Aviva Investors UK Fund Services Limited

Directors and Officers

Directors

A M Beswick
J D Green
T R Orton

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
Benson House
33 Wellington Street
Leeds
LS1 4JP

Registered Office

1 Poultry
London
EC2R 8EJ

Company Number

Registered in England and Wales No 1973412

Other Information

Aviva Investors UK Fund Services Limited ("the Company") is authorised and regulated by the Financial Conduct Authority

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

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Aviva Investors UK Fund Services Limited
Registered in England No. 1973412
Strategic report

The directors present their strategic report for Aviva Investors UK Fund Services Limited (the Company) for the year ended 31 December 2013

Review of the Company's business

The principal activity of the Company is the sale of units in, and the management of authorised unit trusts and the sale of shares in, and the management of open ended investment company (OEIC) funds

During the year the Company launched the US Equity Income Fund II The Sustainable Futures ICVC, consisting of 7 funds, transferred to Alliance Trust, four funds were closed and nine structured product funds matured

Financial position and performance

Revenue for the year fell by 13 7% to £41 0 million *(2012 £47 5 million)* This is due to the fact that Annual Management Charge (AMC) income has decreased, primarily as the result of a reduction in average Funds Under Management (FUM), which fell from £13 7 billion in 2012 to £13 0 billion in 2013

Total equity has increased by £2 1 million *(2012 decreased by £2 2 million)*, reflecting the profit for the year less the dividend paid

Future outlook

Ownership of the Company is expected to be transferred to Aviva Investors Holdings Limited in May 2014 as part of the Group's desire to have all asset management businesses within Aviva Investors There are ambitious growth aspirations for the Company, which will also fit well with the new Aviva Investors' focus on low volatility, income generating client solutions The outlook for 2014 will include the launch of a number of new products whilst maintaining focus on existing strengths, including further promotion of the 'Mission' proposition launched in 2013 At the same time, further fund rationalisation opportunities will be sought, as well as seeking to leverage the strengths of the new organisational structure after the transfer in May

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 financial risk Hence, operational risks include IT, information security, projects, outsourcing, legal and fraud and compliance 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

Exposure to credit default is low as exposure only arises on cash balances held Credit risk is assessed on a regular basis, with credit ratings of banks closely monitored

The company holds financial instruments on a short-term rolling basis ("the box") to facilitate the efficient management of customers' supply and demand for shares and units Exposure to market risk is minimal due to the size of the box and adherence to the box policy

Management are responsible for the identification, assessment, control and monitoring of operational risks and for reporting these in accordance with the Group's escalation criteria for assessment 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 16 to the financial statements

Key performance ındıcators (KPIs)

Revenue prımarıly represents AMC ıncome derıved from OEICs and authorısed unıt trust funds ın the Company's capacıty as Authorısed Corporate Dırector or Manager, net of rebates and dıstrıbutıon allowances Revenue for the year decreased by 13 7% to £41 0 mıllıon *(2012 £47 5 mıllıon)*, as detaıled ın the busıness revıew above

Profit after tax for the year was £8 1 mıllıon *(2012 £5 8 mıllıon)*

By order of the Board

Avıva Company Secretarıal Servıces Lımıted *Company Secretary*

31 March 2014

The directors present their annual report and audited financial statements for Aviva Investors UK Fund Services Limited (the Company) for the year ended 31 December 2013

Directors

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

J D Green was appointed as a director of the Company on 31 July 2013

B A Curran resigned as a director of the Company on 7 March 2014

Dividend

During the year a dividend of £6 million was paid *(2012 £8 million)*

Major events

On 29 January 2013, the Company agreed to complete the final phase of the transition of the Sustainable Future Funds to Alliance Trust Investments On 1 February 2013, the Company formally resigned as Authorised Corporate Director ("ACD") of the Aviva Investors Sustainable Future ICVC and the current ACD agreement, the Investment Management Agreement with Aviva Investors Global Services Limited in respect of the Aviva Investors Sustainable Future ICVC and the Depositary Agreement in place with Citibank International plc in respect of the Aviva Investors Sustainable Future ICVC, were terminated

