AVIVA INVESTORS PENSIONS LIMITED

Registered in England and Wales No. 1059606

Annual report and financial statements 2014

Contents

Directors and officers

Directors
M J Buckley
T J Lucas
P J Neville
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
7 More London Riverside
London
SE1 2RT

Registered office
1 Poultry
London
EC2R 8EJ

Company number
Registered in England and Wales: No.1059606

Other Information
Aviva Investors Pensions Limited (the 'Company') is a member of the Association of British Insurers and its activities are covered by the Financial Ombudsman Service. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

The Company is a 100% subsidiary of Aviva Investors Holdings Limited ('the Group' or 'Aviva Investors') and is a member of the Aviva plc group of companies ('Aviva Group').

Strategic Report
For the year ended 31 December 2014

The directors present their Strategic Report for the Company for the year ended 31 December 2014.

Review of the Company's Business

Principal Activities

The principal activity of the Company is the provision and administration of unit-linked pension business in the United Kingdom.

Financial Position and Performance

The financial position of the Company at 31 December 2014 is shown in the statement of financial position on page 11, with the results shown in the statement of comprehensive income on page 10 and statement of cash flows on page 12. The main factors affecting the performance in the year were:

- An overall increase in policyholder assets of £92.3 million. Policyholder assets at 31 December 2014 totalled £1,850.2 million (2013: £1,757.9 million). The increase is mainly due to net investments and other income of £255.5 million (2013: £132.6 million) offset by redemptions of £192.4 million (2013: £326.4 million). In addition, there have been inflows of £36.9 million (2013: £77.5 million) offset by charges of £7.6 million (2013: £8.0 million).
- In 2013 a client compensation payment of £0.3 million was made reducing profit before tax. In 2014, this payment was recovered resulting in an increase in profit before tax of £0.3 million in the year. The movement year on year of £0.6 million is offset by a net decrease of £0.1 million in investment management income and expenses.

Future Outlook

The directors continually assess the long term strategy of the Company to ensure it can adapt to changing market conditions, changes in regulations and changes in policyholder and operational demands. When assessing and setting the Company's long term strategy, the directors take into consideration policyholders, regulator and legal requirements, shareholders and other stakeholders.

Principal Risks and Uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk and capital management policies are set out in note 20 to the financial statements.

Key Performance Indicators ('KPIs')

The Company's KPIs are those that are used by the directors to measure the Company's success in achieving targets and include the following:

	2014	2013	Change
Profit before tax (£m)	2.0	1.5	0.5
Policyholder assets (£m)	1,850.2	1,757.9	92.3
Shareholder assets (£m)	14.1	12.5	1.6

The changes in profit before tax and policyholders assets are explained in the Financial Position and Performance section above. The shareholder assets increase is attributable to the current year (after tax) profit as no dividends were paid during the year.

By order of the Board, 30 March 2015

P. J. Neville
Director

31 March 2015

Directors' Report
For the year ended 31 December 2014

The directors present their annual report and financial statements for the Company for the year ended 31 December 2014.

Directors

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

M J Buckley
J Buttigieg (ceased 30 April 2014)
T J Lucas
P J Neville
T R Orton

Future Outlook

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

Dividend

No dividend was paid during the year (2013: Nil). The directors do not recommend the payment of a dividend for the financial year ending 31 December 2014.

Events after the reporting period

There have been no events after the reporting period.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report. In addition, note 20 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instrument exposures; and its exposures to operational, market risk, credit risk and liquidity risk.

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future and has a diverse group of policyholders who bear the market risk of the financial investments through the unit-linked investment contracts. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

After making enquiries, 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 financial statements.

Employees

The Company had no employees in 2014 (2013: nil).

Directors' Report (continued)

Disclosure of information to the auditor

Each person who was a director of the Company on the date that these financial statements were approved confirms that:

(a) 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; 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 auditor is aware of that information.

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

Independent Auditors

It is the intention of the directors to reappoint the auditor under the deemed appointment rules of Section 487 of the Companies Act 2006.

Directors' Liabilities

The directors have the benefit of an 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 in section 234 of the Companies Act 2006.

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.

Directors' Report (continued)

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. 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 International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board, 30 March 2015

P. J. Neville
Director

31 March 2015

Independent Auditors' Report to the Members of Aviva Investors Pensions Limited

Report on the Financial Statements

Our opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 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.

What we have audited

Aviva Investors Pensions Limited's financial statements comprise:

- Statement of comprehensive income for the year ended 31 December 2014;
- Statement of changes in equity for the year then ended;
- Statement of financial position as at the year end;
- Statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation of the financial statements 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' 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.

Independent auditors' report to the members of Aviva Investors Pensions Limited (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report if, in our opinion, certain disclosures of directors' remuneration specified by law have not been 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 Statement of Directors' Responsibilities 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) ('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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual report and financial statements 2014 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.

Parwinder Purewal (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2015

Statement of comprehensive income
For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Income			
Revenue		8.7	8.5
Net investment income	2	255.5	132.6
Other income		0.3	0.1
		264.5	141.2
Expenses			
Claims payable		0.5	0.5
Less: reinsurer's share		(0.5)	(0.5)
Change in investment contract provisions		(255.0)	(131.9)
Administrative expenses	3	(7.0)	(7.1)
Other operating expenses	4	(0.5)	(0.7)
		(262.5)	(139.7)
Profit before tax		2.0	1.5
Tax expense	7	(0.4)	(0.5)
Profit for the year and total comprehensive income for the year		**1.6**	**1.0**

Statement of changes in equity
For the years ended 31 December 2014 and 2013

	Ordinary share capital £m	Retained earnings £m	Total £m
Balance at 1 January 2013	6.0	5.5	11.5
Profit for the year and total comprehensive income for the year	-	1.0	1.0
Balance at 31 December 2013	6.0	6.5	12.5
Profit for the year and total comprehensive income for the year	-	1.6	1.6
Balance at 31 December 2014	**6.0**	**8.1**	**14.1**

The accounting policies on pages 13 to 20 and notes on pages 20 to 40 are an integral part of these financial statements.

All amounts reported in the statement of comprehensive income relate to continuing operations.

