

Aviva International Holdings Limited

Registered in England No. 2180206

Annual Report and Financial Statements 2012

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Directors and officers

Directors

R Hoskins (resigned 22 June 2012)
J R Lister (appointed 20 July 2012)
S C J Machell (resigned 28 February 2013)
T J Matthews (appointed 29 May 2012, resigned 1 May 2013)
I M Mayer (resigned 27 April 2012)
D J R McMillan (appointed 17 June 2013)
A J Moss (resigned 30 May 2012)
P C Regan
D F S Rogers (appointed 17 June 2013)
R L Spencer (appointed 29 May 2012, resigned 20 July 2012)

Officer – Company Secretary

K A Cooper

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered Office

St Helen's
1 Undershaft
London
EC3P 3DQ

Company Number

Registered in England no 2180206

Ultimate parent company

The ultimate parent company is Aviva plc. The Company is a member of the Aviva plc group of companies (the Group).

Directors' report

The directors present their annual report and audited financial statements for Aviva International Holdings Limited (the Company) for the year ended 31 December 2012

Directors

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

R Hoskins (resigned 22 June 2012)
J R Lister (appointed 20 July 2012)
S C J Machell (resigned 28 February 2013)
T J Matthews (appointed 29 May 2012, resigned 1 May 2013)
I M Mayer (resigned 27 April 2012)
D J R McMillan (appointed 17 June 2013)
A J Moss (resigned 30 May 2012)
P C Regan
D F S Rogers (appointed 17 June 2013)
R L Spencer (appointed 29 May 2012, resigned 20 July 2012)

Company Number

Registered in England no 2180206

Principal activities

The principal activity of the Company is to act as a holding company

Business review

This business review is addressed to, and written for, the members of the Company with the aim of providing a fair review of the business development, performance during the year and position at the current time. In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business.

Financial position and performance

The financial position of the Company at 31 December 2012 is shown in the Statement of Financial Position on page 16, with the trading results shown in the Income Statement on page 13 and the Statement of Cash Flows on page 17.

Major events

On 31 December 2012, the Company undertook a capital reduction under the provisions of section 654(1) of the Companies Act 2006. Following this reduction, the ordinary share capital account has been reduced by £5,700 million. Distributable reserves have increased by a corresponding amount (note 17).

Future outlook

It is anticipated that the Company's significant financial assets will continue to comprise its investments in its subsidiaries, joint ventures and associate, and amounts due from the ultimate parent and fellow Group companies. The positive performance of the loans is expected to continue, as the credit risk arising from a Group company failing to meet all or part of its obligations is considered remote.

High level strategies are determined by the board of Aviva plc and these are shown in the Group Report and Accounts and 2012 preliminary announcement.

Directors' report continued

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 22 to the financial statements

Risk factors beyond the Company's control, that could cause actual results to differ materially from those estimated include, but are not limited to

- managing its investment in its subsidiary operations, which are held at fair value. The fair value is exposed to potential fluctuations in market factors
- maturity periods and interest rate risk, as the fair value or net asset value of the Company's financial resources is exposed to potential fluctuations in interest rates. The effect of a 100 basis point increase interest rates would be an increase in net interest income of £7 million (2011 £13 million)
- currency risk arising from inter-company Euro denominated loans payable of €1,950 million (2011 €1,950 million) and loans receivable of €200 million (2011 €630 million)

Key performance indicators

The performance of the business can be assessed through the use of key performance indicators (KPIs). The most relevant one is the net effective interest rate on the Company's loans, as described in note 24, which was 0.82% (2011 0.52%). This increased effective rate is due to the increase in intercompany receivables and decrease in intercompany payables.

Dividends

The directors do not recommend the payment of a dividend for the financial year ending 31 December 2012 (2011 £Nil)

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position including the Business Review, are set out in this report. In addition, the financial statements include notes on the Company's management of its major risks including market, credit and liquidity risk (note 22).

The Company and its ultimate holding company, Aviva plc, have considerable financial resources and as a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain macro economic outlook. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Events since the Statement of Financial Position date

On 28 February 2013, a major restructuring of the Group, which had economic effect from 1 January 2013, was completed. As part of the restructure the Company transferred its subsidiary holding in Aviva Canada Inc to its immediate parent, Aviva Insurance Limited, in consideration for a dividend in specie. In addition, the Company was transferred from its immediate parent Aviva Insurance Limited to Aviva Group Holdings Limited in consideration for a loan. The following subsidiary holdings were then transferred from the Company to its new immediate parent Aviva Group Holdings Limited in consideration for a dividend in specie, Aviva Asia Holdings Private Limited, Aviva Europe SE, Aviva Overseas Holdings Limited, Aviva Re Limited and CGU International Holdings B.V.

The impact of the above restructuring is to reduce the complexity of the current Group corporate structure resulting in a greater degree of direct control of subsidiaries creating a flatter, more transparent corporate structure.

On 17 April 2013, the Company sold its investment in its Malaysia joint ventures CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad for a consideration of CAD 240 million (£154 million).

On 7 May 2013, the Company completed the sale of its investment in the Romanian Pensions subsidiary SC Aviva Societate de Administrare a unui Fond de Pensii Privat SA Romania. Pensions was completed for a consideration of US\$7 million (£5 million).

Employees

The Company has no employees. All employees are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Investors Employment Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of these companies respectively.

Directors' report continued

Disclosure of information to the auditors

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

- (a) so far as the director is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of which the auditors are unaware
- (b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information

Independent auditors

Following a competitive tender process by the Company's ultimate parent company, Aviva plc, PricewaterhouseCoopers LLP were appointed as auditors to the Company for the year ended 31 December 2012 in accordance with the provisions of the Companies Act 2006. It is the intention of the directors to reappoint the auditors under the deemed appointment rules of Section 487 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.

Statement of Directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

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

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

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

By order of the Board 6 August 2013



Kirstine Cooper
Company Secretary

Independent auditors report to the members of Aviva International Holdings Limited

To the members of Aviva International Holdings Limited

We have audited the financial statements of Aviva International Holdings Limited for the year ended 31 December 2012, which comprise the Accounting Policies, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows, and the related notes 1 to 25. 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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 6, 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.

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 prior consent in writing.

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 Annual Report & 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 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.



Lee Clarke (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 August 2013

Accounting policies

The Company is a private limited company incorporated and domiciled in the United Kingdom (UK). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of presentation

The Company is exempt from preparing group financial statements by virtue of section 400 of the Companies Act 2006, as it is a subsidiary of an EEA parent and is included in consolidated financial statements for the Aviva Group at the same date. These financial statements therefore present information about the Company as an individual entity.

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Company has also complied with IFRS as issued by the IASB and applicable at 31 December 2012. The date of transition to IFRS was 1 January 2004. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit and loss.

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

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 2012. Neither of these amendments has a material impact on these financial statements.