On 27 February 2013, the Company agreed to terminate the Aviva Investors Defined Returns Funds 5, 6 and 7

On 7 June 2013, the Company agreed to terminate the Aviva Investors UK Special Situations Fund

On 29 July 2013, the Company agreed to terminate the Aviva Investors Defined Growth Funds 2, 3 and 4 and the Global Fixed Income Fund

On 29 July 2013, the Board approved the launch of the Aviva Investors US Equity Income Fund 2 on 9 September 2013

On 16 September 2013, the Company agreed to terminate the Diversified Assets Fund within the Aviva Investors Managed Funds ICVC and the Aviva Investors UK Ethical Fund

On 25 November 2013, the Company agreed to terminate the Aviva Investors Defined Growth Fund 1, the Aviva Investors Defined Returns Funds 3, 8, 9 and 11 and the Aviva Investors Structured Returns Funds 1 and 2

On 2 December 2013, the Company agreed to terminate the Aviva Investors Property Investment Fund On the same date the Company proposed a merger of the Aviva Investors Blue Chip Tracking Fund into the Aviva Investors UK Index Tracking Fund and the merger of the Aviva Investors Balanced Managed Fund into the Aviva Investors Multi-Asset Fund III

Events since the statement of financial position

On 6 February 2014, the Board agreed to the termination of the Cautious Multimanager Fund, the Adventurous Multimanager Fund, and the Balanced Multimanager Fund On the same date the Board also agreed to the termination of the Aviva Investors Defined Returns Fund 2

As a result of a review by the Group of its strategy for its Asset Management business and associated functions, it is intended that ownership of the Company be transferred during the second quarter of 2014 from the current parent, Aviva Life Holdings UK Limited, to Aviva Investors Holdings Limited, a fellow Group subsidiary company

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

(a) 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

(b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information

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 remain in force as at the date of approving the Directors' Report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007

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

Statement of directors' responsibilities

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

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

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

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

By order of the Board

Aviva Company Secretarial Services Limited *Company Secretary* *31 March 2014*

Independent auditors' report to the members of Aviva Investors UK Fund Services Limited

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 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

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The financial statements, which are prepared by Aviva Investors UK Fund Services Limited, comprise

- the accounting policies,
- the statement of financial position as at 31 December 2013,
- the income statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include other explanatory information

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates In making such estimates, they have made assumptions and considered future events

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the Strategic Report and in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns

We have no exceptions to report arising from this responsibility

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made We have no exceptions to report arising from this responsibility

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

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

2 *April 2014*

The Company is a limited company incorporated and domiciled in the United Kingdom (UK) The Company's principal activity is the sale of units in, and the management of authorised unit trusts and the sale of shares in, and the management of OEICs

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 In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Company has also complied with IFRS as issued by the IASB and applicable at 31 December 2013 The financial statements have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value through profit and loss

The financial statements are prepared on the going concern basis and in accordance with the Companies Act 2006

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

The Company has adopted the following new standards and amendment to standards which became effective for financial years beginning on or after 1 January 2013

(i) IFRS 13, Fair Value Measurement

IFRS 13 establishes a single standard for all fair value measurements The standard does not change the scope of fair value measurement, but provides further guidance on how fair value should be determined The changes have no significant impact on the Company's application of fair value measurements and have no impact on the profit or loss for the current period or on equity reported IFRS 13 also requires enhanced disclosures about fair value measurement which are set out in note 5

(ii) Amendments to IFRS 7, Financial Instruments – Disclosures

The amendment includes enhanced disclosures to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements in the statement of financial position The standard has been applied retrospectively but has no impact on the Company's profit for the current or prior period or on the equity reported The new disclosures are presented in note 5

The IASB has issued a number of amendments to standards which are applicable for accounting periods beginning on or after 1 January 2014 and are therefore not applicable for the current accounting period, namely amendments to IAS 32, Financial Instruments – Presentation, amendments to IFRS 10, IFRS 12 and IAS 27 (2011), IAS 36, Impairment of Assets, IAS 39, Financial Instruments – Recognition and Measurement The amendments to IAS 32, IFRS 10, IFRS 12 and IAS 27 (2011) have been endorsed by the EU The amendments to IAS 36 and IAS 39 have yet to be endorsed by the EU The amendments are not expected to have a material impact on these financial statements