Statement of financial position

As at 31 December 2014

	Note	2014 £m	2013 £m
ASSETS			
Investment property	8	1,135.7	993.0
Financial investments	9	635.8	660.0
Reinsurance assets	14	9.2	8.4
Trade and other receivables	10	33.3	32.0
Cash and cash equivalents	19	99.2	119.7
Total assets		1,913.2	1,813.1
EQUITY AND LIABILITIES			
Equity			
Ordinary share capital	12	6.0	6.0
Retained earnings		8.1	6.5
Total equity		14.1	12.5
Liabilities			
Liability for investment contracts	13	1,850.2	1,757.9
Insurance liabilities	14	9.2	8.4
Finance lease liabilities	15	16.0	11.2
Trade and other payables	16	23.6	22.9
Provisions	18	-	0.1
Deferred tax liability	7	0.1	0.1
Total liabilities		1,899.1	1,800.6
Total equity and liabilities		1,913.2	1,813.1

The financial statements on pages 10 to 40 were approved by the Board of directors on 30 March 2015 and were signed on its behalf by

P. J. Neville
Director

31 March 2015

Statement of cash flows
For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Cash flows (used in)/generated by operating activities			
Cash (used in)/generated by operations	19	(19.9)	54.2
Group relief paid		(0.6)	(0.2)
Net cash (used in)/generated by operating activities		(20.5)	54.0
Net (decrease)/increase in cash and cash equivalents		(20.5)	54.0
Cash and cash equivalents at 1 January		119.7	65.7
Cash and cash equivalents at 31 December		99.2	119.7

The accounting policies on pages 13 to 20 and notes on pages 20 to 40 are an integral part of these financial statements.

Notes to the financial statements

1. Accounting policies

The financial statements of the Company for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the directors on 30 March 2015. The Company is a limited liability company 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 and have been applied consistently throughout the financial statements.

(A) Basis of presentation

Statement of compliance
The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The Company's financial statements have been prepared in accordance with IFRSs applicable at 31 December 2014 and have been prepared on a going concern basis. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

As permitted under IAS 27, Consolidated and Separate Financial Statements, IFRS 10, Consolidated Financial Statements and section 400 of the Companies Act 2006 the Company has elected not to present consolidated financial statements. These financial statements present information about the Company as an individual undertaking and do not consolidate the results of the Company's subsidiary undertakings.

In accordance with IFRS 4, Insurance Contracts, the Company has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are included in note (D) below.

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's presentational and functional currency is pounds sterling. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m).

1. Accounting policies (continued)

(A) Basis of presentation (continued)

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

The Company has adopted the following new amendments to standards which became effective for financial years beginning on or after 1 January 2014:

i) ***IFRS 12, Disclosure of Interests in Other Entities***
IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and structured entities. The adoption of IFRS 12 will result in significant additional disclosures in respect of these interests. There is no impact on the Company's profit or loss for the current or prior period or on the equity reported.

ii) ***Amendment to IAS 32, Financial Instruments – Presentation***
The amendment to IAS 32 clarifies the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The adoption of IAS 32 has not had an impact on the current or prior year.

iii) ***Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)***
The amendments provide an exemption from consolidation of subsidiaries under IFRS 10 'Consolidated Financial Statements' for entities which meet the definition of an 'investment entity', such as certain investment funds. Instead, such entities would measure their investment in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 'Financial Instruments' or IAS 39 'Financial Instruments: Recognition and Measurement'. There are no implications for the Company's financial statements.

iv) ***Amendments to IAS 36, Impairment of Assets***
The amendments clarify disclosure requirements in respect of recoverable amounts of impaired non-financial assets if based on fair value less costs to sell. There are no implications for the Company's financial statements.

v) ***Amendments to IAS 39, Financial Instruments –Recognition and Measurement.***
The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances of novations in which there is a change in counterparty to a hedging instrument in order to achieve ,clearing for that instrument. There are no implications for the Company's financial statements.

vi) ***Annual Improvements to IFRSs 2010-2012***
These improvements to IFRSs consist of amendments to seven IFRSs including IFRS 2 *Share-based Payment*, IFRS 3 *Business Combinations* and IFRS 13 *Fair Value Measurement*). The amendments clarify existing guidance and there is no significant impact on the Company's financial statements.

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following applicable new standards, amendments to existing standards and interpretations have been issued, are effective for accounting periods beginning on or after the following dates and have not been adopted early by the Company:

Effective for annual periods beginning on or after 1 January 2015

(i) ***Annual Improvements to IFRSs 2011-2013***
These improvements to IFRSs consist of amendments to four IFRSs including IFRS 3 *Business Combination* and IFRS 13 *Fair Value Measurement*. The amendments clarify existing guidance. The Company has not yet completed the impact assessment of the adoption of these amendments. The amendments are effective for annual periods beginning on or after 30 June 2015 and have yet to be endorsed by the EU.

1. Accounting policies (continued)

(A) Basis of presentation (continued)

(ii) Amendments to IAS 27, Equity Method in Separate Financial Statements

Within the Company's financial statements, the amendments to IAS 27 allow investments in subsidiaries to be accounted for using the equity method. The adoption of these amendments is not expected to have significant implications for the Company. The amendments to IAS 27 are effective for annual reporting periods beginning on or after 1 January 2016 and have not yet been endorsed by the EU.

(iii) Annual Improvements to IFRSs 2012-2014

These improvements consist of amendments to five IFRSs including IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 19 *Employee Benefits*. The amendments clarify existing guidance. The impact of the adoption of the amendments has yet to be fully assessed by the Company. The amendments are effective for annual reporting periods beginning on or after 30 June 2016 and have yet to be endorsed by the EU.

(iv) IFRS 15, Revenue from Contracts with Customers

IFRS 15 will replace IAS 18, *Revenue* and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts.
IFRS 15 includes enhanced disclosure requirements regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.
The impact of the adoption of the new standard has yet to be fully assessed by the Company. This standard applies to an annual reporting periods beginning on or after 1 January 2017 and has not yet been endorsed by the EU.

(v) IFRS 9, Financial Instruments

IFRS 9 will replace IAS 39, Financial Instruments – Recognition and Measurement. Under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit and loss (FVTPL). For financial liabilities designated as FVTPL, the change in the fair value attributable to changes in the liability's credit risk is recognised in other comprehensive income unless it gives rise to an accounting mismatch in profit or loss.

The Company has not yet completed the assessment of the impact of the adoption of IFRS 9. The effective date of 1 January 2018 for mandatory application of IFRS 9 was tentatively decided by the IASB at its February 2014 meeting.

1. Accounting policies (continued)

(B) Critical accounting policies and use of estimates

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

These major areas of judgement on policy application are summarised below:

Item	Critical accounting judgement estimate or assumption	Accounting policy
Non – participating investment contract liabilities	Assessment of the significance of insurance risk passed	D
Investment property and Financial investments	Classification of investments	J, K

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.

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

Item	Accounting policy
Insurance liabilities	H
Valuation of investment property	J
Valuation of financial investments	K
Fair value of derivative financial instruments	N

(C) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. 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 within net investment income in the statement of comprehensive income. Translation differences on all monetary and non monetary financial assets and liabilities that are measured at fair value are reported as part of the fair value gain or loss and included in net investment income in the statement of comprehensive income.

