Aviva Pension Trustees UK Limited

Directors and Officers

Directors

D B Barral
G S Boffey
H W Hessing
R I Houghton
J R Lister
P C Willcock

Company Secretary

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

Auditor

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

Registered Office

2 Rougier Street
York
YO90 1UU

Company Number

Registered in England and Wales No 2407799

Other Information

Aviva Pension Trustees UK Limited ("the Company") is authorized and regulated by the Financial Services Authority

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

Aviva Pension Trustees UK Limited
Contents

Directors' report

The directors present their annual report and financial statements for Aviva Pension Trustees UK Limited (the Company) for the year ended 31 December 2011

Directors

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

R I Houghton was appointed as a director of the Company on 7 February 2011

T E Strauss resigned as a director of the Company on 23 May 2011

H W Hessing was appointed as a director on 21 June 2011

P C Willcock was appointed as a director of the Company on 10 August 2011

Business review, principal activities and future outlook

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

The Company is regulated by the Financial Services Authority (FSA) to carry on activities as an Investment Management Firm

As a result of the outsourcing of the SIPP administration function to Scottish Friendly Assurance (SFA) and the subsequent de-commissioning of the Lifetime platform, the relationship between the Company and Aviva Wrap Group UK Limited (UKWG) has been revised As of 1 January 2010, the Company no longer assigns income and expenditure relating to the SIPP business to UKWG and all assets and liabilities relating to the SIPP business were transferred from Aviva Wrap Group UK Limited (UKWG) to the Company during 2010, following completion of the remediation work Details of the transfer are shown in note 15 to the financial statements

During 2011 Scottish Friendly Assurance (SFA) announced the sale of its wrap administration business to Citi Bank International PLC (Citibank) Upon completion, the wrap business will be integrated into Open Wealth, Citibank's service offering for wealth managers The existing Aviva Wrap and Pension Trustees administration contracts novated from SFA to Citibank as of 3 January 2012, from which date Wrap and SIPP administration will be provided by Citibank

Total funds under administration (FUM) increased from £443 million to £499 million during the year Shareholder equity has increased by £1,022,000 *(2010 £2,511,000)*, reflecting the loss for the year of £4,978,000, which was more than offset by a share capital injection of £ 6,000,000 during the year

New business sales in 2011 for SIPP business increased by over 70% to £183 million, exiting the year with a run rate 3 times more than the equivalent in 2010 Transfer out rates started the year at a relatively high level as the advisor remediation programme completed, but these have stabilised throughout the year Overall the markets fell 5 5% in 2011, which has a direct impact on AMC (annual management charge) income

The directors continue to believe that the Aviva Platform business has a viable future, driven by significant growth in FUM, and the UK Life Executive are investing significantly to back this success

Financial position and performance

The financial position of the Company at 31 December 2011 is shown in the statement of financial position on page 10, with the results shown in the income statement on page 9 and the statement of cash flows on page 12

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and its risk management policies are set out in note 12 to the financial statements

Key performance indicators (KPIs)

Revenue for the year is £1,875,000 *(2010 £2,226,000)*

Loss after tax for the year is £4,978,000 *(2010 £4,489,000)*

Dividend

The directors do not recommend the payment of a dividend for the year *(2010 £nil)*

Going concern

The Company is currently loss making and only has sufficient capital resources to absorb losses over the next year As such, the Company is dependent on continuing finance being made available by its parent entity, Aviva Life & Pensions UK Limited (UKLAP), to enable it to meet its regulatory solvency requirements There is sufficient cash available to cover the Company's total liabilities

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

Major events

On 20 June 2011, the Company allotted 6,000,000 ordinary shares of £1 each to its parent entity, UKLAP, for a consideration of £6,000,000

Employees

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited Disclosures relating to employees may be found in the Annual Report and Accounts of Aviva Employment Services Limited

Disclosure of information to the auditor

Each person who was a director of the Company on the date that this report was approved confirms that so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditor

