was appointed as a director of the Company on 9 January 2018.

P C P Tiernan was appointed as a director of the Company on 7 March 2018.

S E Robinson was appointed as a director of the Company on 8 March 2018.

Dividend

The directors do not recommend the payment of a dividend for the financial year ended 31 December 2017 *(2016: £nil)*.

Going concern

The Company is currently loss making and as such is dependent on continuing finance being made available by its parent entity, Aviva Life & Pensions UK Limited (UKLAP), to enable it to meet its regulatory solvency requirements. At 31 December 2017, the Company has sufficient cash available to cover its total liabilities.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Major events

Under a Part VII Insurance transfer, effective on 1 October 2017, the Company took on the responsibility of Scheme Operator and Scheme Administrator for the My Money SIPP products from a fellow subsidiary, Friends Life and Pensions Limited.

Events since the statement of financial position

On 20 January 2018, the administration of the advised platform business migrated from the technology provided by Genpact to FNZ.

Changes in share capital

On 25 September 2017, the Company allotted 5,000,000 ordinary shares of £1 each to its parent entity, UKLAP, for a consideration of £5,000,000.

On 28 September 2017, the Company allotted 10,000,000 ordinary shares of £1 each to its parent entity, UKLAP, for a consideration of £10,000,000.

On 22 December 2017, the Company allotted 5,000,000 ordinary shares of £1 each to its parent entity, UKLAP, for a consideration of £5,000,000.

Future developments

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

Employees

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited, who make a management charge for services, including 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, being information needed by the auditors in connection with preparing their report, 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.

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

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

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

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

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

By order of the Board

Aviva Company Secretarial Services Limited
Company Secretary

18 April 2018

Report on the financial statements

Opinion

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

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

We have audited the financial statements, included within the annual report and audited financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the income statement, the statement of changes in equity and the statement of cash flows, 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

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

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

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

Reporting on other information

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

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

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

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

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

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

Responsibilities for the financial statements and the audit

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

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

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

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

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

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

18 April 2018

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), acts as trustee and scheme administrator to Aviva Personal Pension Scheme (APPS) and Aviva Free Standing Additional Voluntary Contribution (AFSAVC) pension schemes written by Aviva.

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) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The 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).

Minor clarifications to existing guidance on a number of standards became effective for the reporting period beginning on 1 January 2017. The principle clarifications are to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses relating to recognition of deferred tax when an asset's fair value is below it tax base, IAS 7, Statement of Cash Flows, relating to additional disclosure of the movements in liabilities arising from financing activities, and IFRS 12, Disclosure of Interest In Other Entities, clarifying existing guidance. The amendments do not have any impact on the Company's financial statements. The additional disclosure required by the changes to IAS 7 have previously already been disclosed in the Company's financial statements.

The IASB has issued four new standards which are not yet effective and have not been adopted early by the Company.

(i) IFRS 9, Financial Instruments

In July 2014, the IASB published IFRS 9, Financial Instruments, which will replace IAS 39, Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurement 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 and loss whereby fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The Company has adopted IFRS 9 from 1 January 2018. The standard is not expected to have a significant impact on the Company's statement of financial position.

(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. The standard is not expected to have a significant impact on the Company's financial statements.

(iii) IFRS 16, Leases

In January 2016, the IASB published IFRS 16, Leases, which will replace IAS 17, Leases. The standard removes the distinction between finance leases and operating leases for lessees, and proposes a new model whereby lessees include all lease contracts on the balance sheet. Lessor accounting remains similar to current practice. The impact of the adoption of IFRS 16 has yet to be fully assessed by the Company. This standard applies to accounting periods beginning on or after 1 January 2019 and has been endorsed by the EU.

(iv) 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 which was issued in 2005 and applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. 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 impact of the adoption of IFRS 17 has yet to be fully assessed by the Company. This standard applies to annual reporting periods beginning on or after 1 January 2021 and has not yet been endorsed by the EU.

The IASB has issued a number of amendments to standards which are not yet effective and have not been adopted early by the Company.

- IAS 28 Investments in Associates
- IAS 40, Investment Property
- IFRS 2, Classification and Measurement of Share-Based Payment Transactions
- IFRS 12, Disclosure of Interest in Other Entities

The amendments to IAS 28 and IFRS 12 have been endorsed by the EU. The amendments to IAS 40 and IFRS 2 have not been endorsed by the EU. The amendments are not expected to have a material impact on the financial statements.