(D) Non - participating investment contract liabilities

Non-participating investment contracts are unit-linked contracts that are held at fair value. The fair value of the unit-linked liability is determined in accordance with IFRS 13, based on a reliable estimate of the amount for which the liability could be transferred in an orderly transaction between market participants at the measurement date.

The Company's business consists of investment contracts without a discretionary participating feature (non-participating investment contracts). Deposits collected under such contracts are accounted for directly through the statement of financial position as an adjustment to the investment contract liability. Non-participating investment contracts have no associated premium income.

(E) Revenue

Investment contract policyholders are charged fees for policy administration, advisory range of pooled investment funds, and other contract services. These fees are recognised as revenue on an accruals basis, net of VAT and discounts.

1. Accounting policies (continued)

(F) Net investment income

Investment income arises from the financial assets held by the Company on behalf of policyholders and consists of dividends, rental income and interest receivable for the year and realised and unrealised gains and losses on investment property and investments held at fair value through profit or loss. Dividends on equity securities are recorded as revenue on an ex-dividend basis. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Rental income is recognised on a straight line basis over the life of the contract.

The realised gain or loss on disposal of an investment 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.

Deposit interest on cash held at bank is recognised on an accrual basis.

(G) Claims

Claims reflect the cost of all claims arising during the year, including claims handling costs. Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses and any part of the general administrative costs directly attributable to the claims function.

(H) Insurance liabilities

As noted in policy (A) above, insurance contracts are measured and accounted for in accordance with IFRS 4.

Under IFRS 4, insurance contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting policies.

Accounting for insurance contracts in UK companies is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers, the most recent version of which was issued in December 2005 and amended in December 2006.

Calculations of insurance liabilities are based on regulatory requirements and represent a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the prevailing circumstances.

Insurance contracts are defined as those contracts that contain significant insurance risk. Insurance risk is deemed to arise if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, above the potential liability that exists at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

(I) Reinsurance

Reinsurance assets represent balances due from a third party reinsurance company for ceded insurance liabilities. Amounts recoverable from reinsurers are calculated based on the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the statement of comprehensive income. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

(J) Investment property

Investment property is held for long-term rental yields and capital appreciation and is not occupied by the Company. The Company's portfolio of investment property is attributable to policyholders upon redemption of their investment contracts. Investment property is recognised at the point that the risks and rewards of ownership are deemed to pass to the Company and is measured initially at cost, including transaction costs.

1. Accounting policies (continued)

(J) Investment property (continued)

Subsequent to initial recognition, investment property is measured at its fair value, which is supported by market evidence, as assessed by qualified external valuers. Changes in fair values are recorded in the statement of comprehensive income within net investment income. Investment properties carried at fair value are classified using a fair value hierarchy table, described in note 20(g).

An investment property is derecognised upon disposal. Any gain or loss arising on derecognition of the property is included in profit or loss in the year in which the property is derecognised.

(K) Financial investments

The Company designates its investments upon initial recognition as financial assets held at fair value through the profit or loss. The Company's portfolio of financial investments is attributable to policyholders upon redemption of their investment contracts. The assets held by the Company are monitored internally and reported to policyholders on a fair value basis therefore the directors consider the designation of these investments as 'held at fair value through the profit or loss' to be appropriate.

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, and are valued initially at their fair values less transaction costs. Transaction costs are recognised immediately in the statement of comprehensive income. Debt securities are recorded at fair value. Changes in the fair value are included in the statement of comprehensive income in the year in which they arise.

Investments carried at fair value are classified using a fair value hierarchy table, described in note 20(g). The fair values of listed investments are based on the quoted price within the bid-ask spread that is most representative of fair value, or amounts derived from independent pricing services or quotes sourced from brokers. Fair values for unlisted securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

(L) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from policyholder investment property operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Policyholder investment properties held under finance leases are initially recognised as assets at their fair value at the inception of the lease, or lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

(M) Trade and other receivables

Trade and other receivables are measured at amortised cost. The Company reviews the carrying value of its trade and other receivables and accrued income balances 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 statement of comprehensive income in the year 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 counterparty's credit rating).

(N) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate futures and other derivative contracts that derive their value mainly from underlying financial and equity instruments. All derivatives are classified as held for trading and are recognised as financial instruments held at fair value through profit or loss. Derivatives are recognised when the risks and rewards of ownership are deemed to transfer to the Company and are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value with all movements in fair value being recognised within net investment income in the statement of comprehensive income. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as

1. Accounting policies (continued)

(N) Derivative financial instruments (continued)

discounted cash flow models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date. A derivative financial instrument is derecognised when the contractual rights to the cash flow expire or when it is transferred and subsequently all the risks and rewards of the ownership to another entity.

The notional or contractual amount associated with derivative financial instruments are not recorded as assets or liabilities in the statement of financial position, as they do not represent the potential gain or loss associated with such transactions.

(O) Collateral

The Company receives collateral in the form of cash and non-cash assets in respect of stocklending transactions and certain derivative contracts in order to reduce the credit risk of these transactions.

Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities. Non-cash collateral received is not recognised in the statement of financial position unless the Company either (a) sells or re-pledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

(P) 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, all of which have less than 90 days maturity from the date of acquisition that are readily convertible to known amounts of cash, and are subject to an insignificant risk of change in value.

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. Cash on deposit with a longer maturity is included in other financial investments.

(Q) Provisions and contingent liabilities

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

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(R) Income tax

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 against profits before taxation.

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.

(S) Share capital

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable. Therefore, the Company's share capital is considered to be an equity instrument.

1. Accounting policies (continued)

(T) Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on ordinary shares are recognised in equity in the year in which they are declared.

2. Net investment income

	2014	2013
	£m	£m
Rental income from investment properties	63.8	66.4
Investment property expenses	(8.2)	(10.7)
Interest receivable and similar income	12.2	14.6
Dividend income receivable	6.4	6.7
Realised gains/(losses) on investments held at fair value through profit or loss	28.0	(9.0)
Realised losses on investment property held at fair value	(0.6)	(0.5)
Unrealised gains on investments held at fair value through profit or loss	41.2	31.7
Unrealised gains on investment property held at fair value	112.7	33.4
	255.5	132.6

3. Administrative expenses

	2014	2013
	£m	£m
Investment management fees	5.1	5.3
Costs recharged from fellow subsidiaries	1.9	1.5
Client compensation expense	-	0.3
	7.0	7.1

These expenses are payable to Aviva Investors Global Services Limited. Further details are shown in note 22 on related parties.