IFRS 9, Financial Instruments, will replace IAS 39, Financial Instruments – Recognition and Measurement IFRS 9 has been deferred from the planned effective date of 1 January 2015 and has not yet been endorsed by the EU but, on adoption, will require us to review the classification of certain financial instruments while allowing us to retain fair value measurement as we deem necessary We have not yet completed our assessment of its impact which is, to a large extent, dependent on the finalisation of the IASB's insurance contracts accounting project

(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, which excludes value added tax, consists primarily of annual management charges derived from OEICs and authorised unit trust funds in the Company's capacity as Authorised Corporate Director or Manager Revenue is net of rebates and distribution allowances All revenue is attributable to one continuing activity and arises in the UK

Initial investment fees were deferred over the expected term of the investment contract

(D) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible

(E) Investments

Investments comprise shares and units which are held by the Company to facilitate the efficient management of the demand for shares and units by the customers Shares and units are recorded at fair value with changes in fair value being taken to the income statement In general, the fair value category is used as, in most cases, the Company's investment or risk management strategy is to manage its investments on a fair value basis

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair value less transaction costs Investments carried at fair value are measured using a fair value hierarchy, described in note 5, with values based on quoted bid prices

(F) Deferred acquisition costs

The incremental costs directly attributable to securing an investment management service were deferred to the extent that they were expected to be recoverable out of future margins in revenues on these contracts

Deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these margins Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable

(G) 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

(H) Statement of cash flows

Cash and cash equivalents

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

Operating cash flows

Purchases and sales of financial investments are included within operating cash flows as the purchases are funded from operational cash flows

(I) 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

(J) Share capital

Equity instruments

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 for 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

Aviva Investors UK Fund Services Limited
Income statement
For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Revenue	C	**41,043**	47,547
Operating expenses	1	**(31,731)**	(41,440)
Realised gains from investments designated as trading		**1,292**	1,518
Profit before tax		**10,604**	7,625
Tax	I & 4	**(2,460)**	(1,867)
Profit for the year	10	**8,144**	5,758

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 Investors UK Fund Services Limited
Statement of financial position
As at 31 December 2013

	Note	2013 £'000	2012 £'000
Assets			
Investments	E & 6	**8,129**	11,328
Deferred tax assets	I & 12	**28**	48
Receivables	G & 7	**34,328**	40,864
Deferred acquisition costs	F & 8	**-**	14
Cash and cash equivalents	H & 14	**28,418**	30,932
Total assets		**70,903**	83,186
Equity			
Ordinary share capital	J & 9	**12,000**	12,000
Retained earnings	10	**8,504**	6,360
Total equity		**20,504**	18,360
Liabilities			
Tax liabilities	I & 12	**2,446**	1,868
Payables and other financial liabilities	G & 11	**35,506**	39,968
Other liabilities	G & 13	**12,447**	22,990
Total liabilities		**50,399**	64,826
Total equity and liabilities		**70,903**	83,186

Approved by the Board on 31 March 2014

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 Investors UK Fund Services Limited
Statement of changes in equity
For the year ended 31 December 2013

	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2012		12,000	8,602	20,602
Profit for the year	10	-	5,758	5,758
Dividends paid	J	-	(8,000)	(8,000)
Balance at 31 December 2012		**12,000**	**6,360**	**18,360**
Profit for the year	10	-	**8,144**	**8,144**
Dividends paid	J	-	**(6,000)**	**(6,000)**
Balance at 31 December 2013		**12,000**	**8,504**	**20,504**

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 Investors UK Fund Services Limited
Statement of cash flows
For the year ended 31 December 2013

The cash flows presented in this statement cover all the Company's activities

	Note	2013 £'000	2012 £'000
Cash flows from operating activities			
Cash generated from operations	14(a)	**3,486**	15,929
Net cash generated from operating activities		**3,486**	15,929
Cash flows from financing activities			
Dividends paid		**(6,000)**	(8,000)
Net cash used in financing activities		**(6,000)**	(8,000)
Net (decrease)/increase in cash and cash equivalents		**(2,514)**	7,929
Cash and cash equivalents at 1 January		**30,932**	23,003
Cash and cash equivalents at 31 December	14(b)	**28,418**	30,932