- (i) Amendment to IFRS 7, Financial Instruments – Disclosures, relating to the transfer of financial assets
- (ii) Amendment to IAS 12, Income Taxes, relating to deferred tax

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

The following new standards, amendments to existing standards and interpretations have been issued, are effective for accounting periods beginning on or after 1 July 2012 and have not been adopted by the Company.

Effective for annual periods beginning on or after 1 July 2012

Amendment to IAS 1, Financial Statement Presentation

The amendment requires entities to group items presented in other comprehensive income according to whether they will subsequently be reclassified to profit and loss. The adoption of the amendment will change the presentation of the Statement of Comprehensive Income in the financial statements. The amendment has been endorsed by the EU.

Effective for annual periods beginning on or after 1 January 2013

(i) IAS 28, Investment in Associates and Joint Ventures (2011)

IAS 28 has been revised to include joint ventures as well as associates. Joint ventures are required to be equity accounted following the issue of IFRS 11. There are no implications for the Company financial statements. The standard has been endorsed by the EU.

(ii) 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, special purpose vehicles and other off balance sheet vehicles. The standard is expected to have a significant impact on the level of disclosure in respect of these interests. The standard has been endorsed by the EU.

(iii) IFRS 13, Fair Value Measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRSs with a single standard. The standard does not include requirements regarding which items should be measured at fair value but provides guidance on how to determine fair value. The standard also includes enhanced disclosures about fair value measurement. The adoption of IFRS 13 is not expected to have a significant impact on the Company's financial statements. The standard has been endorsed by the EU.

Accounting policies continued

(A) Basis of presentation continued

(iv) Improvements to IFRSs 2009-2011

Improvements to IFRSs 2009-2011 details amendments to five IFRSs, including IAS 1, Presentation of Financial Statements, IAS 32 Financial Instruments – Presentation and IAS 34 Interim Financial Reporting. The amendments clarify existing guidance and do not give rise to a change in existing accounting practice. There are no implications for the Company. The amendments have yet to be endorsed by the EU.

(B) Use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the Income Statement, Statement of Financial Position, 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 can always 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
Fair value of investments in subsidiaries	G
Provisions and contingent liabilities	M
Deferred income taxes	K

(C) Net investment income

Investment income consists of dividends, interest receivable for the year and realised gains and losses. Dividends from investments are recorded as investment income on the date they are received. Dividends from subsidiaries are recognised when they are declared. Interest income is recognised as it accrues, taking into account the effective yield on the investment.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost. Unrealised gains and losses represent the difference between carrying value at the year end and the carrying value at the previous year end or the purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(D) Foreign currency transactions

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 in the Income Statement.

Translation differences on non-monetary items are reported as part of the fair value gain or loss.

(E) Dividends

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

(F) Finance costs

All borrowing costs are expensed as they are incurred.

Accounting policies continued

(G) Subsidiaries, associates and joint ventures

Subsidiaries are those entities (including special purpose entities) in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits

Associates are entities over which the Company has significant influence, but which it does not control. Generally, it is presumed that the Company has significant influence where it has between 20% and 50% of voting rights

Joint ventures are entities whereby the Company and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement. In a number of these, the Company's share of the underlying assets and liabilities may be greater than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly-controlled entities are referred to as joint ventures in these financial statements

Subsidiaries, joint ventures and associates are stated at their fair values, estimated using applicable valuation models underpinned by the quoted market valuations of comparable listed entities, and with regard to the Aviva Group's market capitalisation. They are classified as available for sale financial assets, with changes in their fair value being recorded in a separate investment valuation reserve within equity

Where the cumulative changes recognised in the Statement of Other Comprehensive Income represent an unrealised loss, the investments are reviewed annually to test whether an impairment exists. Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the unrealised loss recorded in the Statement of Other Comprehensive Income is reclassified and charged to the Income Statement

(H) Held for sale assets

Assets and liabilities held for disposal as part of operations which are held for sale are shown separately in the Statement of Financial Position. They are recorded at the lower of their cost and their fair value

(I) Loans due from Group operations

Loans with fixed maturities are recognised when cash is advanced to borrowers. These loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method

To the extent that a loan is considered to be uncollectable, it is written off as impaired through the Income Statement. Any subsequent recoveries are credited to the Income Statement

At each reporting date, loans carried at amortised cost are reviewed for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics. To the extent that a loan is uncollectable, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, including any collateral receivable. Subsequent recoveries in excess of the loan's written-down carrying value are credited to the income statement

(J) Statement of Cash Flows

Cash and cash equivalents consist of cash at banks and in hand which are subject to an insignificant risk of change in value

Accounting policies continued

(K) Income taxes

The current tax credit or expense is based on the taxable result 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. The rates enacted or substantively enacted at the Statement of Financial Position date are used to determine the deferred tax.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments and other amounts charged or credited directly to other comprehensive income is recognised in the Statement of Financial Position as a deferred tax asset or liability.

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.

Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax is not provided on revaluations of investments in subsidiaries as, under current tax legislation, no tax is expected to arise on their disposal.

(L) Loans to Group Companies and hedging

Most of the Company's investments in foreign subsidiaries expose it to foreign exchange risk arising from movements in the underlying currency of the investment. In order to protect the value of these investments, the Company utilises financial instruments in the form of foreign currency loans from Aviva plc and cross-currency swaps.

Certain of the Company's Euro and US dollar currency loans from Aviva plc have been designated as fair value hedging instruments against certain of the overseas investments which are in Euros and US dollars. Justification for this and the relevant accounting treatment are described below.

Hedge accounting is used for the loans designated in this way, provided certain criteria are met. At the inception of the transaction, the Company documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Company also documents its assessment of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item, both at inception and on an ongoing basis.

Changes in the carrying value of the designated loans which arise from movements in exchange rates are taken to the income statement, in common with such movements on all monetary items. An equal and opposite transfer is then made from the investment valuation reserve to the income statement, to reflect the effectiveness of the designated hedges.

(M) 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.

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 reliably estimated.