Auditors' remuneration is charged in the financial statements of Aviva Investors Global Services Limited and is not recharged to the Company. Auditors' remuneration in relation to the Company for 2014 was £47,600 (2013: £47,000).

Fees paid to the auditors for services other than the statutory audit of the Company are not disclosed in these financial statements since the consolidated financial statements of the Company's ultimate parent company, Aviva plc, are required to disclose other (non-audit services) on a consolidated basis.

4. Other operating expenses

	2014	2013
	£m	£m
Policyholder fund administrative expenses	0.5	0.7

The expenses recognised above represent costs payable on behalf of policyholders by the underlying funds in which the policyholder assets are held, such as transaction charges, safe custody fees and bank charges.

5. Employee information

The Company has no employees (2013: nil). 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.

6. Directors' emoluments

All directors are remunerated for their roles as employees across the Aviva Group. They are not remunerated directly for their services as directors of the Company and the amount of time spent performing their duties is incidental to their role across the Aviva Group.

P J Neville's emoluments are nonetheless disclosed in the financial statements of Aviva Investors Holdings Limited and Aviva Investors Global Services Limited.

7. Tax

(a) Tax charged to the statement of comprehensive income

(i) The total tax charge comprises:

	2014	2013
	£m	£m
Current tax:		
Tax charge for the current year	0.4	0.4
Total current tax	0.4	0.4
Deferred tax:		
Origination and reversal of temporary differences	-	0.1
Total deferred tax	-	0.1
Total tax charged to the statement of comprehensive income	0.4	0.5

(ii) Deferred tax charged to the statement of comprehensive income represents movements on the following items:

	2014	2013
	£m	£m
Other temporary differences	-	0.1
Total deferred tax charged to income statement	-	0.1

(b) Tax reconciliation

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

	2014	2013
	£m	£m
Profit before tax	2.0	1.5
Tax calculated at standard UK corporation tax rate of 21.5% (2013: 23.25%)	0.4	0.4
Adjustment to tax charge in respect of prior years	-	0.1
Total tax charged to statement of comprehensive income (note 7a)	0.4	0.5

7. Tax (continued)

UK legislation was substantively enacted in July 2013 to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014, resulting in an effective rate for the year ended 31 December 2014 of 21.5%.

A further reduction to 20% was also enacted with effect from 1 April 2015. The 20% rate has been used in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2014.

(c) Tax liabilities

The following tax liabilities relate to group relief payable. Current group relief liabilities expected to be settled within one year are £352,179 (2013: £626,129). Group relief liabilities payable in more than one year are £456,214 (2013: £369,878) as shown in note 16.

Deferred tax

The net deferred tax liability arises on the following items:

	2014	2013
	£m	£m
Other temporary differences	0.1	0.1
Deferred tax liability at 31 December	0.1	0.1

The movement in the net deferred tax liability was as follows:

	2014	2013
	£m	£m
Deferred tax liability at 1 January	0.1	-
Amounts charged to the statement of comprehensive income (note 7a)	-	0.1
Deferred tax liability at 31 December	0.1	0.1

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

The Company does not have any unprovided deferred tax items at the year end (2013: £nil).

8. Investment property

	Freehold	Leasehold	Total
	£m	£m	£m
Fair value			
At 1 January 2013	996.7	111.0	1,107.7
Additions	48.2	-	48.2
Capitalised expenditure on existing properties	15.6	0.3	15.9
Proceeds on disposal	(169.1)	(38.8)	(207.9)
Realised losses on disposal	(0.2)	(0.3)	(0.5)
Unrealised fair value gains/ (losses)	26.9	6.5	33.4
Net movement in head leases capitalised	-	(3.8)	(3.8)
At 31 December 2013	918.1	74.9	993.0
Additions	101.7	-	101.7
Capitalised expenditure on existing properties	9.8	0.1	9.9
Proceeds on disposal	(80.1)	(5.7)	(85.8)
Realised losses on disposal	(0.6)	-	(0.6)
Unrealised fair value gains/ (losses)	108.5	4.2	112.7
Net movement in head leases capitalised	-	4.8	4.8
At 31 December 2014	**1,057.4**	**78.3**	**1,135.7**

Investment properties are stated at their fair values as assessed by qualified external valuers as at 31 December 2014. CB Richard Ellis is the principal valuer of all of the individual property assets. All valuers are Chartered Surveyors, being Members of the Royal Institution of Chartered Surveyors ('RICS'). Each property was valued on the basis of open market value and valuations were carried out in accordance with the RICS Appraisal and Valuation Manual. Fair value is determined using an income method, by which market driven estimated rental values, based on own lease agreements, with estimated costs are discounted using a capitalisation rate adjusted for recent market transactions (equivalent yield).

The following table reconciles the net book value of the investment properties to the market value.

	Freehold	Leasehold	Total
	£m	£m	£m
Net book value at 31 December 2013	918.1	74.9	993.0
Less: head leases capitalised	-	(11.2)	(11.2)
Plus: lease incentives	7.5	0.9	8.4
Market value at 31 December 2013	**925.6**	**64.6**	**990.2**
Net book value at 31 December 2014	1,057.4	78.3	1,135.7
Less: head leases capitalised	-	(16.0)	(16.0)
Plus: lease incentives	8.5	2.3	10.8
Market value at 31 December 2014	**1,065.9**	**64.6**	**1,130.5**

8. Investment property (continued)

Information about fair value measurements using significant unobservable inputs (Level 3)

			Level 3 - Unobservable Input range (weighted average)	
Segment	Segment Valuation (£'million)	Valuation Technique	Estimated Rental Value (£ per square foot)	Equivalent Yield (%)
Retail	462.6	income capitalisation	5.34-63.58 (17.04)	4.77-11.96 (5.46)
Offices	403.5	income capitalisation	7.49-66.09 (27.24)	3.85-13.65 (5.47)
Industrial	184.4	income capitalisation	4.50-11.06 (7.72)	5.37-8.66 (6.55)
Other	80.0	income capitalisation	9.81-191.28 (32.84)	6.14-7.68 (6.70)

The capital value of investment property is sensitive to changes in the estimated rental value and the equivalent yield. An increase in the equivalent yield will lead to a decrease in the capital value and an increase in the estimated rental value ('ERV') will lead to an increase in the capital value. There are inter-relationships between unobservable inputs. In an oversupplied market, in which supply of properties exceeds demand, the vacancy rate is increasing and rents are declining so the ERV may be lower than the passing rent, thus increasing the equivalent yield. For investment property under construction (including refurbishments), increases in construction costs that add to the property's features may lead to an increase in the future rental potential of the property, leading to a decrease in the equivalent yield. The equivalent yield may also fall as the term to lease expiry increases, demonstrating that investors are willing to pay more for a sustained income stream.

