

**AVIVA INVESTORS LONDON LIMITED**

**Registered in England and Wales No. 2152949**

**Annual report and financial statements 2011**

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## **Directors' report and financial statements**

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## **Directors and Officers**

### **Directors**

P A Abberley  
A H P Dromer  
J G Hodgson  
P J Neville (appointed as a director on 2 August 2011)

### **Officer - Company Secretary**

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

### **Auditors**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

### **Registered office**

No 1 Poultry  
London  
EC2R 8EJ

### **Company Number**

Registered in England and Wales No 2152949

### **Other Information**

Aviva Investors London Limited ('the Company') is authorised and regulated by the Financial Services Authority in the UK

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

**Directors' report**  
**For the year ended 31 December 2011**

The Directors present their report and financial statements for the Company, for the year ended 31 December 2011. The Company is a 100% subsidiary of Aviva Investors Holdings Limited ('the Group' or 'Aviva Investors').

**Directors**

The current directors and those in office during the year are as follows:

P A Abberley  
S G Boylan (ceased to be a director on 27 May 2011)  
A H P Dromer  
J G Hodgson  
P J Neville (appointed as a director on 2 August 2011)

**Principal activity**

The principal activity of the Company is to provide investment advisory services in respect of a range of actively managed, higher margin investment products ('the High Alpha Business') operated by the Group on behalf of certain clients of Aviva Investors Global Services Limited ('AIGSL'), a fellow subsidiary of the Group. The Company acts as advisor to these funds under a delegated authority sub-advisory agreement with AIGSL that permits the Company to carry out investment advisory business on behalf of certain clients of AIGSL.

In addition, the Company has also been appointed as the sub-advisor to the G7 hedge fund under a separate sub-advisory agreement with Aviva Investors Channel Islands Limited (a fellow subsidiary of the Group). The Company also has a branch in Boston, USA.

The Directors consider the activities of the Company will remain unchanged for the foreseeable future.

**Business review**

**Financial position and performance**

The position of the Company at the year-end is shown in the statement of financial position on page 10, with trading results shown in the income statement on page 9. The main factors affecting these financial statements were as follows:

During 2011, total revenue decreased by £1.0 million to £73.7 million. This decrease was due to lower performance fees generated through the sub-advisory agreement with AIGSL. Costs increased by £0.8 million, from £67.3 million to £68.1 million, as a result of higher costs recharged through the cost sharing and consultancy agreements with AIGSL.

**Future outlook**

The Directors aim to maintain the operations of the Company and the related policies which have resulted in the Company's current position. The Directors consider that the Company is well positioned to achieve future growth in assets that, in turn, will drive future revenue growths for the Company in the form of increased management fees.

**Principal risks, uncertainties and financial instruments**

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

**Management changes**

On 19th April 2012, Aviva announced changes to the organisation. The statement included the announcement that Alain Dromer will not be continuing in the role as Chief Executive of Aviva Investors and shall be leaving the business following a short transitional period. The process of finding a new Chief Executive is already in train with Group considering the possible appointment of an interim CEO.

## **Directors' report (continued)**

### **Key performance indicators**

The Company's financial key performance indicators ('KPIs') are those that are used by the Directors to measure the Company's success in achieving its targets and include

<b>Measure</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Profit before tax (£'000)	6,003	7,393	(1,390)
FUM (£'m)	51,963	53,240	(1,277)
Return on capital employed (%)	17.1	24.4	(7.1)

The decrease in return on capital employed in 2011 reflects the lower profit (as explained in the Business review), and higher capital employed (as a result of an increase in retained earnings) compared to 2010. Return on capital employed is a measure of the returns that the Company generates from its capital base and is used for assessing whether the business generates returns that exceed its cost of capital. The Company's Funds Under Management (FUM) decreased by £1.3 billion due to contractions in the markets and no net inflows in 2011.

### **Result and dividends**

The profit after tax for the year ended 31 December 2011 was £4.4 million (2010: £5.3 million). An interim dividend of £1.8 million was paid during the financial year (2010: £3.0 million). No final dividend (2010: £nil) has been proposed for the year ended 31<sup>st</sup> December 2011.

### **Going concern**

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out above. In addition, the notes to the financial statements include the Company's objectives, policies and processes for managing its capital and its financial risk management objectives, its financial risk management objectives, details of its financial instrument exposures, and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

### **Subsequent events**

A description of significant events occurring after the reporting period, are set out in Note 17 in the financial statements.

### **Creditor payment policy and practice**

It is the Company's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions. With respect to group activities in the UK, there were no trade creditors at 31 December 2011.

### **Employees**

The Company has no employees. All UK employees of the Group are employed by a fellow subsidiary undertaking, Aviva Investors Employment Services Limited. Disclosures relating to employees may be found in the accounts of that company. All employees of the Boston branch of the Company are employed by Aviva Service Corporation, a fellow subsidiary of Aviva plc that is domiciled in the USA. Disclosures relating to employee services may be found in note 3 to these accounts.

## **Directors' report (continued)**

### **Disclosure of information to the auditor**

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 auditor in connection with preparing their report, of which the auditor is unaware. 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 auditor is aware of that information.