Following a competitive tender process by the Company's ultimate parent company, Aviva plc, PricewaterhouseCoopers LLP are to be appointed as auditor to the Company Ernst & Young LLP will resign as auditor with effect from the signing of the Company's annual report and financial statements for the year ended 31 December 2011, and the directors will appoint PricewaterhouseCoopers LLP as auditor to the Company in accordance with the provisions of the Companies Act 2006

Directors' liabilities

Aviva plc, the Company's ultimate parent, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 These indemnities were granted at different times, according to the law in place at the time, and where relevant are qualifying third party indemnity provisions as defined by section 234 of the Companies Act 2006 These indemnity provisions were in force throughout the year and are currently in force

Aviva Pension Trustees UK Limited
Directors' report (continued)

Statement of directors' responsibilities

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

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

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

By order of the Board

Aviva Company Secretarial Services Limited *Company Secretary* *20 April 2012*

Independent auditor's report to the members of Aviva Pension Trustees UK Limited

We have audited the financial statements of Aviva Pension Trustees UK Limited for the year ended 31 December 2011 which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, the accounting policies and the related notes 1 to 16 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities (set out on page 5), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its loss 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 matters 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

Ernst & Young LLP

Stuart Wilson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

23 *April 2012*

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

The principal accounting policies adopted in the preparation of these financial statements are set out below

(A) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) applicable at 31 December 2011 The financial statements are prepared on the historical cost basis

During 2009 and 2010, the IASB issued amendments to IFRS 1, *First Time Adoption of IFRS*, IAS 24, *Related Party Disclosures*, and IAS 32, *Financial Instruments – Presentation*, and the results of its annual improvements project, all of which have been endorsed by the EU In addition, IFRIC interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*, and an amendment to interpretation 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, issued in 2008 and 2009, have now been endorsed by the EU These are all applicable for the first time in the current accounting period and are now reflected in the Company's financial reporting, with no material impact

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

In 2009, the IASB issued IFRS 9, *Financial Instruments – Classification and Measurement*, followed by additional requirements on accounting for financial liabilities in 2010 These are the first two parts of a replacement standard for IAS 39 They are applicable prospectively for accounting periods commencing 1 January 2015 or later, and are therefore not applicable for the current accounting period IFRS 9 has not yet been endorsed by the EU but, on adoption, will require us to review the classification of certain financial instruments while allowing us to retain fair value measurement as we deem necessary We have not yet completed our assessment of its impact which is, to a large extent, dependant on the finalisation of the IASB's insurance contracts accounting project

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

Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£'000)

(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 that are considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy

Item	Accounting policy
Provisions and contingent liabilities	F

(C) Revenue and interest receivable

Revenue represents the initial investment fees and annual management charges on all contributions into the investor accounts and is recognised when earned Initial investment fees are being deferred over the expected term of the investment contract Interest is accounted for on an accruals basis

(D) Financial assets and liabilities

Financial assets and liabilities are recognised on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument A financial asset is derecognised when the contractual rights to the assets cash flows expire or the asset is transferred and the transfer qualifies for derecognition Receivables and other financial assets do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts

Payables and other financial liabilities are classified according to the substance of the contractual arrangements entered into

(E) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held on call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the statement of financial position

(F) 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 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, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract 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

(G) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate

(H) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities Accordingly, a financial instrument is treated as equity if

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets

Aviva Pension Trustees UK Limited
Income statement
For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Income			
Revenue	C	**1,875**	2,226
Interest receivable and similar income		**97**	8
		1,972	2,234
Expenses			
Operating expenses	1	**(8,745)**	(8,469)
		(8,745)	(8,469)
Loss before tax		**(6,773)**	(6,235)
Tax credit	G & 4	**1,795**	1,746
Loss for the year		**(4,978)**	(4,489)

Statement of comprehensive income
For the year ended 31 December 2011

The Company has no other comprehensive income

The accounting policies (identified alphabetically) on pages 7 and 8 and the notes (identified numerically) on pages 13 to 20 are an integral part of these financial statements