9. Financial investments

(a) Analysis of financial investments:

	2014	2013
	£m	£m
Assets held at fair value through profit or loss		
Debt securities		
UK government	266.6	249.9
Non-UK government	10.0	12.0
Listed corporate - UK	74.2	80.2
Listed corporate - Non-UK	74.0	72.4
Unlisted corporate	10.4	9.7
	435.2	424.2
Equity securities		
UK equities	78.6	100.5
Overseas equities	64.1	61.3
	142.7	161.8
Other investments		
Unit trusts	55.5	70.9
Property partnerships	2.0	2.2
Derivative financial assets	0.4	0.9
Total financial investments assets	**635.8**	**660.0**

All amounts above are classified as non-current as they are expected to be recovered more than twelve months after the reporting period.

Under IFRS 12, we are required to disclose our interests in consolidated and unconsolidated structured entities.

Several of the investments held within the unit linked business meet the definition of an interest in a structured entity per IFRS 12, these are classified as 'other investments' in the above table.

The investments held are unit trusts of £55.5 million and property partnerships of £2.0 million comprising:

- £48.6 million (2013: £47.1 million) of investments into externally managed UK based equity tracker funds.
- £6.9 million (2013: 23.8 million) invested in overseas Sociétés d'Investissement à Capital Variables ('SICAVs'), which are internally managed by a fellow subsidiary of the Company (Aviva Investors Global Services Limited ('AIGSL')). Total assets under management on these SICAVs is £2,032.0 million (2013: £4,743.2 million).
- £2.0 million (2013: £2.2 million) of property partnerships holdings in an open-ended investment company ('OEIC'), which is internally managed by AIGSL. Total assets under management on the OEIC is £214.7 million (2013: £267.8 million).

The Company does not control any of the aforementioned vehicles into which policyholder funds are invested. The policyholders of the Company have exposure to fair value movements on the underlying investments for their internal holding only. The Company's exposure to variable returns is limited to management fee income in the investing fund. The Company does not sponsor or provide support to any unstructured entities.

Please note that the full IFRS 12 disclosures for the investments managed by AIGSL noted above are included in the financial statements for AIGSL.

For information regarding the derivative financial instruments see note 21.

9. Financial investments (continued)

(b) Stocklending

The unit-linked funds in which policyholder assets are held have previously had stocklending arrangements in place in accordance with established market conventions. In this arrangement, investments held by the funds on behalf of policyholders are lent to UK counterparties and governed by agreements written under English law. On 23 April 2014, the provision of stocklending services ceased, with outstanding trades terminated in the year.

The fair value of financial assets received and pledged as collateral under stocklending arrangements at 31 December 2014 was £nil (2013: £25.9 million). The fair value of policyholder assets lent was £nil (2013: £24.5 million).

10. Trade and other receivables

	2014	2013
	£m	£m
Accrued investment income	4.0	4.4
Other policyholder fund receivables	28.6	27.0
Trade receivables	0.7	0.6
	33.3	32.0
Expected to be recovered in less than one year	33.3	32.0
	33.3	32.0

Trade receivables are non-interest bearing and are generally on 30 day payment terms. All other receivables relate to policyholder assets and are due within one year.

Concentrations of credit risk with respect to receivables are limited due to the size and spread of individual exposures. No further credit risk provision is therefore required, in excess of the normal provisions for doubtful recoverables.

As at 31 December 2014, £0.9 million of Other policyholder fund receivables were classified as past due (2013: £3.5 million), of which all were impaired by provisions for doubtful recoverables (2013: £1.8 million). The nature of the Company's unit-linked insurance product results in the credit risk on these assets held to cover linked liabilities being borne by the policyholders. No other Trade and other receivables balances were classified as past due or impaired (2013: £nil). The carrying value of all the receivables and other financial assets approximates to fair value.

Trade and other receivables are categorised as loans and receivables under IFRS 7, *Financial Instruments: Disclosures*.

11. Assets held to cover linked liabilities

The Company's unit-linked insurance products have been classified as investment contracts. The assets backing these unit-linked liabilities are included within the statement of financial position, and correspond to the liability for investment contracts disclosed in note 13.

The carrying values of the assets backing these unit-linked liabilities are as follows:

	2014	2013
	£m	£m
Investment properties	1,135.7	993.0
Debt securities	435.2	424.1
Equity securities	142.7	161.8
Other investments	57.9	74.0
Receivables	32.6	31.4
Payables	(22.4)	(21.5)
Finance lease liabilities	(16.0)	(11.2)
Cash and cash equivalents	84.5	106.3
	1,850.2	1,757.9
The associated liabilities are:		
Unit-linked contracts classified as investment contracts	(1,850.2)	(1,757.9)

In the normal course of business certain policyholders have registered floating charges amounting to £48.1 million (2013: £92.7 million) over the whole of the unit linked insurance assets of the Company to secure amounts due from the Company. The Company does not anticipate that any of the charges will crystallise.

12. Ordinary share capital

	2014	2013
	£m	£m
The allotted, called up and fully paid share capital of the Company at 31 December was:		
6,000,000 (2013: 6,000,000) ordinary shares of £1 each	6.0	6.0

13. Liability for investment contracts

The liability for investment contracts, all of which are unit-linked, comprised:

	2014	2013
	£m	£m
Carrying amount at 1 January	1,757.9	1,882.2
Inflows	36.9	77.5
Redemptions	(192.4)	(326.4)
Investment and other income	255.5	132.6
Charges	(7.6)	(8.0)
Carrying amount at 31 December	1,850.2	1,757.9

13. Liability for investment contracts (continued)

(a) Methodology

The liability for investment contracts represents the bid value of units, held on behalf of the policyholders, which is equal to the surrender value of the units.

(b) Assumptions

No actuarial valuation assumptions are required to assess the carrying value of the provision held for the unit-linked business, which is based only on the bid value of units at the valuation date.

The liability is classified as current as the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. The liability is categorised as a financial liability at fair value through profit or loss.

14. Insurance liabilities and associated reinsurance assets

The Company has a small amount of annuities in payment from legacy activity, which is fully reinsured by Aviva Annuity UK Limited, a fellow subsidiary within the Aviva Group. Aviva Annuity UK Limited manages the assets and liabilities, and administers annuity payments.

The following is a summary of the reinsurance assets and related insurance liabilities as at 31 December.