### **Auditors**

Following a competitive tender process by the Company's ultimate parent company, Aviva plc, PricewaterhouseCoopers LLP are to be appointed as auditor to the Company. Ernst & Young LLP will resign as auditor with effect from receipt by the Company of a notice of resignation, and the directors will appoint PricewaterhouseCoopers LLP as auditor to the Company in accordance with the provisions of the Companies Act 2006.

### **Directors' liabilities**

Aviva plc, the Company's ultimate parent, has granted 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 was granted in 2004 and the provisions in the Company's articles of association constitute "qualifying third party indemnities" 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.

## **Directors' report (continued)**

### **Statement of Directors' responsibilities in relation to the financial statements**

The Directors are required to prepare the financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards ('IFRS') as adopted by the European Union, and which present fairly the financial position, financial performance and cash flows of the Company at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understanding information,
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance,
- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements

The Directors are responsible for maintaining adequate accounting records which are intended to disclose with reasonable accuracy, the financial position of the Company at that time. They are ultimately responsible for systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

By order of the Board

P J Neville  
Director  
25 April 2012



## **Independent auditor's report to the members of Aviva Investors London Limited**

We have audited the financial statements of Aviva Investors London Limited for the year ended 31 December 2011 which comprise the Income statement, Statement of comprehensive income, Statement of changes in equity, Statement of financial position, Statement of cash flows and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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 financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit 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.

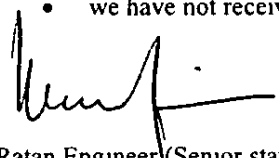
### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

  
Ratan Engineer (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
25 April 2012



## Income statement

For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Fee income	1(D)	73,710	74,677
Administrative expenses	2	(68,086)	(67,264)
Net investment income/(expense)	1(E), 5	379	(20)
<b>Profit before tax</b>		<b>6,003</b>	<b>7,393</b>
Tax expense	1(L), 6	(1,593)	(2,077)
<b>Profit for the year</b>		<b>4,410</b>	<b>5,316</b>

All amounts reported in the income statement relate to continuing operations

## Statement of comprehensive income

For the year ended 31 December 2011

	2011 £'000	2010 £'000
Profit for the year	4,410	5,316
Currency (losses)/gains in respect of the re-translation of the overseas branch	30	(159)
<b>Total comprehensive income for the year</b>	<b>4,440</b>	<b>5,157</b>

## Statement of changes in equity

For the years ended 31 December 2010 and 2011

	Ordinary share capital £'000	Retained earnings £'000	Currency translation Reserve £'000	Total equity £'000
<b>Balance at 1 January 2010</b>	23,500	5,203	(515)	28,188
Total comprehensive income for the year	-	5,316	(159)	5,157
Dividends	-	(3,000)	-	(3,000)
<b>Balance at 31 December 2010</b>	23,500	7,519	(674)	30,345
Total comprehensive income for the year	-	4,410	30	4,440
Dividends	-	(1,800)	-	(1,800)
<b>Balance at 31 December 2011</b>	23,500	10,129	(644)	32,985

The accounting policies on pages 12 to 16 and notes on pages 16 to 27 are an integral part of these financial statements


## Statement of financial position

As at 31 December 2011

	Note	2011 £'000	2010 £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	1 (Q)	2,420	
Property and equipment	1(H), 7	15	23
<b>Total non-current assets</b>		<b>2,435</b>	<b>23</b>
<b>Current assets</b>			
Trade and other receivables	9	20,770	28,180
Loan to fellow subsidiary	16(a)	15,983	5,478
Cash and cash equivalents	1 (F), 14(b)	1,579	1,180
Derivative financial instrument	1(R)	-	52
Current tax assets	1(L), 8	5	35
<b>Total current assets</b>		<b>38,337</b>	<b>34,925</b>
<b>Total assets</b>		<b>40,772</b>	<b>34,948</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Ordinary share capital	1(M), 13	23,500	23,500
Retained earnings		10,129	7,519
Currency translation reserve		(644)	(674)
<b>Total equity</b>		<b>32,985</b>	<b>30,345</b>
<b>Non-current liabilities</b>			
Non-current tax liabilities	1(L), 8	1,563	2,073
<b>Total non-current liabilities</b>		<b>1,563</b>	<b>2,073</b>
<b>Current liabilities</b>			
Trade and other payables	10	3,675	1,140
Derivative financial instrument	1(Q)	476	-
Current tax liabilities	1(L), 8	2,073	1,390
<b>Total current liabilities</b>		<b>6,224</b>	<b>2,530</b>
<b>Total liabilities</b>		<b>7,787</b>	<b>4,603</b>
<b>Total equity and liabilities</b>		<b>40,772</b>	<b>34,948</b>

The accounting policies on pages 12 to 16 and notes on pages 16 to 27 are an integral part of these financial statements