Accounting policies continued

(N) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where

- The rights to receive cash flows from the asset have expired,
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, or
- The Company has transferred its rights to receive cash flows from the asset and either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously

Income Statement

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Income	2		
Investment income	C	504	483
Profit on sale of subsidiaries	G	2	-
		<u>506</u>	<u>483</u>
Expenses	3		
Finance costs	F	(130)	(186)
Other expenses		(17)	(18)
Impairment of investments in subsidiaries	G	(109)	(1,591)
Impairment of investments in associates	G	(116)	-
Loss on sale of subsidiaries	G	-	(422)
Loss on transfer of intergroup loans		(4)	(11)
		<u>(376)</u>	<u>(2,228)</u>
Profit/(loss) before tax		130	(1,745)
Tax credit	K & 7	-	43
Profit/(loss) for the year		<u>130</u>	<u>(1,702)</u>

The accounting policies (identified alphabetically) on pages 8 to 12 and notes (identified numerically) on pages 18 to 37 are an integral part of these financial statements

Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Profit/(loss) for the year		130	(1,702)
Other comprehensive income			
<i>Subsidiaries</i>			
Fair value gains / (losses) on investments in subsidiaries	G & 8	539	(1,921)
Fair value losses on investments in subsidiaries held for sale	G & 9	(3)	
Impairment losses on investments in subsidiaries previously revalued through other comprehensive income, now taken to the income statement	G, 16 & 3	109	1,591
Fair value gains transferred to loss on disposal		-	422
Fair value losses on investments in subsidiaries, hedged by loans transferred to foreign exchange movements in the the Income Statement	L, C, 3(a) & 16	41	30
<i>Associates</i>			
Fair value (losses) / gains on investments in associates	G & 10	(183)	67
Impairment losses on investments in associates previously revalued through other comprehensive income, now taken to the income statement	G, 16 & 3	116	-
<i>Joint Ventures</i>			
Fair value gains on investments in joint ventures	G & 11	41	185
<i>Other</i>			
Tax recognised on unremitted earnings in subsidiaries	K & 7	-	(1)
Other comprehensive income		660	373
Total comprehensive income for the year		790	(1,329)

The accounting policies (identified alphabetically) on pages 8 to 12 and notes (identified numerically) on pages 18 to 37 are an integral part of these financial statements

Statement of Changes in Equity

For the year ended 31 December 2012

	Note	Ordinary share capital £m	Investment valuation reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2011		5,772	470	2,852	9,094
Loss for the year		-	-	(1,702)	(1,702)
Other comprehensive income		-	373	-	373
Total comprehensive loss for the year		-	373	(1,702)	(1,329)
Shares issued	17	28	-	-	28
Balance at 31 December 2011		5,800	843	1,150	7,793
Profit for the year		-	-	130	130
Other comprehensive income		-	660	-	660
Total comprehensive income for the year		-	660	130	790
Fair value losses on investments in subsidiaries, previously hedged by loans, transferred to retained earnings	16 & 17		718	(718)	-
Transfer between capital and reserves	15 & 17	(5,700)	-	5,700	-
Balance at 31 December 2012		100	2,221	6,262	8,583

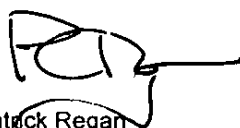
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Statement of Financial Position

As at 31 December 2012

	Note	2012 £m	2011 £m
Assets			
Investments in subsidiaries	G & 8	10,235	9,305
Investments in subsidiaries classified as held for sale	G, H & 9	2	8
Investment in associates	G & 10	59	210
Investment in joint ventures	G & 11	193	295
Investments in joint ventures classified as held for sale	G, H & 12	155	12
Receivables	I & 14	3,130	3,616
Cash and cash equivalents	J & 21	-	5
Total assets		13,774	13,451
Equity			
Ordinary share capital	15	100	5,800
Other reserves	16	2,221	843
Retained earnings	17	6,262	1,150
Total equity		8,583	7,793
Liabilities			
Payables and other financial liabilities	N & 19	5,067	5,532
Tax liabilities	K & 18	114	116
Deferred tax liabilities	K & 18	10	10
Total liabilities		5,191	5,658
Total equity and liabilities		13,774	13,451

The financial statements were approved by the Board of Directors on 6 August 2013 and signed on its behalf by


Patrick Regan
Director

The accounting policies (identified alphabetically) on pages 8 to 12 and notes (identified numerically) on pages 18 to 37 are an integral part of these financial statements

Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Cash flows from operating activities			
Other expenses		(3)	(4)
Net cash used in operating activities		(3)	(4)
Cash flows from investing activities			
Dividend income		237	133
Interest received		7	10
Loans advanced to subsidiaries		(8)	(247)
Loans repaid by subsidiaries		-	72
Capital contributions to subsidiaries and joint ventures		(22)	(63)
Proceeds on sale of subsidiaries and joint ventures		1	-
Net cash generated from/(used in) investing activities		215	(95)
Cash flows from financing activities			
Interest paid		-	(14)
Funding provided to parent		(621)	(510)
Funding provided from subsidiaries		404	629
Net cash (used in)/generated from financing activities		(217)	105
Net (decrease)/increase in cash and cash equivalents		(5)	6
Cash and cash equivalents as at 1 January		5	-
Effect of exchange rate movements on cash and cash equivalents		-	(1)
Cash and cash equivalents at 31 December	J & 21	-	5

The accounting policies (identified alphabetically) on pages 8 to 12 and notes (identified numerically) on pages 18 to 37 are an integral part of these financial statements

Notes to the financial statements

1. Exchange rates

Assets and liabilities have been translated at the following year end rates

	2012	2011
Euro	1.2330	1 1972
US Dollar	1.6255	1 5541
Polish Zloty	5 0307	5 3367

2. Details of income

Income comprises

	Note	2012 £m	2011 £m
Income from subsidiaries			
Dividend income	24(a)(iii)	381	334
Interest income from loans	24(a)(i)	15	19
		396	353
Income from parent			
Interest income from loans	24(a)(i)	108	130
		108	130
Gain on sale of subsidiaries	9(b)(i)	2	-
		506	483

3 Details of expenses

Expenses comprise

	Note	2012 £m	2011 £m
Other expenses			
Other expenses		(4)	(3)
Net foreign exchange losses	D & 3(a)	21	21
		17	18
Finance costs			
Interest on loans to ultimate parent	24(a)(ii)	89	143
Interest on loans to immediate parent	24(a)(ii)	37	32
Interest on loans to subsidiaries	24(a)(ii)	-	7
Bank charges		4	4
		130	186
Impairment of investment in subsidiaries	16	109	1,591
Impairment of investments in associates	16	116	-
Loss on sale of subsidiaries		-	422
Loss on transfer of intergroup loans	3(b)	4	11
		376	2,228

Notes to the financial statements continued

3. Details of expenses continued

(a) Foreign exchange losses debited to the income statement comprise

	Note	2012 £m	2011 £m
Foreign exchange gain on loans designated as hedges		(41)	(30)
Foreign exchange losses on subsidiary investments hedged by loans, transferred from reserves	16	41	30
Foreign exchange losses on other assets and liabilities		21	21
		<u>21</u>	<u>21</u>

(b) Loss on transfer of intragroup loan

On 31 July 2012, three loans with Aviva Europe SE were converted to equity (capitalised) at a fair value of €438 million (translated to £346 million) which resulted in a fair value loss of £4 million

4. Employees

The Company has no employees. Aviva Employment Services Limited and Aviva Investors Employment Services Limited, fellow Group companies, are the employing companies for staff of the Aviva plc group in the UK. Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited. The company receives a recharge from Aviva Employment Services Limited.