	2014			2013		
	Insurance liabilities	Reinsurance assets	Net	Insurance liabilities	Reinsurance assets	Net
	£m	£m	£m	£m	£m	£m
Long-term business contracts						
Annuity contracts	(9.2)	9.2	-	(8.4)	8.4	-

£0.5 million of the reinsurance asset (2013: £0.5 million) is classified as current as it is expected to be recoverable in no more than twelve months after the reporting period. £0.5 million of the insurance liability (2013: £0.5 million) is classified as current as it is expected to be payable in no more than twelve months after the reporting period. The rest of the balance is classified as non-current. The value of annuity contracts is calculated using a gross premium method which discounts the projected future cash flows that are projected to arise from these contracts. The cash flows are calculated using explicit assumptions for investment returns, inflation, discount rates, mortality, and future expenses. These assumptions reflect current and expected future experience, and are in line with those used in respect of similar contracts held by Aviva Annuity UK Limited. The most significant assumptions made are the discount rate of 3.3% (2013: 4.7%) for fixed interest annuities, the discount rate of 2.8% (2013: 4.0%) for index-linked annuities, and mortality assumptions (PCMA00/PCFA00 adjusted plus allowance for future mortality improvement) (both the percentage of the base tables and the future mortality improvements have been revised during 2014).

The business is wholly reinsured so the value of the reinsurance asset is equal to the insurance liability. Based on the current financial position of Aviva Annuity UK Limited, there is no evidence of impairment of this asset.

15. Finance lease liabilities

Certain of the policyholder investment properties are leased under finance leases. The average lease term is 87 years (2013: 88 years). The interest rate underlying obligations under finance leases is 2.23% (2013: 3.5%) per annum.

	Minimum lease payments		Present value of minimum lease payments	
	2014	**2013**	**2014**	**2013**
	£m	**£m**	**£m**	**£m**
Not later than one year	0.5	0.4	0.5	0.4
Later than one year and not later than five years	1.8	1.7	1.7	1.6
Later than five years	32.8	32.3	13.8	9.2
	35.1	34.4	16.0	11.2
Less: future finance charges	(19.1)	(23.2)	-	-
Present value of minimum lease payments	16.0	11.2	16.0	11.2

Finance lease liabilities are classified as Level 3 under the fair value hierarchy.

16. Trade and other payables

	2014	**2013**
	£m	**£m**
Amounts owed to fellow subsidiaries	0.4	0.4
Derivative liabilities	0.3	0.3
Group relief payable	0.8	1.0
Policyholder fund payables	22.1	21.2
	23.6	22.9
Total amount that is attributable to policyholders	22.4	21.5
Total amount that is attributable to shareholders	1.2	1.4
	23.6	22.9
Expected to be settled in less than one year	23.2	22.5
Expected to be settled after more than one year	0.4	0.4
	23.6	22.9

As at 31 December 2014, all policyholder payables were classified as current, because they were payable on demand. Shareholder payables after more than one year are group relief liabilities (note 7). All trade and other payables are carried at amortised cost, which approximates to fair value.

Derivative liabilities are classified as Level 1 under the fair value hierarchy.

17. Contingent liabilities and commitments

At the year-end there were contractual commitments for future maintenance and repairs on the investment properties held within policyholders' funds of £19.0 million (2013: £3.0 million).

Future contractual aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2014	2013
	£m	£m
Within 1 year	4.8	3.8
Later than 1 year and not later than 5 years	26.3	22.7
Later than 5 years	33.0	32.9
	64.1	59.4

Policyholder categorisation

At the year end, and at the time of approving the financial statements, the Company is assessing the categorisation of 14 policyholders, which prior to the year end along with 12 other policyholders had potentially been mis-categorised as professional rather than retail. The maximum redemption amount at the time of approval of the financial statements is £12.95 million out of the total policyholder assets held to cover linked liabilities of £1.85 billion. The policy document requires policyholders to be categorised as professional and therefore redemptions from the unit linked investment contracts may be required.

Where such redemptions occur this may result in a cost to the Company. At the time of approving the financial statements a review of the potential costs of redeeming these clients has been undertaken, and based on an assessment of probabilities, is unlikely to be significant in the context of the Company. Any obligations are expected to be settled no more than twelve months after the reporting period.

18. Provisions

	2014	2013
	£m	£m
Opening provision	0.1	-
Current year provision charge	-	0.3
Utilised during the year	(0.1)	(0.2)
Closing provision	-	0.1

A provision for client compensation in relation to the range of funds managed by the Company was recognised in 2013. The provision was utilised during the year.

19. Additional cash flow information

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

	2014	2013
	£m	£m
Profit before tax	2.0	1.5
Net realised (gains)/losses on financial investments	(28.0)	9.0
Net realised losses on investment properties	0.6	0.5
Net fair value gains on financial investments	(41.2)	(31.7)
Net fair value gains on investment properties	(112.7)	(33.4)
Change in liability for investment and insurance contracts	92.3	(124.3)
Changes in working capital:		
Change in receivables and other financial assets	(1.3)	(6.7)
Change in payables and other financial liabilities	0.8	2.3
(Purchases)/sales of operating assets:		
Additions of investment property	(111.6)	(64.1)
Disposals of investment property	85.8	207.9
Additions of financial investments	(928.4)	(1,043.1)
Disposals of financial investments	1,021.8	1,136.3
Cash (used in)/generated by operations	(19.9)	54.2

Purchases and sales of investment property and financial investments are included within operating cash flows, as the cash flows are associated with the origination of investment contracts net of payments of related claims.

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

	2014	2013
	£m	£m
Cash at bank and on hand	4.4	3.6
Cash equivalents	94.8	116.1
	99.2	119.7

Cash at bank earns interest at floating rates based on daily bank deposit rates. Cash equivalents represent short-term deposits that are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates (representing a margin above LIBOR).

As at 31 December 2014, cash and cash equivalent held by shareholders was £14.7 million (2013: £13.4 million), the remaining balance of £84.5 million (2013: £106.3 million) was held by policyholders. This cash is attributable to the policyholders only and not available for the Company to use.

Cash and cash equivalents are categorised as loans and receivables under IFRS 7, *Financial Instruments: Disclosures*.

20. Risk and capital management policies

(a) Overview

The risk management framework ('RMF') in Aviva forms an integral part of the management and Board processes and decision-making framework across the Aviva Group. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes used to identify, measure, manage, monitor and report ('IMMMR') risks, including the use of risk models and stress and scenario testing. The RMF has been adopted in the businesses collectively referred to as Aviva Investors (including this Company).

(b) Risk Management Framework

For the purposes of risk identification and measurement, and aligned to Aviva's risk policies, risks applicable to the Company are grouped by risk type: credit, market, liquidity, life insurance, asset management and operational risk. Risks falling within these types may affect a number of metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products delivered to clients and the service to clients and distributors, which can be categorised as risks to Aviva Investors' brand and reputation.