Aviva Pension Trustees UK Limited
Statement of financial position
As at 31 December 2011

	Note	2011 £'000	2010 £'000
Assets			
Tax asset	G & 8	**1,795**	1,746
Receivables	D & 5	**3,511**	2,258
Prepayments and accrued income		**140**	135
Cash and cash equivalents	E	**12,350**	10,897
Total assets		**17,796**	15,036
Equity			
Ordinary share capital	H & 6	**16,100**	10,100
Retained earnings	7	**(9,200)**	(4,222)
Total equity		**6,900**	5,878
Liabilities			
Provisions	F & 9	**649**	595
Payables and other financial liabilities	D & 10	**10,247**	8,008
Accruals and deferred income		**-**	555
Total liabilities		**10,896**	9,158
Total equity and liabilities		**17,796**	15,036

Approved by the Board on 20 April 2012

J R Lister *Director*

The accounting policies (identified alphabetically) on pages 7 and 8 and the notes (identified numerically) on pages 13 to 20 are an integral part of these financial statements

Aviva Pension Trustees UK Limited
Statement of changes in equity
For the year ended 31 December 2011

	Note	Ordinary Share Capital £'000	Retained Earnings £'000	Total Equity £'000
Balance at 1 January 2010		3,100	267	3,367
Addition to share capital	6	7,000	-	7,000
Loss for the year	7	-	(4,489)	(4,489)
Balance at 31 December 2010		**10,100**	**(4,222)**	**5,878**
Addition to share capital	6	**6,000**	-	**6,000**
Loss for the year	7	-	**(4,978)**	**(4,978)**
Balance at 31 December 2011		**16,100**	**(9,200)**	**6,900**

The accounting policies (identified alphabetically) on pages 7 and 8 and the notes (identified numerically) on pages 13 to 20 are an integral part of these financial statements

Aviva Pension Trustees UK Limited
Statement of cash flows
For the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Cash flows from operating activities			
Cash used in operations	11(a)	**(4,547)**	(1,303)
Net cash used in operating activities		**(4,547)**	(1,303)
Cash flows from financing activities			
Proceeds from the issue of ordinary shares		**6,000**	7,000
Net cash generated from financing activities		**6,000**	7,000
Net increase in cash and cash equivalents		**1,453**	5,697
Cash and cash equivalents at 1 January		**10,897**	5,200
Cash and cash equivalents at 31 December	11(b)	**12,350**	10,897

The accounting policies (identified alphabetically) on pages 7 and 8 and the notes (identified numerically) on pages 13 to 20 are an integral part of these financial statements

1. Operating expenses

Under a management agreement, Aviva Life Services UK Limited (UKLS) supplies and makes charges for the provision of operational assets and services to the Company The agreement specifies the amounts payable to UKLS in respect of these expenses, which are included within operating expenses The amount of this recharge is £8,644,000 *(2010 £7,974,000)*

2. Directors' emoluments

None of the directors received any emoluments during the year *(2010 £nil)* in respect of services as a director of the Company

3. Audit remuneration

	2011 £'000	2010 £'000
Fees for the statutory audit of the Company's financial statements	**16**	4
Fees in respect of other services pursuant to legislation	**16**	1
	32	5

The fees are payable to Ernst & Young LLP and form part of the recharge from UKLS

Fees paid for services other than the statutory audit of this Company are not disclosed in these financial statements since the consolidated financial statements of the ultimate parent, Aviva plc, are required to disclose non-audit fees on a consolidated basis

4. Tax

(a) Tax credited to the income statement

The total tax credit comprises

	2011 £'000	2010 £'000
Current tax		
For the year	**1,795**	1,746
Total tax credited to the income statement	**1,795**	1,746

(b) Tax reconciliation

The tax on the company's loss before tax is the same as the tax calculated at the standard UK corporation tax rate as follows