Approved by the board on 25 April 2012

  
P J Neville  
Director

**Statement of cash flows**  
**For the year ended 31 December 2011**

	<u>Note</u>	<u>2011</u> £'000	<u>2010</u> £'000
<b>Cash flows generated from operating activities</b>			
Cash generated from operations	14(a)	13,270	12,140
Tax paid		(1,390)	(3,238)
<i>Net cash generated from operating activities</i>		<u>11,880</u>	<u>8,902</u>
<b>Cash flows used in investing activities</b>			
Interest received		218	163
Loan to fellow subsidiary		(9,899)	(5,557)
<i>Net cash used in investing activities</i>		<u>(9,681)</u>	<u>(5,394)</u>
<b>Cash flows used in financing activities</b>			
Dividends paid		(1,800)	(3,000)
<i>Net cash used in financing activities</i>		<u>(1,800)</u>	<u>(3,000)</u>
 Net increase in cash and cash equivalents		<u>399</u>	<u>508</u>
 Cash and cash equivalents at 1 January		1,180	672
Net increase in cash and cash equivalents		399	508
<b>Cash and cash equivalents at 31 December 2011</b>	14(b)	<u>1,579</u>	<u>1,180</u>

The accounting policies on pages 12 to 16 and notes on pages 16 to 27 are an integral part of these financial statements

## 1. Accounting policies

The financial statements of the Company for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on 23 April 2012. The Company is incorporated and domiciled in the United Kingdom.

The principal accounting policies adopted in the preparation of the Company's financial statements are set out below.

### (A) Basis of presentation

Items included in the financial statements are measured in the currency of the primary economic environment in which the Company operates ('the functional currency'). The Company has operations in the UK and USA. The functional currency for its US operations is US dollars and the functional currency for its UK operations is pounds sterling. The Company's presentational currency is pounds sterling. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling ('£'000').

#### *Statement of compliance*

The Company has opted to prepare financial statements in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The Company's financial statements have been prepared in accordance with IFRSs effective at 31 December 2011.

#### *Standards issued but not yet effective*

Further amendments to IFRS 1, IFRS 7, *Financial Instruments – Disclosures*, IAS 12, *Income Taxes*, and IAS 32 have been issued but have not yet been endorsed by the EU. These are applicable prospectively for accounting periods commencing 1 July 2011 or later, and are therefore not applicable for the current accounting period. On adoption, they will not have any material impact on the Company's financial reporting.

In 2009, the IASB issued IFRS 9, *Financial Instruments – Classification and Measurement*, followed by additional requirements on accounting for financial liabilities in 2010. These are the first two parts of a replacement standard for IAS 39. They are applicable prospectively for accounting periods commencing 1 January 2015 or later, and are therefore not applicable for the current accounting period. IFRS 9 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.

During 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, IFRS 11, *Joint Arrangements*, IFRS 12, *Disclosure of Interests in Other Entities*, IFRS 13, *Fair Value Measurement*, and reissued IAS 27, *Separate Financial Statements*, and IAS 28, *Investments in Associates and Joint Ventures*. It also issued amendments to IAS 1, *Presentation of Financial Statements*, and IAS 19, *Employee Benefits*. They are applicable for accounting periods commencing 1 July 2012 or later, and are therefore not applicable for the current accounting period. None of these has yet been endorsed by the EU but, on adoption, IFRS 10 will require the Company to review the entities that it classifies as subsidiaries, and the Company is currently assessing its impact. The other new and amended standards deal mainly with disclosures and the Directors of the Company are currently assessing the changes required to the Company's current financial statement disclosures.

#### *Interpretations issued but not yet effective*

IFRIC interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine*, was issued in 2011 but has not yet been endorsed by the EU. It is applicable prospectively for accounting periods commencing 1 January 2013 or later, and is therefore not applicable for the current accounting period. On adoption, it will not have any impact on the Company's financial reporting.

## **1. Accounting policies (continued)**

### **(B) Critical accounting policies and use of estimates**

The preparation of the financial statements requires the Directors of the Company to select accounting policies and make estimates and assumptions that affect items reported in the statement of financial position and income statement, other primary statements and notes to the financial statements

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 aren't considered to be any major areas of judgement on policy application.

The table below sets out those items the Directors consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Provisions and contingent liabilities	J
Deferred tax	L
Fee income	D
Expense allocations	K
Intangible assets	Q

### **(C) Foreign currency translation**

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions or at average rates if they are a suitable proxy. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the statement of financial position date. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Translation differences on non-monetary financial assets are reported as part of the fair value gain or loss arising in respect of such assets.

Exchange differences arising from the translation of the net investment in foreign branches are recognised in the statement of comprehensive income and taken to the currency translation reserve within equity. On disposal or liquidation of foreign branches, such exchange differences are transferred out of this reserve and recognised in the income statement as part of liquidation cost or the gains and losses on disposal.

The Company's principal overseas operations during the year were located in the USA. The results and cash flows of these operations have been translated into sterling at an average rate for the year of £1 = \$1.60 (2010: £1 = \$1.59). Assets and liabilities have been translated at the year-end rate of £1 = \$1.55 (2010: £1 = \$1.57).

### **(D) Fee income**

Income for investment advisory services is recognised on an accruals basis as it is earned and is recognised net of VAT or any rebates. Income from performance fees is recognised when entitlement to receive income is crystallised.

### **(E) Net investment income**

Investment income consists of interest receivable (arising from both cash deposits and loan interest) and realised and unrealised gains and losses on financial instruments held at fair value through the profit or loss. Interest receivable is recognised on an accrual basis.