To promote a consistent and rigorous approach to risk management across all Aviva businesses a set of risk policies and business standards is in place which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. On a semi-annual basis the Company's chief executive officer attests compliance with the business standards that are relevant for the Company and which forms part of the Group's chief executive officer's and chief risk officer's attestation to the Board of its parent company, Aviva Investors Holdings Limited. The attestations provide assurance that there is a consistent framework for managing the business and the associated risks.

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. A range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests are carried out to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

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

Risk and risk management of the Company is overseen by the Company's Board which has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital, liquidity and franchise value for the Company. The Company's position against risk appetite is monitored and reported to the Company's Board at least annually. The oversight of risk and risk management at the Group level is supported by the Aviva Investors Capital Committee, which focuses on business and financial risks, and the Aviva Investors Operational Risk and Reputation Committee which focuses on operational and reputational risks.

(c) Operational risk

Operational risk, which is the Company's primary risk, is managed through the Aviva Group operational risk policy which defines operational risk as the risk of loss resulting from inadequate or failed processes, people, systems, or external events.

Key risks facing the Company are assessed regularly, according to the likelihood of them materialising and the potential impact on the business should they materialise, with reference to a self-assessment of the design adequacy and operating effectiveness of existing controls. Where appropriate, actions are put in place to address risks outside of tolerance or where control deficiencies have been identified. The key operational risks are reported quarterly to the Company's Board.

20. Risk and capital management policies (continued)

(c) Operational Risk (continued)

The types of operational risks to which the Company is exposed are identified using the following key risk categories:

- People
- Product development
- Regulatory
- Contractual/legal
- Execution, delivery and process management
- Clients, products and business practices
- Business disruptions and system failures
- Outsourcing

Activities undertaken to ensure the practical operation of controls over financial risks, such as market, credit and liquidity are treated as operational risk.

(d) Management of financial risks

The AI Risk Committee provides oversight for risk management and adopts the Aviva Group's financial risk policies and objectives. Financial risks for the Group are monitored and reported to the Capital Committee and financial risks specific to the Company are also reported to the Board.

(i) Asset and liability management

The nature of the Company's activities are such that the insurance and investment contract liabilities held on behalf of policyholders are matched by way of reinsurance and unit-linked assets respectively.

(ii) Liquidity risk

The Company maintains a prudent level of liquidity which meets the expectations of the Prudential Regulation Authority ('PRA'). 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 operational liabilities.

In instances where redemption requirements for unit-linked investment contract liabilities exceed liquid resources available in a fund, assets will be sold to meet the additional liquidity requirements. In the case of the Property Fund, the Company retains the right to defer cancellation of units to protect the remaining policyholders in the fund by enabling the organised sale of assets to meet the redemption requirements. There is a remote risk that the Company may not raise sufficient liquidity to meet the redemption requirements upon the expiry of the 12 month redemption deferral period. In that case, the Company will revalue the fund to the current market value while it seeks to extend the deferral period in consultation with its investors. The table below analyses the Company's financial liabilities, excluding investment contract liabilities, into relevant maturity groupings. It is anticipated that the Company is able to settle any financial liabilities when required:

20. Risk and capital management policies (continued)

(d) Management of financial risks (continued)

(ii) Liquidity risk (continued)

At 31 December 2014	Total	Due within 12 months	1-5 years	5-15 years	Over 15 years
	£m	£m	£m	£m	£m
Insurance liabilities	14.1	0.5	2.1	5.2	6.3
Trade and other payables	23.6	23.2	0.4	-	-
	37.7	23.7	2.5	5.2	6.3

At 31 December 2013	Total	Due within 12 months	1-5 years	5-15 years	Over 15 years
	£m	£m	£m	£m	£m
Insurance liabilities	15.3	0.5	2.1	5.4	7.3
Trade and other payables	22.9	22.5	0.4	-	-
	38.2	23.0	2.5	5.4	7.3

The Company's finance lease liabilities are analysed separately in note 15.

The impact of discounting is excluded from the insurance liabilities balance in order to show the anticipated contractual cashflows.

(iii) Market risk and sensitivities

The value of the Company's investment and insurance contract liability is directly linked to the value of the related assets and thus the Company's exposure to fluctuations in the values of the underlying liabilities and assets relates solely to the impact on fee income, which is not hedged. Shareholder assets and liabilities are held in sterling to minimise foreign currency exchange risk.

The Own Risk and Solvency Assessment ('ORSA') includes sensitivity analysis, which the Company uses to understand the impact of volatile markets on expected earnings for decision-making and planning purposes. The impact of a fall in policyholder assets at a point in time is limited to the impact on revenue, which is accrued based on those values and which is partially off-set by amounts payable by the Company for investment sub-advisory services provided by other entities within the Group.

The Company's exposure to movements in interest rate risk and market risk is not considered to be material.

(iv) Foreign currency exchange risk

Foreign currency exchange risk is the risk of an adverse impact on the Company's results due to changes in fair values of financial instruments and cash flows from fluctuations in foreign currency exchange rates. The nature of the Company's unit-linked insurance product results in the foreign exchange risk on the assets held to cover linked liabilities being borne by the policyholders.

20. Risk and capital management policies (continued)

(d) Management of financial risks (continued)

(v) Credit risk

Credit risk is the risk of financial loss as a result of the default or other failure of third parties to pay their obligations to the Company. The nature of the Company's unit-linked insurance product results in the credit risk on the assets held to cover linked liabilities being borne by the policyholders. For the Company's annuity business (see note 14) the shareholder bears the risk of default by the reinsurer. As the reinsurer is part of the Aviva Group this risk is considered low.

The Company has a Counterparty Credit Risk Policy to manage the credit risk associated with cash and cash equivalents, notably through placement of funds with high credit ratings assigned by international credit agencies. Credit exposures are identified, evaluated and managed in accordance with best practice and agreed risk appetite, so as to ensure that risks are managed within bounds acceptable to clients, the Aviva Investors UK CEO and, where appropriate, the Aviva Group Credit Risk Director. Credit risk on cash and cash equivalents is considered low.

(e) Life insurance risk

Life insurance risk in the Company arises through its exposure to mortality risks. The Company uses industry standard mortality assumptions in the calculation of its gross undiscounted liabilities for annuities in payment contracts.

(f) Risk and capital management

(i) Sensitivity test analysis

The Company uses a number of sensitivity test-based risk management tools to understand the volatility of earnings and capital requirements and to manage its capital more efficiently. The Company continuously reviews these sensitivities through its Market Consistent Embedded Value ('MCEV') and the ORSA framework. Sensitivities to economic and operating expenses are regularly produced on all of the Company's financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

(ii) Capital management

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 policyholder confidence and sustain the future development of the business. Quantitative risk appetites for regulatory and economic capital have been approved by the Board and are monitored by the Board and capital committee on a regular basis.