5. Directors

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

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

6. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its principal auditors, PricewaterhouseCoopers LLP (2011 Ernst & Young LLP)

	2012 £'000	2011 £'000
Fees payable to the Company's auditor for the audit of financial statements	<u>8</u>	<u>9</u>

There were no non-audit fees paid to the Company's auditors during the year (2011 £Nil). All fees have been borne by Aviva plc.

Notes to the financial statements continued

7. Tax

(a) Tax credited to the income statement

The total credit comprises

	2012 £m	2011 £m
Current tax		
For the year		
UK Tax	(1)	4
Overseas tax	(7)	(9)
Prior year adjustments	8	48
Total tax credited to the income statement	-	43

(b) Tax charged to other comprehensive income

Tax charged to other comprehensive income for the year was £Nil million (2011 £1 million)

(c) Tax reconciliation

The tax on the Company's profit/(loss) before tax differs from the theoretical amount that would arise using the United Kingdom corporation tax rate as follows

	2012 £m	2011 £m
Profit/(loss) before tax	130	(1,745)
Tax calculated at standard UK corporation tax rate of 24.5% (2011 26.5%)	(32)	462
Adjustment to tax charge in respect of prior years	8	48
Non taxable dividends	93	88
Non taxable (profit)/loss on sale of subsidiaries	1	(112)
Impairment of investments in subsidiaries and joint ventures	(55)	(421)
Tax on profits of overseas subsidiary	(7)	(10)
Overseas withholding tax	(7)	(9)
Non deductible loss on disposal of inter group loans	(1)	(3)
Total tax credited to the income statement	-	43

The UK corporation tax rate reduced to 24% from 1 April 2012. A subsequent reduction in the UK corporation tax rate to 23% was substantively enacted on 3 July 2012 and will apply from 1 April 2013. The substantively enacted rate of 23% has been used in the calculation of the UK's deferred tax assets and liabilities.

Further reductions in the corporation tax rates to 21% from 1 April 2014 and then to 20% from 1 April 2015 were substantively enacted on 2 July 2013. There is no impact to the Company's net assets from the reduction in the rate. Please refer to note 18(c)(ii).

Notes to the financial statements continued

8. Investment in subsidiaries

(a) Movements in the Company's investments in its subsidiaries are as follows

	Note	2012 £m	2011 £m
Fair value as at 1 January		9,305	12,509
Additions	8(b)(i)	391	674
Transfer from parent		-	28
Transfer to parent		-	(1,545)
Transfers from subsidiary		-	19
Transfers to subsidiary		-	(451)
Transfers to held for sale asset		-	(8)
Movement in fair value	8(b)(ii)	539	(1,921)
Fair value as at 31 December		10,235	9,305

All investments in subsidiaries are recorded as Level 3 investments in the fair value hierarchy (see note 13(b))

(b) Material movements

(i) Additions

Additions of £391 million includes the following

- capitalisation of loans in Aviva Europe SE in July 2012 at a fair value of €438 million translated to £346 million which resulted in a fair value loss of £4 million,
- capital injections to Aviva Asia Holdings Private Limited of £17 million,
- capital injections to Aviva Sigorta AS of £20 million,
- capital injections to Aviva Towarzystwo Ubezpieczen Ogolnych S A of £4 million, and
- capital injections to PT Asuransi Aviva Indonesia of £4 million

(ii) Movement in fair value

The positive fair value movement is primarily due to an improvement in the external financial market inputs to our valuation model relative to the prior year end, reflecting regional market trends over the year and resulting in a higher estimate of the fair value of the Company's investments in subsidiaries

Notes to the financial statements continued

8. Investment in subsidiaries continued

(c) Principal subsidiaries

The wholly owned subsidiaries of the Company as at 31 December 2012 are listed below, and transact insurance and reinsurance business, fund management or services in connection therewith, unless otherwise stated

Subsidiary name	% Share-holding	Country of incorporation
Aviva Asia Holdings Private Limited	100%	Singapore
Aviva Canada Inc	100%	Canada
Aviva Europe SE	100%	England
Aviva Global Services (Management Services) Private Limited	100%	Singapore
Aviva Holdings (France) Limited	100%	England
Aviva Life International Limited	100%	Ireland
Aviva Overseas Holdings Limited	100%	England
Aviva Re Limited	100%	Bermuda
Aviva Undershaft Two Limited (formerly Aviva Re Europe Limited)	100%	Ireland
Aviva Regional Operating Headquarters and Customer Services (Private) Limited (in liquidation)	100%	Sri Lanka
Aviva Sigorta AS	98.7%	Turkey
Aviva Towarzystwo Ubezpieczen na Zycie S.A.	90%	Poland
Aviva Towarzystwo Ubezpieczen Ogolnych S.A.	90%	Poland
Aviva Training & Services SRL	100%	Romania
CGU Group BV	100%	Netherlands
CGU International Holdings BV	100%	Netherlands
Commercial Union Finance BV (In Liquidation)	100%	Netherlands
Portway Insurance PCC Limited (in liquidation)	99%	Guernsey
PT Asuransi Aviva Indonesia	60%	Indonesia
SC Aviva Societate de Administrare a unui Fond de Pensii Privat SA	100%	Romania
Undershaft (AE No. 3) Limited	50%	England
Undershaft (AE No. 4) Limited	50%	England

9. Investment in subsidiaries classified as held for sale

(a) Movements in the Company's investments in its subsidiaries classified as held for sale are as follows

	Note	2012 £m	2011 £m
Fair value at 1 January		8	-
Transfer from investments in subsidiaries		-	8
Disposals	9(b)(i)	(3)	-
Movement in fair value	9(b)(ii)	(3)	-
Fair value at 31 December		2	8

All investments in subsidiaries are recorded as Level 3 investments in the fair value hierarchy (see note 13(b))

Notes to the financial statements continued

9 Investment in subsidiaries classified as held for sale continued

(b) Material movements

(i) Disposals

The company disposed of its investment in Aviva Asigurari de Viata SA for a total consideration of £5 million. The investment was held for sale at a fair value of £3 million and there is a resulting £2 million profit on disposal.

(ii) Material movements

The movement in fair value is the impairment of the fair value SC Aviva Societate de Administrare a unui Fond de Pensii Privat SA.

10. Investment in associate

(a) Movements in the Company's investment in its associate is as follows

	Note	2012 £m	2011 £m
Fair value as at 1 January		210	109
Additions	10(b)(i)	32	34
Movement in fair value	10(b)(ii)	(183)	67
Fair value as at 31 December		59	210

The Company's only associate comprises a 26% (2011: 26%) shareholding in Aviva Life Insurance Company India Private Ltd, which is incorporated in India. This investment is recorded as a Level 3 investment in the fair value hierarchy (note 13).

(b) Material movements

(i) Additions

During the year the Company increased its investment in this associate by £32 million.