(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 and interest receivable

Revenue primarily represents the annual management charges on all contributions into the investor accounts and is recognised when earned. It also includes fees receivable in respect of the Company's role as trustee and scheme administrator to Free Standing AVC pension schemes written by Aviva Life & Pensions UK Limited in the United Kingdom. Interest receivable is accounted for on an accruals basis.

(D) Receivables and payables

Receivables and payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are held at amortised cost, which given the short term nature of the items is considered a reasonable approximation to fair value.

(E) Statement of cash flows

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

(F) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(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 reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. 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.

(H) 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.

Aviva Pension Trustees UK Limited
Income statement
For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Income			
Revenue	C	**32,413**	19,500
Interest receivable and similar income	C	**-**	95
		32,413	19,595
Expenses			
Operating expenses	1	**(52,503)**	(45,439)
Interest expense		**(167)**	-
		(52,670)	(45,439)
Loss before tax		**(20,257)**	(25,844)
Tax credit	G & 4	**3,899**	5,549
Loss for the year		**(16,358)**	(20,295)

The Company has no other comprehensive income.

The accounting policies (identified alphabetically) on pages 10 to 12 and the notes (identified numerically) on pages 17 to 25 are an integral part of these financial statements.

Aviva Pension Trustees UK Limited
Statement of financial position
As at 31 December 2017

	Note	2017 £'000	2016 £'000
Assets			
Tax asset	G & 9	**3,899**	5,169
Receivables	D & 5	**17,156**	7,311
Prepayments and accrued income	D & 6	**2,709**	1,780
Cash and cash equivalents	E & 12(b)	**39,730**	24,183
Total assets		**63,494**	38,443
Equity			
Ordinary share capital	H & 7	**97,600**	77,600
Accumulated losses	8	**(71,581)**	(55,223)
Total equity		**26,019**	22,377
Liabilities			
Provisions	F & 10	**10**	137
Payables and other financial liabilities	D & 11	**37,465**	15,929
Total liabilities		**37,475**	16,066
Total equity and liabilities		**63,494**	38,443

The financial statements were authorised for issue by the Board of directors on 18 April 2018 and were signed on its behalf.

T R Orton *Director*

The accounting policies (identified alphabetically) on pages 10 to 12 and the notes (identified numerically) on pages 17 to 25 are an integral part of these financial statements.

Aviva Pension Trustees UK Limited
Statement of changes in equity
For the year ended 31 December 2017

	Note	Ordinary Share Capital £'000	Accumulated losses £'000	Total Equity £'000
Balance at 1 January 2016		47,600	(34,928)	12,672
Addition to share capital	7	30,000	-	30,000
Loss for the year	8	-	(20,295)	(20,295)
Balance at 31 December 2016		**77,600**	**(55,223)**	**22,377**
Addition to share capital	7	**20,000**	-	**20,000**
Loss for the year	8	-	**(16,358)**	**(16,358)**
Balance at 31 December 2017		**97,600**	**(71,581)**	**26,019**

The accounting policies (identified alphabetically) on pages 10 to 12 and the notes (identified numerically) on pages 17 to 25 are an integral part of these financial statements.

Aviva Pension Trustees UK Limited
Statement of cash flows
For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash used in operations	12(a)	**(4,453)**	(11,674)
Net cash used in operating activities		**(4,453)**	(11,674)
Cash flows from financing activities			
Proceeds from the issue of ordinary shares	7	**20,000**	30,000
Net cash generated from financing activities		**20,000**	30,000
Net increase in cash and cash equivalents		**15,547**	18,326
Cash and cash equivalents at 1 January		**24,183**	5,857
Cash and cash equivalents at 31 December	12(b)	**39,730**	24,183

The accounting policies (identified alphabetically) on pages 10 to 12 and the notes (identified numerically) on pages 17 to 25 are an integral part of these financial statements.

1. Operating expenses

Under a management agreement, Aviva Life Services UK Limited (UKLS) supplies and makes charges for the provision of operational assets and services to the Company. The agreement specifies the amounts payable to UKLS in respect of these expenses, which are included within operating expenses. The amount of this recharge is £51,021,000 *(2016: £44,571,000)*. Provision releases are included within the UKLS recharge.

	2017	2016
	£'000	£'000
UKLS recharges (operating)	**51,021**	44,571
Other operating expenses	**1,482**	868
Total operating expenses	**52,503**	45,439

2. Directors' emoluments

Emoluments of directors in office during the year were:

	2017	2016
	£'000	£'000
Aggregate emoluments in respect of qualifying services	**893**	1,126
Pension	**90**	134
Termination benefits	**285**	-
Emoluments of the highest paid director:		
Aggregate emoluments in respect of qualifying services	**383**	410
Company pension contributions to money purchase scheme	**39**	44

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

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.