The Group's capital management framework uses the ORSA process of the PRA. The ORSA includes a detailed assessment of the risks to which the business is exposed and to estimate the amount of capital required to mitigate those risks to a selected remote level of risk. The PRA may allocate additional capital through its Supervisory Review and Evaluation Process ('SREP').

The Company complied with all externally imposed capital requirements to which it was subject during the year.

The Company will use the standard formula methodology to calculate their solvency capital requirement (SCR) when the Solvency II Directive (2009/138/EC) requirements go live on 1 January 2016.

20. Risk and capital management policies (continued)

(g) Fair value methodology

For investments carried at fair value, we have categorised the investments into a 'fair value hierarchy' (FVH) 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 classified as Level 1 in the hierarchy are valued based on unadjusted quoted prices in active markets for identical assets. 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.

(ii) Internal models with significant observable market parameters – ('Level 2')

Assets classified 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 (i.e. not identical) 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 are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment spreads, loss severities, credit risks, and default rates);
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market – corroborated inputs).

20. Risk and capital management policies (continued)

(g) Fair value methodology (continued)

(iii) Internal models with significant unobservable market parameters – ('Level 3')

Assets classified as Level 3 in the hierarchy are valued based on unobservable inputs for the asset. 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 table below illustrates the Company's fair value hierarchy classification:

				2014				2013
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Financial Investments								
Debt securities	266.6	168.6	-	435.2	249.9	174.3	-	424.2
Equity securities	142.7	-	-	142.7	161.4	0.4	-	161.8
Unit trusts	55.5	-	-	55.5	70.9	-	-	70.9
Property Partnerships	2.0	-	-	2.0	2.2	-	-	2.2
Derivative assets	0.2	0.2	-	0.4	0.9	-	-	0.9
	467.0	168.8	-	635.8	485.3	174.7	-	660.0
Investment Property	-	-	1,135.7	1,135.7	-	-	993.0	993.0
Liability for investment contracts	(1,850.2)	-	-	(1,850.2)	(1,757.9)	-	-	(1,757.9)

The fair value hierarchy of finance lease liabilities and derivative liabilities are disclosed in notes 15 and 16 respectively.

Investment property is now included within the fair value hierarchy. Investment properties are unique assets within markets which are widely considered illiquid. Due to the irregularity of similar transactions, management has deemed significant inputs into the valuation methodology as non-market observable, and classified as FVH Level 3.

Movements in the Level 3 Investment Property assets measured at fair value is included in note 8.

(h) Regulatory compliance

The Company is authorised by the Prudential Regulation Authority ('PRA'), and regulated by the Financial Conduct Authority ('FCA') and the PRA. The PRA and FCA have 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 Company has compliance resources to respond to regulatory enquiries in a constructive way, and take 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 clients. Regulatory action against the Company could result in adverse publicity for the Company, 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.

21. Derivative financial instruments and hedging

This note gives details of the various instruments used by the Company to mitigate risk. The instruments are policyholder assets.

The Company uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. In the narrative and tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held by the Company.

The option to hedge account under IAS 39, *Financial Instruments: Recognition and Measurement,* has not been taken. The Company's policyholder derivative activity at 31 December 2014 and 2013 was as follows:

	2014		
	Contract/ notional amount	Fair value asset	Fair value liability
	£m	£m	£m
Over the counter foreign exchange forward contracts	29.4	0.2	(0.2)
Exchange-traded interest rate futures contracts	20.0	0.2	(0.1)
Exchange-traded equity/index futures contracts	1.5	-	-
Over the counter credit default swaps	1.7	-	-
	52.6	0.4	(0.3)

	2013		
	Contract/ notional amount	Fair value asset	Fair value liability
	£m	£m	£m
Over the counter foreign exchange forward contracts	22.4	0.4	-
Exchange-traded interest rate futures contracts	11.2	0.1	(0.1)
Exchange-traded equity/index futures contracts	20.9	0.4	(0.2)
Over the counter credit default swaps	-	-	-
	54.5	0.9	(0.3)

22. Related party transactions

(a) The Company provides pooled pension investment management services to certain segregated clients of a fellow subsidiary, Aviva Investors Global Services Limited, which results in the Company receiving a portion of the fee charged to those clients by the Group. No separate management fee is charged to Aviva Investors Global Services Limited.

Aviva Investors Global Services Limited provides investment management services to the Company in respect of all unit-linked assets

(b) Services provided to related parties	2014		2013	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m
Segregated fee income for assets managed on behalf of a fellow subsidiary	1.4	0.3	1.2	0.1
Aviva Group pension schemes	-	-	0.1	-
	1.4	0.3	1.3	0.1

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

(c) Services provided by related parties	2014		2013	
	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end
	£m	£m	£m	£m
Investment management fee charged by fellow subsidiary	5.1	0.4	5.3	0.4
Costs incurred by fellow subsidiary and recharged to the Company	1.9	0.2	1.4	0.1
Commissions charged by fellow subsidiaries	-	-	0.1	-
	7.0	0.6	6.8	0.5

In addition, the liability for annuity contracts is reinsured with a fellow subsidiary. There was no expense for this service and the reinsurance asset at the year-end was £9.2 million (2013: £8.4 million). Claims paid pursuant to the reinsurance contract with the fellow subsidiary were £0.5 million (2013: £0.5 million). The related parties' payables are not secured and no guarantees have been made by the Company in respect thereof. The payables will be settled in accordance with normal credit terms.

(d) Key management compensation

Members of the Board of directors are listed on page 3 of these financial statements. There are no amounts receivable from or payments due to members of the Board. The directors are considered to be the only key management personnel of the Company. Details of their remuneration arrangements are contained in note 6.

(e) Ultimate controlling party

The immediate parent undertaking of the Company is Aviva Investors Holdings Limited.

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

22. Related party transactions (continued)

Aviva plc is the parent undertaking of both the largest and the smallest group of undertakings to consolidate these financial statements at 31 December 2014. The consolidated financial statements of Aviva plc are available on application to the:

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

23. Subsidiary undertakings

The subsidiaries of the Company at 31 December 2014 are listed below

Name	Country of incorporation	Ownership	Class of share	Nature of business
Exeter Estates Limited	Bahamas	100%	£1 ordinary	Non-trading
The Forum, Horsham (No. 1) Limited	United Kingdom	100%	£1 ordinary	In liquidation
The Forum, Horsham (No. 2) Limited	United Kingdom	100%	£1 ordinary	In liquidation

24. Events after the reporting period

There have been no events after the reporting period.