	2011 £'000	2010 £'000
Loss before tax	**6,773**	6,235
Tax calculated at standard UK corporation tax rate of 26 5% *(2010 28%)*	**1,795**	1,746
Current tax credited for the period	**1,795**	1,746

A reduction in the UK corporation tax rate from 28% to 26% was substantively enacted in March 2011 and is effective from 1 April 2011 A further reduction from 26% to 25% was substantively enacted in July 2011, to be effective from 1 April 2012 Accordingly, these rates have been applied in the measurement of the Company's deferred tax assets and liabilities as at 31 December 2011

In addition, a further 1% reduction in the UK corporation tax rate to 24%, effective from 1 April 2012, was announced in the 2012 Budget on 21 March 2012 and was substantively enacted on 26 March 2012 On the same day it was announced that the UK corporation tax rate would reduce to 23% from 1 April 2013 and to 22% from 1 April 2014 No material impact is expected to arise on the Company's net assets as a result of the further 3% reduction in rate from 25% to 22%

5. Receivables

	2011	2010
	£'000	£'000
Amounts due from group undertakings	**1,976**	247
Provider funded commission	**403**	1,091
Trade receivables	**-**	270
Other receivables including tax and social security	**1,132**	650
	3,511	2,258

Of the above total £97,000 *(2010 £1,471,000)* is expected to be recovered more than one year after the statement of financial position date

6. Ordinary share capital

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

	2011	2010
	£'000	£'000
The allotted, called up and fully paid share capital of the Company was 16,100,000 Ordinary shares of £1 each	**16,100**	10,100

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

(b) On 20 June 2011, 6 million ordinary shares of £1 each were allotted and issued by the Company as follows

		2011		2010
	Number of Shares	**Share Capital £'000**	Number of Shares	Share Capital £'000
At 1 January	**10,100,000**	**10,100**	3,100,000	3,100
New shares issued	**6,000,000**	**6,000**	7,000,000	7,000
At 31 December	**16,100,000**	**16,100**	10,100,000	10,100

7. Retained earnings

	2011 £'000	2010 £'000
Balance at 1 January	**(4,222)**	267
Loss for the year	**(4,978)**	(4,489)
Balance at 31 December	**(9,200)**	(4,222)

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to regulated companies imposed by the FSA Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of local regulatory capital

8. Tax assets and liabilities

(a) General

Tax assets receivable in more than one year are £1,795,000 *(2010 £1,746,000)*

(b) Deferred tax

The Company has no recognised or unrecognised deferred tax amounts at the year end *(2010 £nil)*

9. Provisions

	2011 £'000	2010 £'000
Balance at 1 January	**595**	-
Transfer in from group undertakings	**-**	592
Provided in financial year	**336**	3
Amounts utilised	**(144)**	-
Amounts released	**(138)**	-
Balance at 31 December	**649**	595

The provision relates to obligations arising as a result of the restructure of the operations of the Company and post retirement obligations This includes the best estimate of customer, supplier and HMRC redress that will be necessary, following a full review in 2010 and 2011

10. Payables and other financial liabilities

	2011 £'000	2010 £'000
Trade payables	**792**	317
Amounts owed to group undertakings	**9,310**	7,691
Other payables including tax and social security	**145**	-
	10,247	8,008

None of the above total is expected to be paid more than one year after the statement of financial position date *(2010 £nil)*

11. Statement of cash flows

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

	2011 £'000	2010 £'000
Loss before tax	**(6,773)**	(6,235)
Changes in working capital		
Decrease/(increase) in receivables	**493**	(2,053)
Increase in prepayments and accrued income	**(5)**	(135)
Increase in provisions	**54**	595
Increase in payables and other financial liabilities	**2,239**	5,970
(Decrease)/increase in accruals and deferred income	**(555)**	555
Net cash used in operations	**(4,547)**	(1,303)