Pension contributions consist of employer contributions into the money purchase section of the Aviva Staff Pension Scheme, excluding salary exchange contributions made by employees, plus payments in lieu of pension above the lifetime or annual allowance caps.

During the year four *(2016: four)* of the directors exercised share options and two *(2016: three)* of the directors received shares under long term incentive schemes.

All directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc.

3. Audit remuneration

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

	2017 £'000	2016 £'000
Fees payable for the audit of the Company's financial statements	4	4

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 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.

4. Tax

(a) Tax credited to the income statement

The total tax credit comprises:

	2017 £'000	2016 £'000
Current tax		
For the year	3,899	5,169
Adjustment in respect of prior years	-	380
Total tax credited to the income statement	3,899	5,549

(b) Tax reconciliation

The tax on the Company's loss before tax differs from tax calculated at the standard UK corporation tax rate as follows:

	2017 £'000	2016 £'000
Loss before tax	20,257	25,844
Tax calculated at standard UK corporation tax rate of 19.25% *(2016: 20%)*	3,899	5,169
Adjustment in respect of prior years	-	380
Current tax credited in the year	3,899	5,549

The rate of corporation tax changed to 19% with effect from 1 April 2017. 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 from the reductions in the rates as the Company does not have any recognised deferred tax balances.

5. Receivables

	2017 £'000	2016 £'000
Trade receivables	**7,973**	866
Amounts owed by group undertakings	**2,019**	565
Other receivables	**7,164**	5,880
	17,156	7,311

Of the above total £nil *(2016: £nil)* is expected to be recovered more than one year after the statement of financial position date. The carrying amount in the financial statements is deemed to be a reasonable approximation of the fair value.

Other receivables include £7,164,000 in relation to tax rebates *(2016: £5,634,000).*

6. Prepayments and accrued income

	2017 £'000	2016 £'000
Prepayments and accrued income	**2,709**	1,780

None of the above total *(2016: £nil)* is expected to be recovered more than one year after the statement of financial position date.

7. Ordinary share capital

(a) Details of the Company's ordinary share capital at 31 December are as follows:

	2017 £'000	2016 £'000
The allotted, called up and fully paid share capital of the Company was:		
97,600,000 ordinary shares of £1 each *(2016:77,600,000 ordinary shares)*	**97,600**	77,600

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.

(b) On 25 September 2017, 5 million ordinary shares of £1 each were allotted and issued by the Company.

On 28 September 2017, 10 million ordinary shares of £1 each were allotted and issued by the Company.

On 22 December 2017, 5 million ordinary shares of £1 each were allotted and issued by the Company, as follows:

	2017 Number of Shares	**2017** Share Capital £'000	2016 Number of Shares	2016 Share Capital £'000
At 1 January	**77,600,000**	**77,600**	47,600,000	47,600
New shares issued	**20,000,000**	**20,000**	30,000,000	30,000
At 31 December	**97,600,000**	**97,600**	77,600,000	77,600

8. Accumulated losses

	2017 £'000	2016 £'000
Balance at 1 January	**(55,223)**	(34,928)
Loss for the year	**(16,358)**	(20,295)
Balance at 31 December	**(71,581)**	(55,223)

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to regulated companies 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 local regulatory capital.

9. Tax assets

(a) General

Tax assets receivable in more than one year are £3,899,000 *(2016: £5,169,000).*

(b) Deferred tax

The Company has no recognised or unrecognised temporary differences carried forward *(2016: £nil).*

10. Provisions

	2017 £'000	2016 £'000
Balance at 1 January	**137**	245
Provided in financial year	**-**	137
Amounts utilised in financial year	**(53)**	(34)
Amounts released in financial year	**(74)**	(211)
Balance at 31 December	**10**	137

The provision relates to the expected cost of policyholder compensation for errors identified in product administration.

11. Payables and other financial liabilities

	2017 £'000	2016 £'000
Trade payables	**2,446**	1,476
Amounts owed to group undertakings	**31,876**	10,832
Other payables including tax and social security	**3,143**	3,621
	37,465	15,929

None of the above total is expected to be paid more than one year after the statement of financial position date *(2016: £nil).*

12. Statement of cash flows

(a) The reconciliation of loss before tax to the net cash outflows from operating activities is:

	2017 £'000	2016 £'000
Loss before tax	**(20,257)**	(25,844)
Changes in working capital		
(Increase)/decrease in receivables	**(4,676)**	4,554
Increase in prepayments and accrued income	**(929)**	(605)
Decrease in provisions	**(127)**	(108)
Increase in payables and other financial liabilities	**21,536**	10,329
Total cash used in operating activities	**(4,453)**	(11,674)

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

	2017 £'000	2016 £'000
Cash at bank and in hand	**39,730**	24,183

13. Risk and capital 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 risk, 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 business collectively referred to as "UK Life" (including this Company).