The realised gain or loss on disposal of a financial instrument is the difference between the proceeds received, net of transaction costs, and its brought forward carrying value. Unrealised gains and losses represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year.

## **1. Accounting policies (continued)**

### **(F) Cash and cash equivalents**

Cash and cash equivalents consist of cash at bank and on hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition. For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities in the statement of financial position.

### **(G) Trade and other receivables**

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment, and are recognised at the point that the rights and rewards of ownership are transferred to the Company.

The Company reviews the carrying value and recoverability of its receivables on a regular basis. If the carrying value of a receivable is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

Reversals of impairments are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (i.e. improvement in the debtor's credit rating).

### **(H) Property and equipment**

Property and equipment is initially recognised at cost and, is stated in the statement of financial position at cost less accumulated depreciation and any impairment in value. Assets are recognised at the point where the company is able to derive a current or future economic benefit from the ownership of the asset.

Depreciation is calculated using the straight line method, which writes the cost of computer equipment and other assets down to their residual values, over their estimated useful lives as follows:

Computer equipment	Two to five years
Fixtures and fittings	Three to five years

Assets are depreciated from the date of acquisition.

### **(I) Impairment of non-financial assets**

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of these assets are determined by reference to their carrying amount and are recognised in the income statement.

### **(J) Provisions and contingent liabilities**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable 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 more probable than not.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where a future obligation is not probable or the amount cannot be reliably measured it is disclosed as a contingent liability and no provision is recognised.

## **1. Accounting policies (continued)**

### **(K) Expense allocations**

The majority of expenses of the Company relate to expenses that are initially incurred by a fellow subsidiary and are transferred to the Company, under the sub-advisory agreement. These amounts are shown on an accruals basis.

### **(L) 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.

A reduction in the UK corporation tax rate from 28% to 26% was substantively enacted in March 2011 and is effective from 1 April 2011. A further reduction from 26% to 24% was substantively enacted in March 2012 and will be effective from 1 April 2012.

In addition, it was announced in the 2012 Budget on 21st March 2012 that the UK corporation tax rate would reduce to 23% from 1 April 2013 and to 22% from 1 April 2014.

### **(M) Share capital**

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Accordingly, a financial instrument is treated as equity if the instrument does not commit the Company to any contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities with the holder of the instrument.

All of the share capital of the Company has been treated as an equity instrument.

### **(N) Dividends**

Dividends on ordinary shares are recognised in equity in the period in which the Company's obligation to make the dividend payment arises.

### **(O) Fiduciary activities**

Assets and income arising from fiduciary activities are excluded from these financial statements where the Company has no contractual rights to the assets and acts in a fiduciary capacity as investment manager or adviser.

### **(P) Leases**

Leases, where substantially all of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made by the Company as lessees under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 1. Accounting policies (continued)

### (Q) Intangible assets

Intangible assets are initially recognised at cost when the economic benefits of ownership can be established, and have finite lives and are amortised over the economic useful life of each asset and assessed for impairment whenever there is an indication the intangible may be impaired. The amortisation period and methodology is reviewed at least every financial year. The amortisation charge for the year is included in the income statement. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use.

### (R) Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. The derivatives do not qualify for hedge accounting and are accounted for as trading instruments.

Derivative financial instruments are recognised initially when the Company becomes a party to the contractual provisions of the asset and are initially measured at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. A derivative financial asset is derecognised where the rights to receive cash flows from the asset have expired.

## 2. Operating profit

	Note	2011 £'000	2010 £'000
Administrative expenses include the following.			
Operating lease expense		5	120
Depreciation	7	8	9
Foreign exchange gains		47	178

Auditor's remuneration is charged in the financial statements of Aviva Investors Global Services Limited, a fellow subsidiary company of the Group and not recharged to the Company. Auditors' remuneration in relation to the Company for 2011 was £65,000 (2010: £55,000). No non-audit services were carried out by the Company's auditors on behalf of the Company, and therefore no fees were payable with respect of non-audit services (2010: £nil).

## 3. Employee information

The Company has no employees. The employees who discharge their duties in the UK are remunerated by Aviva Investors Employment Services Limited, a fellow subsidiary of the Group, in respect of their services to the Group as a whole. Certain costs associated with the activities of the Company by the employees of the Group were recharged to the Company and are included in administrative expenses, however, it is not possible to identify the proportion of the overall cost re-charged that relates specifically to employees of the Company. Disclosures relating to employees may be found in the financial statements of Aviva Investors Employment Services Limited.

The employees who discharge their duties in the Boston branch are remunerated by Aviva Service Corporation (a fellow subsidiary of Aviva) in respect of their services to the Group as a whole. Certain costs associated with the activities of the Company by the employees of Aviva Service Corporation were recharged to the Company and are included in administrative expenses. However, it is not possible to identify the proportion of the overall cost re-charged that relates specifically to employees of the Company.



#### 4. Directors' emoluments

All Directors who discharge their duties in the United Kingdom were remunerated by Aviva Investors Employment Services Limited in respect of their services to the Group as a whole. Aviva Investors Employment Services Limited made no charge to the Company (2010 £nil) for the services of these Directors.