(ii) Movement in fair value

The negative fair value movement is primarily due to a decline in the external financial market inputs to our valuation model relative to the prior year end, reflecting regional market trends over the year and resulting in a lower estimate of the fair value of the Company's investments in its associate.

11. Investment in joint ventures

(a) Movements in the Company's investments in its joint ventures are as follows

	Note	2012 £m	2011 £m
Fair value as at 1 January		295	268
Additions		-	16
Transfer to held for sale asset	11(b)(ii) & 12	(143)	(12)
Transfer to subsidiary		-	(162)
Movement in fair value	11(b)(iii) & 16	41	185
Fair value as at 31 December		193	295

All investments in joint ventures are recorded as Level 3 investments in the fair value hierarchy (see note 13(b)).

Notes to the financial statements continued

11. Investment in joint ventures continued

(b) Material movements

(ii) Transfer to held for sale asset

The Company's investment in its Malaysia joint ventures CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad have been reclassified as held for sale assets. The investments have been transferred at the respective fair values of £107 million and £36 million.

(iii) Movement in fair value

The positive fair value movement is primarily due to an improvement in the external financial market inputs to our valuation model relative to the prior year end, reflecting regional market trends over the year and resulting in a higher estimate of the fair value of the Company's investments in joint ventures.

(c) The principal joint ventures are as follows

Company	Investment	Holding	Country of incorporation
CIMB Aviva Assurance Berhad	Ordinary shares of RMI each	49.00%	Malaysia
CIMB Aviva Takaful Berhad	Ordinary shares of RMI each	49.00%	Malaysia
Woon Aviva Life Insurance Co Ltd	Ordinary shares of KRW 5000 each	47.30%	Korea
Vietinbank Aviva Life Insurance Company Ltd	Charter Capital	40.00%	Vietnam

12. Investment in joint ventures classified as held for sale

Movements in the Company's investments in joint ventures classified as held for sale are as follows

	Note	2012 £m	2011 £m
Fair value at 1 January		12	-
Transfer from investments in joint ventures	11	143	12
Fair value at 31 December		155	12

All investments in joint ventures are recorded as Level 3 investments in the fair value hierarchy (see note 13(b)).

13. Fair value methodology

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

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

Quoted market prices in active markets (Level 1)

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities. An active market is one in which transactions for the asset or liability occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets.

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

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

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

Where we use broker quotes and no information as to the observability of inputs is provided by the broker, we generally validate the price quoted by the broker by using internal models with observable inputs. When the price obtained from the broker and internal model are similar, we look to the inputs used in our internal model to understand the observability of the inputs used by the broker. In circumstances where internal models are not used to validate broker prices, and the observability of inputs used by brokers is unavailable, the investment is classified as Level 3. Broker quotes are usually non-binding.

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset. Examples include investments in subsidiaries. Third party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2. Third party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

The investment in subsidiaries, associates and joint ventures are recorded at the net asset value of the underlying subsidiary and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible.

(b) Fair value hierarchy

An analysis of financial assets and liabilities according to fair value hierarchy is given below

		Fair value hierarchy			2012
		Level 1	Level 2	Level 3	Total
	Note	£m	£m	£m	£m
Investment in subsidiaries, associates and joint ventures					
Investments in subsidiaries	8	-	-	10,235	10,235
Investments in subsidiaries classified as held for sale	9			2	2
Investments in associates	10	-	-	59	59
Investments in joint ventures	11	-	-	193	193
Investments in joint ventures classified as held for sale	12			155	155
Total		-	-	10,644	10,644

Notes to the financial statements continued

13. Fair value methodology continued

(b) Fair value hierarchy continued

		Fair value hierarchy			2011
		Level 1	Level 2	Level 3	Total
	Note	£m	£m	£m	£m
<i>Investment in subsidiaries, associates and joint ventures</i>					
Investments in subsidiaries	8	-	-	9,305	9,305
Investments in subsidiaries classified as held for sale	9			8	8
Investments in associates	10	-	-	210	210
Investments in joint ventures	11	-	-	295	295
Investments in joint ventures classified as held for sale	12			12	12
Total		-	-	9,830	9,830

The only financial assets and liabilities of the Company recorded at fair value in the Statement of Financial Position are the investments in subsidiaries, associates and joint ventures (notes 8, 9, 10, 11 and 12) which are reported as Level 3 in the fair value hierarchy (2011 Level 3). There were no transfers into or out of Level 3 in 2012 or 2011.

The unobservable inputs to the fair value relate to assumptions made to individual subsidiary and joint ventures net assets or embedded values, all of which are underpinned by quoted market valuations of comparable listed entities. For these level 3 investments, a change in valuation inputs to a reasonable alternative of +/-5% would result in a change in the fair value of investment in subsidiaries and joint ventures in the range of a £302 million positive impact (2011 £306 million) and a £302 million adverse impact (2011 £306 million).

14. Receivables and other financial assets

	Note	2012 £m	2011 £m
Loans due from ultimate parent	24(a)(i)	2,902	2,902
Loans due from subsidiaries	24(a)(i)	-	360
Loans due from fellow Group companies	24(a)(i)	162	167
Amounts due from ultimate parent	24(a)(iii)	43	42
Amounts due from subsidiaries	24(a)(iii)	-	142
Amounts due from fellow Group companies	24(a)(iii)	13	3
Group relief asset	18(b)	6	-
Other receivables		4	-
Total receivables as at 31 December		3,130	3,616
Expected to be recovered in less than one year		887	547
Expected to be recovered in more than one year		2,243	3,069
		3,130	3,616

Concentrations of external credit risk with respect to receivables are limited due to the size and spread of the Company's trading base. No further credit risk provision is therefore required in excess of the normal provision for doubtful receivables.

Notes to the financial statements continued

15. Ordinary share capital

(a) Details of the Company's ordinary share capital are as follows

	2012 £m	2011 £m
a) Allocated, called up and fully paid		
10,000 ordinary shares of £10,000 each (2011 580,031 ordinary shares of £10,000 each)	100	5,800

Ordinary shares in issue in the Company rank *pari passu*. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

(b) Movements in the year comprise

	Number of shares	Share capital £m
At 1 January 2012	580,031	5,800
Transfer between capital and reserves	(570,031)	(5,700)
At 31 December 2012	10,000	100

On 31 December 2012, the company undertook a capital reduction under the provisions of section 654(1) of the Companies Act 2006. Following this reduction, the ordinary share capital account has been reduced by £5,700 million. Distributable reserves have increased by a corresponding amount (Note 17).