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

	2011 £'000	2010 £'000
Cash at bank and in hand	**12,350**	10,897

12. Risk and capital management

(a) Risk management framework

The ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, (collectively known as "the Group"), operate a risk management framework ("RMF"), which is the collection of processes and tools that have been put in place to ensure that the risks to which it is exposed are identified, measured, managed, monitored and reported on a continuous basis The RMF is designed to facilitate a common approach to, and language regarding, the management of risk across the Company The key instruments of the RMF include the risk management policies, risk reports, risk models, the governance and oversight infrastructure and the risk appetite framework The RMF has been adopted in the UK ("the UK Region") including the businesses collectively referred to as "UK Life", which includes this Company

Risks are usually grouped by risk type market, credit, life insurance, liquidity and operational risk Risk falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity and profit They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to the Company's franchise value

The Group has a set of formal risk policies that facilitate a consistent approach to the management of all the Company's risks across all businesses and locations in which the Company operates These risk policies define the Company's appetite for different, granular risk types and set out risk management and control standards for the Group's world-wide operations

Risk models are an important tool in the Company's measurement of risk and are used to support the monitoring and reporting of the risk profile and in the evaluation of alternative risk management actions The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged Monthly assessments are made of the economic capital available within the business and the economic capital required to cover the current risk profile of the business and these assessments are included in the regular reporting to the risk committees

UK Life sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk UK Life is willing to accept) UK Life assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders Where risks are outside of appetite, actions are agreed to mitigate the exposure Impact assessments are considered against financial, operational and reputational criteria and take into account underlying factors such as economic conditions, for example, UK economic growth and inflation

The UK Region has an established governance framework, which has the following key elements

- defined terms of reference for the legal entity Boards and the associated executive management and other committees across the UK Region including the UK Region Board, UK Region Risk Committee and UK Region Audit Committee
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management, and
- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations The policies also set out the roles and responsibilities of businesses, regions, policy owners, and risk oversight committees

UK Life operates a three lines of defence risk management model that encourages close working relationships between line management and the risk function whilst facilitating independent assurance by internal audit Primary responsibility for risk identification and management lies with business management (the first line of defence) Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions (the second line of defence) Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided by internal audit (the third line of defence)

UK Life has developed economic capital models that support the measurement, comparison and further understanding of its risks The results of the modelling are incorporated into key strategic planning and decision-making processes These models show the relative impact to economic capital from the risks faced In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite

The FSA also requires UK Life to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business

Regulatory impact on risk and risk assessments

Where Aviva Life has written products where the majority of investment risks are borne by its policyholders, these risks are actively and prudently managed in order to satisfy the policyholders' risk and reward objectives In addition, operations are subject to numerous regulatory requirements that prescribe the type and the level of assets to be maintained in order to meet liabilities Meeting these requirements helps to ensure the market risk is maintained at an acceptable level

The Company operates a number of oversight committees that monitor aggregate risk data and take overall risk management decisions

(b) Market risk

The nature of the business means that market risks in terms of market value movements are borne by the customers

(c) Credit risk

The nature of the Company's business means that it is not exposed to significant credit risk This is because its receivables are mainly inter-company balances A significant amount of business relates to the Aviva Group of companies and exposure is managed through regular and timely payments

(d) Liquidity risk

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

(e) Operational risk

Operational risk would arise as a result of inadequate or failed internal processes, people or systems, or from external events This definition is intended to include all risk exposures to which the Company is exposed, other than the financial risks described above Hence, operational risks include IT, information security, projects, outsourcing, legal and fraud and compliance risks

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

Operational risks are assessed according to the potential impact and probability of the event concerned These impact assessments are made against financial, operational and reputational criteria Operational risks are reported to the Aviva Life Executive Team on a quarterly basis

(f) Risk and capital management

Capital is managed within the regulatory framework in which the Company operates This makes use of the Internal Capital Adequacy Assessment Process ('ICAAP'), closely aligned with Aviva's Internal Capital Assessment framework, to identify the risks to which the business is exposed and to quantify their impact on economic capital and changes thereto by way of stress and scenario tests The ICAAP estimates how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk

The Company maintains an efficient capital structure, which is consistent with its risk profile and the regulatory and market requirements of its business The Company's capital is managed in accordance with its Capital and Solvency Policy to maintain sufficient regulatory capital The solvency position of the company is formally monitored on a monthly basis

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

(g) Regulatory capital

In managing its capital, the Company seeks to

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business,
- Maintain financial strength to support new business growth and satisfy the requirements of its customers and its regulator, the Financial Services Authority (FSA),
- Retain financial flexibility by maintaining liquidity, and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate

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

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

	2011 £'000	2010 £'000
Total IFRS shareholders' funds	6,900	5,878
Less illiquid assets	(1,073)	(1,083)
Total available capital resources	**5,827**	**4,795**

The movement in the available capital resources is due to the losses for the year being more than offset by a share capital injection from Aviva Life & Pensions UK Limited (UKLAP), coupled with the slight reduction in the illiquid assets balance

The illiquid assets deduction relates to debtor balances over 90 days, in line with the revised 2008 FSA reporting requirements

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

13. Contingent liabilities

The Company has indemnified the overdrafts of certain other Aviva Group companies In the opinion of the directors, no material loss will arise in respect of these indemnities

14. Related party transactions

(a) The members of the Board of Directors are listed on page 1 of these financial statements There are no amounts receivable from or payments due to members of the Board of Directors

(b) Income receivable from related parties

	2011 Income earned in year £'000	2011 Receivable at year end £'000	2010 Income earned in year £'000	2010 Receivable at year end £'000
Parent	184	184	247	247
Fellow group undertakings	-	1,792	-	-
	184	1,976	247	247

The related party receivables are not secured and no guarantees were received in respect thereof

(c) Services provided by related parties

	2011 Expense incurred in year £'000	2011 Payable at year end £'000	2010 Expense incurred in year £'000	2010 Payable at year end £'000
Fellow group undertakings	8,644	9,310	7,974	7,691

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

(d) Key management compensation

No charge is borne by the Company for key management personnel due to the insignificant amount of time spent in managing the Company's affairs *(2010 £nil)*

(e) Parent entity

The immediate holding company is Aviva Life & Pensions UK Limited, a company registered in England

(f) Ultimate controlling entity

The ultimate controlling entity is Aviva plc, a company registered in England Its Group financial statements are available on www aviva com or by application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ

15. Business Restructure

Following the outsourcing of the SIPP administration function to Scottish Friendly Assurance (SFA) in January 2009, and the subsequent de-commissioning of the Lifetime platform, the relationship between the Company and UKWG has been revised Following the implementation of various contractual changes and revised Service Level Agreements, as of 1 January 2010 the Company no longer assigns income and expenditure relating to the SIPP business to UKWG

As a result of the Wrap group business restructure detailed above, all assets and liabilities relating to the SIPP business were transferred from UKWG to the Company during 2010 on an arm's length basis, following completion of the remediation work The initial impact of the transfer on the Company's statement of financial position as at 31 December 2010 is as follows

	2010 Transfer in £'000
Assets	
Receivables	1,596
Total assets	1,596
Liabilities	
Provisions	592
Payables and other financial liabilities	342
Total liabilities	934
Net asset value taken on	662

Assets and liabilities were transferred at book value under the 'pooling of interests' method of accounting with no restatement of financial information for periods prior to the date of the combination The total consideration paid represents the net asset value taken on of £662,000, with settlement via inter company account

16. Post balance sheet events

During 2011 Scottish Friendly Assurance (SFA) announced the sale of its wrap administration business to Citi Bank International PLC (Citibank) Upon completion, the wrap business will be integrated into Open Wealth, Citibank's service offering for wealth managers The existing Aviva Wrap and Pension Trustees administration contracts novated from SFA to Citibank as of 3 January 2012, from which date Wrap and SIPP administration will be provided by Citibank