All other Directors are remunerated by Aviva Investors Employment Services Limited in respect of their services to the Group as a whole. The emoluments of these Directors are recharged to Aviva Investors Global Services Limited, which in turn makes an administration charge for the provision of staff to the Company (refer to administrative expenses in note 3). While this charge includes an element in respect of Directors' emoluments, it is not practical to calculate the exact proportion of aggregate Directors' emoluments that are borne by the Company.

#### 5. Net investment income/(expense)

	2011	2010
	£'000	£'000
Bank interest receivable	111	163
Loan interest receivable	209	33
Losses on derivatives	(447)	(105)
Foreign exchange gains/(losses) on loans	506	(111)
Net investment income/(expense)	379	(20)

#### 6. Tax

##### (a) Tax charged to the income statement

##### (i) The total tax charge comprised

	2011	2010
	£'000	£'000
<b>Current tax</b>		
Tax charge for the current year	1,593	2,072
Prior year adjustments	-	5
Total tax charged to the income statement (note 6b)	1,593	2,077

##### (ii) The tax charge can be analysed as follows

	2011	2010
	£'000	£'000
United Kingdom	1,563	2,077
Overseas	30	-
Total tax charged to the income statement (note 6b)	1,593	2,077

**(b) Tax reconciliation**

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

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Profit before tax	6,003	7,393
Tax calculated at standard UK corporation tax rate of 26.5% (2010: 28.0%)	1,591	2,070
Adjustment to tax charge in respect of prior years	-	5
Deferred tax assets not recognised	2	2
Total tax charged to the income statement (note 6a)	<u>1,593</u>	<u>2,077</u>

**7. Property and equipment**

	<b>Computer equipment</b>	<b>Fixtures and fittings</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>			
At 1 January 2011	63	203	266
At 31 December 2011	<u>63</u>	<u>203</u>	<u>266</u>
<b>Depreciation</b>			
At 1 January 2011	63	180	243
Charge for the year	-	8	8
At 31 December 2011	<u>63</u>	<u>188</u>	<u>251</u>
<b>Carrying amount</b>			
At 1 January 2011	-	23	23
At 31 December 2011	<u>-</u>	<u>15</u>	<u>15</u>

**8. Tax assets and liabilities**

**(a) General**

Liabilities for current year tax of £1,563,153 (2010: £2,072,812) are payable in more than one year. Current tax assets and liabilities receivable and payable in less than one year are £4,964 (2010: £35,144) and £2,072,553 (2010: £1,390,366) respectively. The current tax assets and liabilities of the company will be settled by way of group relief with Aviva group companies.

**(b) Deferred taxes**

The Company has unrecognised temporary differences of £17,270 (2010: £16,491) arising from accelerated depreciation of £69,080 (2010: £61,078) to carry forward indefinitely against future taxable income. This has not been recognised on the basis that the Directors do not consider that it is more likely than not that there will be suitable taxable profits in the foreseeable future against which these losses can be utilised.

## 9. Trade and other receivables

	2011	2010
	£'000	£'000
Amounts due from fellow subsidiaries	18,877	26,942
Accrued income	1,303	863
Other receivables	590	375
	<u>20,770</u>	<u>28,180</u>

All trade and other receivables are expected to be collected in less than one year

Trade and other receivables are non-interest bearing and are generally recoverable in 30-90 days terms. Balances are not considered to be past due until 90 days have elapsed from the date of the original invoice. Of the £18.9 million (2010: £26.9 million) amounts due from fellow subsidiaries, £12.2 million (2010: £27.3 million), relates to bank deposits held by Aviva Investors Global Services Limited, a fellow subsidiary of Aviva Investors Holdings Limited, on the Company's behalf. These amounts are repayable on demand.

At 31 December 2011, and 2010, there were no trade and other receivables that have been impaired, or trade and other receivables that are past due but not impaired.

Concentrations of credit risk with respect to receivables are limited to the two related party companies within the Company's client trading base. The Company only trades with reputable companies and significant balances are held with related parties. The Directors consider that the carrying value of all trade and other receivables equates to fair value.

## 10. Trade and other payables

	2011	2010
	£'000	£'000
Accrued expenses and other payables	3,592	1,103
Payables to fellow subsidiaries	83	36
	<u>3,675</u>	<u>1,140</u>

Accrued expenses and other payables are unsecured and non-interest bearing and are normally settled within 30 days. All amounts are repayable upon demand.

The carrying value of trade and other payables equates to their fair value.