16. Other reserves

Other reserves comprise the investment valuation reserve. The movements in the year comprise

	Note	2012 £m	2011 £m
At 1 January		843	470
<i>Arising in the year</i>			
<i>Subsidiaries</i>			
Fair value gains / (losses) on investments in subsidiaries	8	539	(1,921)
Fair value losses on investments in subsidiaries held for sale	9	(3)	-
Impairment losses on investments in subsidiaries previously revalued through other comprehensive income, now taken to the income statement	3	109	1,591
Fair value gains transferred to loss on disposal		-	422
Fair value losses on investments in subsidiaries, hedged by loans transferred to foreign exchange movements in the the Income Statement	3(a)	41	30
Fair value losses on investments in subsidiaries, previously hedged by loans, transferred to retained earnings	17	718	-
<i>Associates</i>			
Fair value (losses) / gains on investments in associates	10	(183)	67
Impairment losses on investments in associates previously revalued through other comprehensive income, now taken to the income statement	3	116	-
<i>Joint Ventures</i>			
Fair value gains on investments in joint ventures	11	41	185
<i>Other</i>			
Tax recognised on unremitted earnings in subsidiaries	7	-	(1)
At 31 December		2,221	843

Notes to the financial statements continued

16. Other reserves continued

Fair value losses on investments in subsidiaries of £718 million (2011 £Nil) represents the impact of amending the historical treatment of the hedging back to back loans which are in place with Aviva plc. The effect of this is to transfer £718 million from retained earnings to available for sale reserves in 2012 with no impact on the Income Statement or net assets.

Impairments

Impairment charges in respect of the Company's subsidiaries in the year, recognised in the Income Statement, amount to £109 million and relates to the Company's investment in

- Aviva Sigorta AS
- SC Aviva Societate de Administrare a unui Fond de Pensii Privat SA
- CGU International Holdings BV
- Aviva Life International Limited
- Aviva Undershaft 2 Limited

Impairment charges in respect of the Company's investment in associate, Aviva Life Insurance Company India Private Ltd, in the year, recognised in the Income Statement, amount to £116 million.

17. Retained earnings

	Note	2012 £m	2011 £m
At 1 January		1,150	2,852
Profit/(loss) for the year		130	(1,702)
Fair value losses on investments in subsidiaries, previously hedged by loans, transferred from investment valuation reserve	16	(718)	-
Transfer between capital and reserves	15	5,700	-
At 31 December		6,262	1,150
Distributable		5,942	437
Non distributable		320	713
At 31 December		6,262	1,150

18. Tax liabilities

(a) Current tax

	2012 £m	2011 £m
Expected to be payable in more than one year		
Provision for group relief	114	116
Tax liability recognised in the Statement of Financial Position	114	116

(b) Group relief

Prior year's tax to be settled by group relief of £6 million asset (2011 £21 million liability) are included within receivables (note 14) (2011 payables (note 19)) and within the related party transactions (note 24) which are recoverable (2011 payable) in less than one year.

Notes to the financial statements continued

18. Tax liabilities continued

(c) Deferred tax

(i) The net deferred tax liability comprises

	2012 £m	2011 £m
Other temporary differences	10	10
	<u>10</u>	<u>10</u>

(ii) Movement in the net deferred tax liability is as follows

	Note	2012 £m	2011 £m
At 1 January		10	9
Amounts charged to other comprehensive income - movement in the year	16	-	1
At 31 December		<u>10</u>	<u>10</u>

As the deferred tax liability represents overseas withholding tax on dividends and as the Company does not have any other recognised or unrecognised deferred tax balances, the rate reductions do not have an impact on the Company's financial position as at 31 December 2012

19. Payables and other provisions

	Note	2012 £m	2011 £m
Loans due to ultimate parent company	24(a)(ii)	1,581	1,629
Loans due to immediate parent company	24(a)(ii)	1,300	1,300
Loans due to subsidiaries	24(a)(ii)	7	7
Amounts due to ultimate parent company	24(a)(iii)	38	65
Amounts due to immediate parent company	24(a)(iii)	135	1,190
Amounts due to subsidiaries	24(a)(iii)	1,981	664
Amounts due to fellow Group companies	24(a)(iii)	19	650
Group relief liability	18(b)	-	21
Other accruals		6	6
Total payables as at 31 December		<u>5,067</u>	<u>5,532</u>
Expected to be payable in less than one year		4,006	2,596
Expected to be payable in more than one year		<u>1,061</u>	<u>2,936</u>
		<u>5,067</u>	<u>5,532</u>

All payables and other financial liabilities are carried at cost, which approximates to fair value

20. Contingent liabilities and other risk factors

The Company has guaranteed the obligations of certain other Group companies. The maximum exposure of the Company is £61 million (2011 £61 million). In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities.

Notes to the financial statements continued

21. Statement of cash flows

Cash and cash equivalents in the cash flow statement at 31 December comprise

	2012	2011
	£m	£m
Cash at bank	-	5

22. Risk management

The Aviva Group operates a risk management framework that forms an integral part of the management and Board processes and decision making framework across the Group, including the Company. The primary objectives of risk management in the Aviva Group are to

- embed rigorous risk management throughout the business, based on setting clear risk appetites and staying within these,
- allocate capital where it will make the highest returns on a risk-adjusted basis, and
- meet the expectations of our customers, investors and regulators that we will maintain sufficient capital surpluses to meet our liabilities even if a number of extreme risks materialise

The Aviva Group's risk management framework has been designed and implemented to support these objectives. The key elements of our risk management framework comprise risk appetite, risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities, and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to the Aviva Group's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance, general 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 we deliver to our customers and the service to our customers and distributors, which can be categorised as risks to our brand and reputation.

To promote a consistent and rigorous approach to risk management across all businesses we have a set of formal risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Aviva Group's worldwide operations. On a semi-annual basis the business chief executive officers and chief risk officers sign-off compliance with these policies and standards.

A regular top-down key risk identification and assessment process is carried out in the risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews and is replicated at the business unit level. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

Risk models are an important tool in our 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. We carry out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

Roles and responsibilities for risk management in the Aviva Group, including the Company, 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 are 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.

Board oversight of risk and risk management across the Aviva Group is maintained on a regular basis through its Risk Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital, liquidity and franchise value at Group and in the business units. Economic capital risk appetites are also set for each risk type. The Group's position against risk appetite is monitored and reported to the Board on a regular basis. The oversight of risk and risk management at the Group level is supported by the Asset and Liability Committee (ALCO), which focuses on business and financial risks, and the Operational Risk & Reputation Committee (ORRC) which focuses on operational and reputational risks. Similar committee structures with equivalent terms of reference exist in the business units.

The risks to the company's subsidiaries are managed through the risk management framework described above. Sections (a) to (e) below are limited to the specific risks of the Company.

Notes to the financial statements continued

22. Risk management continued

(a) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectation related to these risks

The Company's primary financial asset is amounts due from fellow Group companies. The credit risk arising from Aviva Group counterparties failing to meet all or part of their obligations is considered remote. Due to the nature of the intra-group loans, and the fact that these loans are settled, and not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of such counterparties.