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), 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 in respect of these expenses The amount of this recharge is £6,308,000*(2012 £6,971,000)*

Aviva Investors Global Services Limited, a fellow group undertaking, makes a charge for the fund management of the Company's funds The charge for 2013 is £16,974,000 *(2012 £30,467,000)* This charge includes performance fees of £5,687,000 *(2012 £4,382,000)*

The external fund management charge for the year is £ 6,170,000 *(2012 £5,362,000)*, fund accounting fees for the year are £2,289,000 *(2012 £nil)* and other expenses refunded amounted to £10,000 *(2012 £1,360,000)*

2. 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

3. Auditors' remuneration

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

	2013	2012
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**3**	3

Fees paid to PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company are not disclosed in these accounts since the consolidated accounts of the Company's ultimate parent company, Aviva plc (see note 17), are required to disclose other (non-audit) services on a consolidated basis

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 charged to the income statement

	2013	2012
	£'000	£'000
Current tax		
For this year	**2,458**	1,868
Adjustments in respect of prior years	**(18)**	(6)
Total current tax charge	**2,440**	1,862
Deferred tax		
Origination and reversal of temporary differences	**15**	-
Change in tax rate	**5**	5
Total deferred tax charge	**20**	5
Total tax charged in the income statement (note 4(b))	**2,460**	1,867

(b) Tax reconciliation

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

	2013 £'000	2012 £'000
Profit before tax	**10,604**	7,625
Tax calculated at standard UK corporation tax rate of 23.25% *(2012 24 5%)*	**2,465**	1,868
Adjustment to tax charge in respect of prior years	**(10)**	(6)
Change in tax rate	**5**	5
Total tax charge to the income statement (note 4(a))	**2,460**	1,867

The UK corporation tax rate reduced from 24% to 23% from 1 April 2013 Accordingly, the Company's profits for the period are taxed at an effective rate of 23 25%

Legislation was substantively enacted in July 2013 to reduce the main rate of UK corporation tax to 21% from 1 April 2014, with a further reduction to 20% from 1 April 2015 Accordingly, the rate of 20% has been used in calculating the Company's deferred tax assets and liabilities The impact of the further reduction in rate to 20% can be seen in the table above

5. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

For financial assets and liabilities carried at fair value, the measurement basis has been categorised into a 'fair value hierarchy' as follows

Quoted market prices in active markets – ('Level 1')

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities

Modelled with significant observable market inputs – ("Level 2")

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument Level 2 inputs include the following

- Quoted prices for similar assets and liabilities in active markets
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads)
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs)

Modelled with significant unobservable market inputs – ("Level 3")

Inputs to Level 3 fair values are unobservable inputs for the asset or liability Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date However, the fair value measurement objective remains the same, i e an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability

Therefore, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability Examples are certain private equity investments and private placements

Changes to valuation techniques:

There have been no changes in the valuation techniques during the period as compared to those described in the 2012 financial statements

Fair value of the following assets and liabilities approximate to their carrying amounts

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities
- Other liabilities

All of the Company's investments are categorised as Level 1 as they are valued based on quoted information in an active market There have been no transfers between levels in current or prior years

6. Investments

(a) Investments comprise shares and units at fair value through profit and loss

	2013 £'000	2012 £'000
Trading		
Shares in OEICs and units in authorised unit trusts	**8,129**	11,328

None of the above total *(2012 £nil)* is expected to be recovered more than one year after the statement of financial position date

7. Receivables

	2013 £'000	2012 £'000
Trade receivables	**23,712**	31,377
Amounts owed by group undertakings	**10,616**	9,487
	34,328	40,864

None of the above total *(2012 £nil)* is expected to be recovered more than one year after the statement of financial position date There is no difference in contractual maturity and the value in the accounts

8. Deferred acquisition costs

The carrying amount represents deferred acquisition costs in respect of investment contracts The movements in deferred acquisition costs during the year were