## 11. Intangible assets

	<b>Capitalised development</b>
	<b>£'000</b>
<b>Cost</b>	
At 31 January 2011	-
Additions	2,420
At 31 December 2011	<u>2,420</u>
<b>Amortisation</b>	
At 31 January 2011	-
Amortisation for the year	-
At 31 December 2011	<u>-</u>
<b>Carrying amount</b>	
At 31 December 2011	<u>2,420</u>

### Capitalised development

In 2011, the capitalised costs incurred were associated with the implementation of an investment management platform and the transfer of data centre facilities to a new service provider

## 12. Contingent liabilities and commitments

### (a) Operating lease commitments

Future aggregate minimum lease payments under non-cancellable operating leases are as follows

	<b>2011</b>	<b>2010</b>
	<b>£'000</b>	<b>£'000</b>
Within 1 year	26	33
Later than 1 year and not later than 5 years	37	62
	<u>63</u>	<u>95</u>

### (b) Contingent liabilities

There were no contingent liabilities at the statement of financial position date (2010 nil)

### 13. Ordinary share capital

	<u>2011</u>	<u>2010</u>
	<u>£'000</u>	<u>£'000</u>
The allotted, called up and fully paid share capital of the Company at 31 December 2011 was		
23,500,000 (2010 23,500,000) ordinary shares of £1 each	23,500	23,500

All ordinary shares rank equally with regard to voting rights and dividend entitlements declared, made or paid by the Company. All shareholders are entitled to all of the residual assets of the Company on winding up.

### 14. Additional cash flow information

#### (a) Reconciliation of profit before tax to the net cash inflow from operating activities

	<u>2011</u>	<u>2010</u>
	<u>£'000</u>	<u>£'000</u>
Profit before tax	6,003	7,393
Adjustments for:		
Depreciation of property and equipment	8	9
Interest receivable	(320)	(196)
Currency gains/(losses) in respect of retranslation of overseas branch	32	(159)
Foreign currency exchange (gains) and losses	(506)	112
Changes in working capital:		
Decrease in trade and other receivables	4,989	12,019
Increase/(decrease) in trade and other payables	2,536	(6,986)
Decrease/(increase) in financial instruments	528	(52)
Cash generated from operations	<u>13,270</u>	<u>12,140</u>

#### (b) Cash and cash equivalents in the cash flow statement at 31 December

	<u>2011</u>	<u>2010</u>
	<u>£'000</u>	<u>£'000</u>
Cash at bank and on hand	1,579	1,180
	<u>1,579</u>	<u>1,180</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. The fair value of cash and cash equivalents equates to the carrying value. There are no restrictions on the use of this cash for the Company's own account (2010: £nil).

## **15. Risk and capital management policies**

### **(a) Approach to operational risk and capital management**

Operational risk is managed from the perspective of the Group and on a business stream basis rather than a statutory entity basis, hence, there is no operational risk framework that is specific to the Company. The Group, which includes the Company, operates within the governance structure framework of Aviva plc and its subsidiary companies. The Group also has its own established governance framework, with clear terms of reference for the Board of each of the companies in the Group and a clear organisation structure, with documented delegated authorities and responsibilities. The governance of the Group is monitored through a series of committees that operate under the delegated authority of the Board. The Aviva Investors Executive Committee is responsible for the risk management and strategic direction of the Group and is supported by the Risk Management and Compliance teams.

Following a review of the Aviva Investors' governance framework during 2011, Aviva Investors has two separate risk committees. The Operational Risk Committee ('ORC'), which includes senior representatives from all areas of the Aviva Investors' business, is responsible for overseeing the management of operational and regulatory risks. The Risk Committee consists solely of shareholder representatives. Working with the Audit Committee (see below), its role includes assisting the board of directors of the Group in oversight of Aviva Investors' systems for internal control, business risk assessment, risk management and issue resolution as well as compliance with legal and regulatory requirements.

The Audit Committee also comprises solely of shareholder representatives. Working with the Risk Committee, its role includes assisting the board of directors of the Group in oversight of the quality and integrity of the financial statements of each of the companies in the Group, the qualifications and independence of the external auditors and the performance of the Aviva Investors' Internal Audit function. Internal Audit reports to the Audit Committee on the effectiveness of the Group's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the Company's assets and resources.

Capital is managed within the regulatory framework in which the Company operates with the purpose of maintaining a strong capital base to uphold investor, creditor and market confidence and sustain the future development of the business. The Group's capital management framework uses the Internal Capital Adequacy Assessment Process ('ICAAP') of the Financial Services Authority, which is closely aligned with Aviva's Internal Capital Assessment framework, to identify the risks to which the business is exposed and to quantify their impact on the Group's 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 nature of the discretionary investment advisory activities undertaken by the Company means that market risks arising from the underlying assets are borne by the beneficial owners of the underlying funds. These risks are actively managed within the investment mandates given to the Company (via a fellow subsidiary of the Group) and the regulatory environment within which the Company operates. The Company's revenues are affected by the level of asset that it provides investment advice on and, as such, is sensitive to rises and falls in financial markets.

All risks facing the Group are assessed regularly, together with the effectiveness of existing controls. This qualitative assessment is supported by a risk assessment process with actions put in place to address any deficiencies identified.

Operational risk could arise as a result of inadequate or failed internal processes, people or systems, or from external events. Line management of business areas have the primary responsibility for the effective identification, management, monitoring and reporting of risks to the Aviva Investors Executive Committee, in accordance with the policies of the Group. The risk management function provides support and independent challenge on the completeness, accuracy and consistency of risk assessments, and the adequacy of mitigating action plans.

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. Operational risks are reported to the Aviva Investors Executive Committee and to Aviva on a quarterly basis, with risks assessed to be at the two highest impact assessments being escalated intra-quarter. A holistic view of the financial and non-financial risks, including operational risks impacting the Group, is monitored by the Aviva Investors Risk Committee on a quarterly basis.