The credit quality of receivables and other financial assets is monitored by the Company, and provisions for impairment are made for irrecoverable amounts.

							2012
	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Carrying value in the financial statements £m
		0 – 3 months £m	3 – 6 months £m	6 months – 1 year £m	Greater than 1 year £m		
Receivables and other financial assets	3,130	-	-	-	-	-	3,130
							2011
	Neither past due nor impaired £m	Financial assets that are past due but not impaired				Financial assets that have been impaired £m	Carrying value in the financial statements £m
		0 – 3 months £m	3 – 6 months £m	6 months – 1 year £m	Greater than 1 year £m		
Receivables and other financial assets	3,616	-	-	-	-	-	3,616

Receivables and other financial assets include loans and amounts due from other Group companies of £3,124 million (excluding Group relief asset) (2011 £3,616 million)

There were no material financial assets that would have been past due or impaired had the terms not been renegotiated

(b) Market risk

Market risk is the risk of an adverse financial impact resulting directly or indirectly from fluctuations in interest rates, foreign currency exchange rates, equity prices and property values. The Company's key market risks are listed below.

Interest rate risk	Interest rate risk arises primarily from the Company's loans with fellow Group companies, exposing it to interest rate risk. The interest paid on the loans is linked to LIBOR and EURIBOR and so a change in either of those rates would impact to level of investment income earned by the Company.
Currency risk	The company has exposure to currency risk primarily through loans with fellow Group companies denominated in Euros. A movement in the Sterling / Euro exchange rate could impact the value of the receivables and payables in the Company's Statement of Financial Position.

The fair values of investments in subsidiaries, associates and joint ventures are estimated using applicable valuation models, underpinned by the quoted market valuations of comparable listed entities.

Notes to the financial statements continued

22. Risk management continued

(c) Liquidity risk

Liquidity risk is the risk of the Company not being able to make payments as they become due because there are insufficient assets in cash form

The Company has set its investment strategy to hold sufficient liquid funds to meet its expected obligations as they fall due. In extreme circumstances, the Company would approach the Aviva Group for additional short-term borrowing while the Company liquidated other assets. The Aviva Group maintains significant committed borrowing facilities from a range of highly-rated banks to mitigate this risk further.

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise

					2012
		On demand or within 1 year	1-5 years	5-10 years	Total
	Note	£m	£m		£m
Receivables and other financial assets	14	887	792	1,451	3,130
Cash and cash equivalents	21	-	-	-	-
		887	792	1,451	3,130
					2011
		On demand or within 1 year	1-5 years	5-10 years	Total
	Note	£m	£m		£m
Receivables and other financial assets	14	547	1,618	1,451	3,616
Cash and cash equivalents	21	5	-	-	5
		552	1,618	1,451	3,621

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company. The Company's equity securities represent a strategic investment and, therefore, cannot readily be sold.

The following table shows the Company's financial liabilities analysed by duration

					2012
		On demand or within 1 year	1-5 years	5-10 years	Total
	Note	£m	£m	£m	£m
Payables and other financial liabilities	19	4,006	453	608	5,067
		4,006	453	608	5,067
					2011
		On demand or within 1 year	1-5 years	5-10 years	Total
	Note	£m	£m	£m	£m
Payables and other financial liabilities	19	2,596	2,309	627	5,532
		2,596	2,309	627	5,532

Notes to the financial statements continued

22. Risk management continued

(d) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events, including changes in the regulatory environment. The Company's Board is responsible for satisfying itself that material operational risks are being mitigated and reported to an acceptable level. Operational risks are assessed according to the potential impact and probability of the event concerned. These impact assessments are made against financial, operational and reputation criteria.

Given its limited activities, the key operational risks to the Company are inadequate governance and lack of sufficiently robust financial controls. The risks are mitigated by the Board's adoption and implementation of the Group's risk management policies and framework and compliance with the Group's financial reporting and controls framework.

(e) Capital management

The Company's capital risk is determined with reference to the requirements of the Company's stakeholders. In managing capital, the Company seeks to maintain sufficient, but not excessive, financial strength to support the payment of interest due on loans and the requirements of other stakeholders. The sources of capital used by the Company are equity shareholders' funds.

23. Hedging

The Company has formally assessed and documented the effectiveness of its instruments qualifying for hedge accounting in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

The Company's hedge activity at 31 December 2012 was as follows:

Fair value hedges

To reduce its exposure to foreign currency risk, the Company has designated a portion of its Euro denominated debt as a hedge of the net investment in its European subsidiary. The carrying value of the debt at 31 December 2012 was £1,379 million (2011: £1,420 million).

The foreign exchange gain of £41 million (2011: £30 million) on translation of the debt to sterling at the Statement of Financial Position date has been offset by a release from the investment valuation reserve of foreign exchange losses of £41 million (2011: £30 million) on the fair value of investment in subsidiaries. This hedge was fully effective throughout the current year.

Notes to the financial statements continued

24. Related party transactions

(a) The Company had the following related party transactions

The Company has the following transactions with related parties which include parent companies, subsidiaries and fellow subsidiaries in the normal course of business

(i) Loans receivable

Loans due from ultimate parent

The Company entered into the following loan agreements with Aviva plc, the Company's ultimate parent

- unsecured loan facility of £369 million (2011 £369 million) comprising two loans accruing interest at 200 and 100 base points above 12 month LIBOR rate respectively. The maturity of the two loans is determined by the two parties each year and is considered to be receivable by the Company within the next 12 months. As at the Statement of Financial Position date the value was £259 million and £110 million respectively (2011 £259 million and £110 million)
- unsecured loan facility of £348 million entered into on 29 September 2003, accruing interest at a fixed rate of 5.3% with settlement to be received at maturity in September 2015. As at the Statement of Financial Position date, the total amount drawn down on the facility was £16 million (2011 £16 million),
- unsecured loan of £452 million entered into on 2 October 2003, accruing interest at a fixed rate of 5.27% with settlement to be received at maturity in October 2013. As at the Statement of Financial Position date, the total amount drawn down on the facility was £452 million (2011 £452 million),
- unsecured loan facility of £527 million entered into on 3 July 2003, accruing interest at 200 base points above the 3 month LIBOR with settlement to be received at maturity in January 2014. As at the Statement of Financial Position date, the total amount drawn down on the facility was £368 million (2011 £368 million),
- unsecured loan facility of £202 million entered into on 1 January 2004, accruing interest at 200 base points above the 3 month LIBOR with settlement to be received at maturity in January 2014. As at the Statement of Financial Position date, the total amount drawn down on the facility was £202 million (2011 £202 million),
- unsecured loan of £78 million entered into on 2 July 2007, accruing interest at 200 base points above the 12 month LIBOR with settlement to be received at maturity in July 2022. As at the Statement of Financial Position date, the total amount drawn down on the facility was £78 million (2011 £78 million),
- unsecured loan of £398 million entered into on 20 May 2008, accruing interest at a fixed rate of 6.95% with settlement to be received at maturity in May 2018. As at the Statement of Financial Position date, the total amount drawn down on the facility was £398 million (2011 £398 million),
- unsecured loan of £975 million entered into on 31 October 2008, accruing interest at 100 base points above the 12 month LIBOR with settlement to be received at maturity in October 2019. As at the Statement of Financial Position date, the total amount drawn down on the facility was £975 million (2011 £975 million),
- unsecured loan facility of £45 million entered into on 28 July 2009, accruing interest at a fixed rate of 10.46% with settlement to be received at maturity in April 2014. As at the Statement of Financial Position date, the total amount drawn down on the facility was £45 million (2011 £45 million),