For the purposes of risk identification and measurement, 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 (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 Profit 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.
- Third line of defence (Internal Audit function): Responsibility for assessing and reporting (to group and business unit audit, risk and governance committees, as appropriate) on the effectiveness of 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 nature of the business means that market risks in terms of market value movements are borne by the customers. Market risk arises only indirectly as a result of the impact on the value of assets under administration (AUA), which will affect revenue received from fee income. The Company is not exposed to significant interest rate risk.

(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.

The nature of the Company's business means that it is not exposed to significant credit risk. This is because its receivables are mainly inter-company balances. A significant amount of business relates to the Aviva Group of companies and exposure is managed through regular and timely payments. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

(d) Liquidity risk

Liquidity risk is the risk that the Company will not be in a position to meet its liabilities as they fall due. In relation to the Company, this largely relates to ensuring that there are sufficient liquid assets available to meet funding demands from customer transactions. Liquidity risk is managed daily, with oversight provided by ALCO. A contingency funding plan is in place to provide the Company with short term liquidity should it be required.

(e) Risk and capital management

Capital is managed within the regulatory framework in which the Company operates. This makes use of the Internal Capital Adequacy Assessment Process ('ICAAP') to identify the risks to which the business is exposed and to quantify their impact on economic capital and changes thereto by way of stress and scenario tests. The ICAAP estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk. The Company maintains an efficient capital structure, which is consistent with its risk profile and the regulatory and market requirements of its business. The Company's capital is managed in accordance with its Capital and Solvency Policy to maintain sufficient regulatory capital. The solvency position of the company is formally monitored on a monthly basis.

The Company uses sensitivity test-based analysis, including ICAAP, to understand the impact of volatile markets on expected earnings for decision-making and planning purposes. The impact of a fall in securities or property values at a point in time is limited to the impact on revenue, which is accrued based on those values. The Directors consider that a 10% fall or rise in markets at the year-end would not have a material impact on the pre tax profit or shareholder equity of the Company.

As the Company is currently loss making there is a risk that business volumes will not increase sufficiently to cover fixed platform costs and generate future profits. As a result, letters of support and potential capital injections will continue to be required in order to maintain the Company as a going concern.

(f) Regulatory 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 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 an IPRU (Investment) Chapter 5 firm and submits quarterly returns to comply with IPRU under the Integrated Regulatory Reporting (IRR) Regime. The Company has fully complied with the relevant regulatory capital requirements since it became regulated in 2007.

The Company manages the resources available to meet its regulatory capital requirements as capital, as set out below:

	2017	2016
	£'000	£'000
Total IFRS shareholders' funds	26,019	22,377
Less illiquid assets	(4,864)	(5,691)
Total available capital resources	**21,155**	16,686

The increase in total available capital resources is due to the share capital injections of £20 million from the parent entity, Aviva Life & Pensions UK Limited (UKLAP), coupled with the reduction in the illiquid assets balance during the year. This has been offset in part by the loss for the year.

The illiquid assets deduction relates to debtor balances due in more than 90 days, in line with FCA reporting requirements.

The Company is dependent on continuing finance being made available by UKLAP to provide capital to enable it to meet its liabilities as they fall due. UKLAP has agreed to provide sufficient funds for these purposes on an ongoing basis.

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.

14. 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 receivable from related parties

		2017		2016
	Income earned in year	Receivable at year end	Income earned in Year	Receivable at year End
	£'000	£'000	£'000	£'000
Parent	189	374	185	185
Fellow subsidiaries	-	1,645	-	380
	189	2,019	185	565

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 *(2016: £nil)*.

(c) Services provided by related parties

		2017		2016
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£'000	£'000	£'000	£'000
Fellow group undertakings	51,021	31,876	44,571	10,832

The related party payables are not secured and no guarantees were given in respect thereof. Other relevant related party expense disclosures are shown in note 1.

(d) 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:

	2017 £'000	2016 £'000
Salary and other short-term benefits	**1,602**	1,775
Post-employment benefits	**41**	69
Other long-term benefits	**108**	120
Termination benefits	**285**	-
	2,036	1,964

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 Life Services UK Limited, and details of their emoluments are given in note 2.

(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 2017. The consolidated financial statements of Aviva plc are available on www.aviva.com or by application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.