## 15. Risk and capital management policies (continued)

### (b) Management of financial risks and sensitivities

The Company's exposure to different types of risk is limited by the nature of its business and the fact that it manages assets on a fiduciary basis and does not trade securities on its own account other than a series of seed capital investments that are held for the medium term and to provide capital to allow new funds managed by the Group to establish a track record and secure external investment. The Aviva Investors Risk Committee provides oversight for risk management. The Committee determines the Group's financial risk policies and objectives, and determines the Company's risk appetite.

The Company uses forward contracts in the ordinary course of business to manage foreign currency exchange rate risks. The Company does not hedge against any other adverse market movements.

#### (i) Market risk and sensitivities

Market risk is the risk of an adverse impact on the performance of the Company arising from fluctuations in foreign currency exchange rates, interest rates or market prices. Market price risk is managed from the perspective of the Group rather than being separately managed by the Company and the Group uses sensitivity test-based analysis, including the Internal Capital Adequacy Assessment Process ('ICAAP'), to understand the impact of volatile markets on expected earnings for decision-making and planning purposes. The Company has no direct exposure to market price risk through assets and liabilities it holds. However, it does have an indirect exposure as a result of movements in revenue due to the effect of market prices on the underlying assets to which it provides investment advisory services.

#### (ii) Foreign currency exchange risk

Foreign currency exchange risk is the risk of an adverse impact on the Company's results due to changes in the carrying value of the loan provided to a fellow subsidiary and entities with different functional currencies, from fluctuations in foreign currency exchange rates. The Company's operations are predominately in the UK, but the Company has overseas operations in the USA.

Net financial assets by principal currency at 31 December were

	2011	2010
	£'000	£'000
Sterling (GBP)	17,720	29,070
US dollar (USD)	1,041	(850)
	<u>18,761</u>	<u>28,220</u>

The Company's exposure to movements in foreign currency is illustrated in the table below

	10% Increase in rates	10% Decrease in rates
Increase/(decrease) in net assets at 31 December 2011	112	(96)
Increase/(decrease) in net profit as at 31 December 2011	112	(96)
(Decrease)/increase in net assets at 31 December 2010	(76)	94
(Decrease)/increase in net profit as at 31 December 2010	(76)	94

## 15. Risk and capital management policies (continued)

### (iii) Interest rate risk

The Company has exposure to fluctuations in interest rates on its bank balances and the loan due to a fellow subsidiary. The Company's exposure to movements in interest rates is illustrated in the table below.

A change in 50bps in interest rates would have had the following impact on the Company:

	Increase by 50bps £'000	Decrease by 50bps £'000
Net asset (decrease)/increase at 31 December 2011	(69)	69
(Decrease)/increase in profit at 31 December 2011	(69)	69
Net asset (decrease)/increase at 31 December 2010	(143)	143
(Decrease)/increase in profit at 31 December 2010	(143)	143

### (iv) Credit risk

Credit risk is the risk of financial loss as a result of the failure of third parties to pay their obligations to the Company. The Company's maximum exposure to credit risk is associated with its trade and other receivables, cash and cash equivalents. The Company's exposure to credit risk is mainly influenced by its customer base. A significant amount of business relates to the Aviva group of companies and exposure is managed through regular payments on account.

The credit risk associated with cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit agencies.

### (v) Liquidity risk

The Company maintains a prudent level of liquidity which meets the expectations of the Financial Services Authority (FSA). The Company evaluates its liquidity requirements on an ongoing basis and generates sufficient cash flows from its operating activities to meet its obligations arising from its liabilities. All liabilities are repayable on demand at the values disclosed in the financial statements.

### (c) Capital management

The Company maintains an efficient capital structure, which is consistent with its risk profile and the regulatory and market requirements of its business. The capital structure of the Company consists of equity comprising issued capital, reserves and retained earnings.

### (d) Fair value methodology

For investments carried at fair value, we have categorised the measurements basis into a "fair value hierarchy" based on the degree of subjectivity associated with the data used to value each asset.

#### (i) Quoted market prices in active markets – ("Level 1")

Assets classed as Level 1 in the hierarchy are valued based on unadjusted quoted prices in active markets. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

At year end, the Company had assets of £nil (2010 £nil) value based on quoted market prices in active markets.



## 15. Risk and capital management policies (continued)

### (ii) *Internal models with significant observable market parameters – (“Level 2”)*

Assets classed as Level 2 in the hierarchy are valued based on inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. If the asset has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset. Level 2 inputs include the following:

- Quoted prices for similar assets in active markets,
- Quoted prices for identical or similar assets 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 is observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals, and
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means

As at 31 December 2011, the Company held forward exchange contracts that are recorded as Level 2 assets with a net value of £nil (2010: assets of £51,531)

### (iii) *Internal models with significant unobservable market parameters – (“Level 3”)*

Assets classed as level 3 in the hierarchy are based on inputs that are unobservable based on available published market data. 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 at the measurement date (or market information for inputs to any valuation models). As such, unobservable inputs reflect the assumptions that the Company considers that market participants would use in pricing the asset.

The Company does not have any assets with fair value measurements based on estimates and recorded as Level 3 (2010: nil). There were no transfers of assets either to or from Level 3 during the period.