Loans due from fellow Aviva Group companies

On 3 September 2010, the Company provided an unsecured loan facility of £40 million to Aviva Participations SA, a fellow Group company. The loan accrues interest at 120 base points above the 6 month EURIBOR with settlement to be received at maturity in September 2014. As at the Statement of Financial Position date, the total amount drawn down on the facility was £32 million (2011 £33 million)

On 26 August 2011, Company provided an unsecured loan facility of €160 million to Aviva Group Ireland plc, a fellow Group company. The loan accrues interest at a fixed rate of 5.00% with settlement to be received at maturity in December 2016. As at the Statement of Financial Position date, the total amount drawn down on the facility was £129 million (2011 £134 million)

The maturity analysis of the related party loans receivable is as follows

	2012	2011
	£m	£m
Within 1 year	821	360
1-5 years	792	1,618
Over 5 years	1,451	1,451
	3,064	3,429
Effective interest rate	3.56%	3.24%

Interest income earned in the year amounted to £123 million (2011 £149 million). Refer note 2

Notes to the financial statements continued

24. Related party transactions continued

(a) The Company had the following related party transactions continued

(ii) Loans payable

Loans due to ultimate parent

The Company entered into the following loan agreements with Aviva plc, the Company's ultimate parent

- unsecured loan facility of €250 million, entered into on 7 May 2003 accruing interest at 66 base points above the 30 year Bund rate with settlement to be paid at maturity in May 2033. As at the Statement of Financial Position date, the total amount drawn down on the facility was £203 million (2011 £209 million)
- unsecured loan facility of €650 million, entered into on 29 September 2003 accruing interest at a fixed rate of 4.77% with settlement to be paid at maturity in September 2013. As at the Statement of Financial Position date, the total amount drawn down on the facility was £527 million (2011 £543 million)
- unsecured loan facility of €500 million, entered into on 29 September 2003 accruing interest at a fixed rate of 4.95% with settlement to be paid at maturity in September 2015. As at the Statement of Financial Position date, the total amount drawn down on the facility was £406 million (2011 £418 million)
- unsecured loan facility of €500 million, entered into on 20 May 2008 accruing interest at a fixed rate of 6.88% with settlement to be paid at maturity in September 2018. As at the Statement of Financial Position date, the total amount drawn down on the facility was £406 million (2011 £418 million)
- unsecured loan facility of €50 million, entered into on 28 July 2009 accruing interest at a fixed rate of 10.46% with settlement to be paid at maturity in April 2014. As at the Statement of Financial Position date, the total amount drawn down on the facility was £41 million (2011 £42 million)

Loans due to immediate parent

On 23 December 2010, the Company entered into unsecured loan facility of £1,300 million with Aviva International Insurance Limited, a fellow group company. This loan accrues interest at 100 base points above 12 month LIBOR with settlement to be paid at maturity in December 2013. On 14 November 2011, this loan was transferred from Aviva International Insurance Limited to Aviva Insurance Limited the immediate parent company. As at the Statement of Financial Position date, the total amount drawn down on the facility was £1,300 million (2011 £1,300 million)

Loans due to subsidiary

On 16 June 2009, the Company entered into unsecured loan facility of £35 million with Aviva Reinsurance Limited a subsidiary company. The loan accrues interest at a fixed rate of 6.30% with settlement to be paid at maturity in June 2015. As at the Statement of Financial Position date, the total amount drawn down on the facility was £7 million (2011 £7 million)

(ii) Loans payable continued

The maturity analysis of the related party loans payable is as follows

	2012 £m	2011 £m
Within 1 year	1,827	-
1-5 years	453	2,309
Over 5 years	608	627
	2,888	2,936
Effective interest rate	4.38%	3.76%

Interest expense incurred in the year amounted to £126 million (2011 £182 million). Refer note 3

Notes to the financial statements continued

24. Related party transactions continued

(a) The Company had the following related party transactions continued

(iii) Other transactions

Services provided to related parties

		2012		2011
	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m
Ultimate parent	-	43	-	42
Fellow Group company	-	13	-	3
Subsidiaries	381	-	334	142
	<u>381</u>	<u>56</u>	<u>334</u>	<u>187</u>

Income earned in the year relates to dividends received

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.

Services provided by related parties

	2012	2011
	Payable at year end £m	Payable at year end £m
Ultimate parent	38	65
Immediate parent company	135	1,190
Fellow Group company	19	650
Subsidiaries	1,981	664
	<u>2,173</u>	<u>2,569</u>

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

Group relief

Transactions with Group companies for settlement of corporation tax assets and liabilities by Group relief are described in note 18.

(b) Key management compensation

Key management are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company. The majority of such costs are borne by Aviva plc and are not recharged to the Company.

(c) Parent entity

The immediate parent undertaking is Aviva Insurance Limited, registered in the UK.

(d) Ultimate controlling entity

The ultimate controlling entity is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

Notes to the financial statements continued

25. Events after Statement of Financial Position date

On 28 February 2013, a major restructuring of the Group, which had economic effect from 1 January 2013, was completed. As part of the restructure the Company transferred its subsidiary holding in Aviva Canada Inc to its immediate parent, Aviva Insurance Limited, in consideration for a dividend in specie. In addition, the Company was transferred from its immediate parent Aviva Insurance Limited to Aviva Group Holdings Limited in consideration for a loan. The following subsidiary holdings were then transferred from the Company to its new immediate parent Aviva Group Holdings Limited in consideration for a dividend in specie, Aviva Asia Holdings Private Limited, Aviva Europe SE, Aviva Overseas Holdings Limited, Aviva Re Limited and CGU International Holdings B V.

The impact of the above restructuring is to reduce the complexity of the current Group corporate structure resulting in a greater degree of direct control of subsidiaries creating a flatter, more transparent corporate structure.

On 17 April 2013, the Company sold its investment in its Malaysia joint ventures CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad for a consideration of CAD 240 million (£154 million).

On 7 May 2013, the Company completed the sale of its investment in the Romanian Pensions subsidiary SC Aviva Societate de Administrare a unui Fond de Pensii Privat SA Romania Pensions was completed for a consideration of US\$7 million (£5 million).