	2013 £'000	2012 £'000
Carrying amount at 1 January	**14**	165
Amortisation	**(14)**	(151)
Carrying amount at 31 December	**-**	14

9. Ordinary share capital

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

	2013	2012
	£'000	£'000
The allotted, called up and fully paid share capital of the Company was 12,000,000 *(2012 12,000,000)* ordinary shares of £1 each	**12,000**	12,000

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the articles of association adopted by the Company on 14 December 2012 reflect this Directors may exercise any power of the Company to allot shares or grant rights to subscribe for or to convert any security into such shares and are authorised to do so under the Company's articles of association Ordinary shares in issue in the Company rank pari passu All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company

10. Retained earnings

	2013	2012
	£'000	£'000
Balance at 1 January	**6,360**	8,602
Profit for the year	**8,144**	5,758
Dividend paid of £0 50 per share *(2012 £0 667 per share)*	**(6,000)**	(8,000)
Balance at 31 December	**8,504**	6,360

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

11. Payables and other financial liabilities

	2013	2012
	£'000	£'000
Trade payables	**32,665**	31,602
Amounts owed to group undertakings	**2,841**	8,366
	35,506	39,968

None of the above total *(2012 £nil)* is expected to be paid more than one year after the statement of financial position date

12. Tax assets and liabilities

(a) General

Tax liabilities payable in more than one year are £2,446,000 *(2012 £1,868,000)*

(b) Deferred taxes

	2013	2012
	£'000	£'000
Capital allowances	**28**	48

The movement in the net deferred tax asset was as follows

	2013 £'000	2012 £'000
At 1 January	**48**	53
Amounts charged to income statement (note 4(a))	**(20)**	(5)
At 31 December	**28**	48

The Company has no unprovided deferred tax balances at the year end *(2012 £nil)*

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

13. Other liabilities

	2013 £'000	2012 £'000
Deferred income reserve	-	21
Accruals	**12,447**	22,969
	12,447	22,990

14. Statement of cash flows

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is

	2013 £'000	2012 £'000
Profit before tax	**10,604**	7,625
Adjustments for		
Changes in working capital		
Decrease in deferred acquisition costs	**14**	151
Decrease/(increase) in financial instruments at fair value	**3,199**	(130)
Decrease/(increase) in receivables	**6,556**	(3,639)
(Decrease)/increase in payables and other financial liabilities	**(6,344)**	1,904
(Decrease)/increase in other liabilities	**(10,543)**	10,018
Cash generated from operations	**3,486**	15,929

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

	2013 £'000	2012 £'000
Cash at bank and in hand	**28,418**	30,932

15. 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 subject to the capital requirements applicable to UCITs firms imposed by the FCA

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

	2013	2012
	£'000	£'000
Total IFRS shareholders' funds	**20,504**	18,360
Adjustments onto a regulatory basis		
Intangibles	**(28)**	(48)
Net deferred acquisition costs/deferred income reserve (net of tax)	**-**	5
Less illiquid assets	**(44)**	(14)
Total available capital resources	**20,432**	18,303

The illiquid assets deduction is in line with FCA reporting requirements

Further details on risk and capital management are given in note 16

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

16. Risk management

(a) Governance framework

The primary objective of our risk and financial management framework is to protect the Company from events that hinder the sustainable achievement of the Company's performance objectives, including failing to exploit opportunities

The Company recognises the critical importance of having efficient and effective risk management systems in place To this end, the Company has an established governance framework, which has three key elements

- Defined terms of reference for the Board, its committees, and the associated executive management committees,
- A clear organisational structure with documented delegated authorities and responsibilities from the Board to executive management committees and senior management, and
- A framework of policies and business standards that sets out expected business outcomes and requirements for the Company's operations Each business standard has a member of senior management who is charged with overseeing compliance with the requirements throughout the Company

Line management of business areas have primary responsibility for the effective identification, measurement, management, monitoring and reporting of risks to the Operational Board, in accordance with Aviva Group policies The Aviva Life risk team provides support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans

Regulatory impact on risk and risk assessments

Risks are actively and prudently managed in order to satisfy the Company's risk and reward objectives In addition, the Company's operations are subject to regulatory requirements, which prescribe the level of assets to be maintained in order to meet liabilities This is monitored by senior management and submitted quarterly to the FCA

Based on the 2013 year end ICAAP report, the key risk facing the business is operational risk

(b) Management of financial risk

The company holds financial instruments on a short-term rolling basis ("the box") to facilitate the efficient management of customers' supply and demand for shares and units The Board has approved the Company's box policy, which is owned and reviewed by the policy committee The Company adopts a passive approach to box management as shares and units are not created or cancelled with the aim of making a profit Exposure to market risk is minimal due to the size of the box and adherence to the box policy

(i) Liquidity risk

The nature of the business means that the Company is not exposed to significant liquidity risk Through the Capital and Solvency Policy and daily cash management process, the Company effectively manages liquidity risk and maintains sufficient financial resources to meet its obligations as they fall due

(ii) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations, or changes to the market value of assets caused by changed perceptions of the credit worthiness of such counterparties The Company's management of credit risk under the oversight of the Asset Liability Committee (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 trade debtors and inter-company balances The Company has an actively managed debtors policy to minimise the risk that amounts due will not be collected In the extreme event of non payment units can be cancelled and the loss limited to adverse market movements A significant amount of business relates to the Aviva Group of companies and exposure is managed through regular and timely payments At the statement of financial position date the balance of financial assets subject to credit risk that are past due but not impaired is £44,000 *(2012 £14,000)*

(iii) Foreign currency exchange risk

Foreign currency exchange risk is the risk of adverse impact due to changes in values of foreign currency bank accounts due to fluctuations in foreign currency exchange rates Exposure to foreign currency risk is minimal due to the size of the balances held

(c) Sensitivity analysis and capital management

The Company uses a number of risk management tools to understand the volatility of earnings, the Company's capital requirements, and to manage the capital more efficiently Sensitivities to economic and operating experience are regularly produced on all of the key financial performance indicators as part of the Company's decision making and planning process, and to set the framework for identifying and quantifying the risks to which the Company is exposed

Some results of sensitivity testing for the business are set out below

Sensitivity Factor	Description of sensitivity factor applied
Equity/property market values	The impact of a change in equity/property market values by +/- 10%

The above sensitivity factors are applied on the box position, with the following pre-tax impacts on profit and shareholders' equity at 31 December

(i) Results of sensitivity analysis

The results of sensitivity testing for changes in equity prices are set out below For each sensitivity test only the impact of the equity price change is shown, with other assumptions left unchanged

		2013
	Equity/ property +10% £'000	**Equity/ property-10% £'000**
Impact on profit before tax	**815**	**(815)**
Impact before tax on shareholders' equity	**815**	**(815)**

		2012
	Equity/ property +10% £'000	Equity/ property -10% £'000
Impact on profit before tax	1,135	(1,135)
Impact before tax on shareholders' equity	1,135	(1,135)

(ii) Limitations of sensitivity analysis

The above table demonstrates the effect of a change in equity and property prices whilst other assumptions remain unaffected In reality, such an occurrence is remote, due to correlations between the assumptions and other factors It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed and may be different at the time that any actual market movement occurs

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent our view of reasonably possible near-term changes that cannot be predicted with any certainty

17. Related party transactions

(a) Income receivable from related parties

	2013 Income earned in year £'000	2012 Income earned in year £'000
Fellow subsidiaries	**25,146**	2,272

(b) Expenses payable to related parties

	2013 Expense incurred in year £'000	2012 Expense incurred in year £'000
Fellow subsidiaries	**23,282**	37,438

(c) Receivable at year end

	2013 £'000	2012 £'000
Fellow subsidiaries	**10,616**	9,487

The related parties' 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 *(2012 £nil)*

(d) Payable at year end

	2013 £'000	2012 £'000
Fellow subsidiaries	**2,841**	8,366

The related parties' payables are not secured and no guarantees were issued in respect thereof

(e) 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 of each of the individual subsidiary undertakings

(f) Ultimate parent undertaking and controlling party

The immediate parent undertaking is Aviva Life Holdings 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 2013 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