### (e) **Regulatory compliance**

The FSA regulates the Company's UK investment business. The FSA has broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation, to investigate marketing and sales practices and to require the maintenance of adequate financial resources.

The Directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current and potential customers. Regulatory action against the Company could result in adverse publicity, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

### (f) **Regulatory capital**

The disclosure requirements in the FSA's Prudential Sourcebook for Banks, Building Societies and Investment Firms apply to the Company and also to the Group on a consolidated basis.

The Company is a limited licence company (according to the FSA's definition and scope of permitted regulated activities) and its minimum Capital Resources Requirement ('CRR') is the higher of the fixed overheads requirement and sum of the capital requirements for credit risk and market risk. For the Company, the higher of these is the fixed overheads requirement and therefore, forms the CRR. Credit risk arises only incidentally to the operations of the business and the Company uses the simplified method of the standardised approach to calculate this requirement. Market risk arises in respect of foreign currency exposures and interest rate fluctuations. The Directors do not consider these risks to be material and have not disclosed the related capital requirements.

The Company met all of its regulatory capital requirements during the current and prior period.

## 16. Related party transactions

The Company provides investment advisory services to fellow subsidiaries in the Group. In addition, certain costs are incurred on behalf of the Company by fellow subsidiaries in the Group and Aviva Group, and recharged to it. Sales to and purchases from related parties are at normal market prices.

### (a) Services provided to related parties

	2011		2010	
	Income receivable	Receivable at year end	Income receivable	Receivable at year end
	£'000	£'000	£'000	£'000
<b>Fee income</b>				
Aviva Investors Global Services Limited	62,669	6,456	64,526	14,521
Aviva Investors Channel Islands Limited	10,580	-	10,086	-
Aviva Investors North America, Inc	454	-	-	-
Aviva Investors Holdings Limited	-	12,421	-	12,421
<b>Loans</b>				
Aviva Investors North America, Inc	209	15,983	33	5,478
	<u>73,912</u>	<u>34,860</u>	<u>74,645</u>	<u>32,420</u>

In 2010 a loan was advanced to Aviva Investors North America Inc, a fellow subsidiary of Aviva. It is unsecured and earns interest at 2.43% per annum and matures on 14 December 2012. The loan was issued in US Dollars for the amount of \$8,525,000. The loan was made on normal arms-length commercial terms.

In 2011, a further loan was advanced to Aviva Investors North America Inc, and earns interest at 1.42% per annum and matures on 5 May 2012. The loan was issued in US Dollars for the amount of \$16,100,000. The loan was made on normal arms-length commercial terms.

The related parties' receivables are not secured and no guarantees were received by the Company in respect thereof. The receivables will be settled in accordance with normal credit terms.

	2011		2010	
	Expense incurred	Payable at year end	Expense incurred	Payable at year end
	£'000	£'000	£'000	£'000
<b>Fee expense</b>				
Aviva Investors Global Services Limited	62,396	-	66,079	-
Aviva Investors North America, Inc	99	-	-	-
Aviva USA Corporation	-	83	-	36
	<u>62,495</u>	<u>83</u>	<u>66,079</u>	<u>36</u>

The Company's payables are not secured and non-interest bearing, and no guarantees were made by the Company in respect thereof. The payables will be settled in accordance with normal credit terms.

## **16. Related party transactions (continued)**

### **(c) Key management compensation**

The members of the Board of Directors are listed on page 3 of these accounts. There are no amounts receivable from or payments due to members of the Board of Directors. The Directors are considered to be the Company's only key management personnel. Details of remuneration arrangements of the Directors are included in note 4.

### **(d) Parent entity**

The immediate holding company of the Company is Aviva Investors Holdings Limited, registered in the UK.

### **(e) Ultimate controlling entity**

The ultimate controlling entity of the Company is Aviva plc, incorporated in England. Aviva plc's consolidated financial statements are available on the Aviva plc website at [www.aviva.com](http://www.aviva.com), or on application to the

Group Company Secretary  
Aviva plc  
St Helen's  
1 Undershaft  
London, EC3P 3DQ

## **17. Subsequent events**

After the balance sheet date, but before the approval of the financial statements the following non-adjusting events have occurred:

On 30<sup>th</sup> January 2012 Aviva Investors announced the results of a business review which commenced in the fourth quarter of 2011. The proposed changes, which are subject to consultation within the business, are anticipated to lead to a significant reduction in staff levels over the course of 2012, impacting distribution (including closure and curtailment in activities for certain of the Company's branches) and manufacturing capabilities, and back office functions. Subject to the finalisation of the consultation process, the projected financial effect in 2012 across the Group is incremental costs of approximately £19m, offset by projected savings of approximately £15m. As the consultation phase is ongoing, the final proposals have not been agreed, the financial impact on specific legal entities (including the Company) is not currently known, and no reasonable estimate of the effect can be made at the current time.

In 2012 the activities of the Company's branch in Boston have been transferred to a fellow Aviva subsidiary, and the branch has been deregistered with the SEC. The estimated impact of this is a reduction in annual revenue of £2.7m and a reduction in annual expenses of £1.0m.