FRIENDS LIFE FUNDS LIMITED

Registered in England and Wales No. 7304839

Annual report and financial statements 2016

Friends Life Funds Limited
Report and financial statements for the year ended 31 December 2016
Registered in England and Wales No. 7304839

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Directors and Officers

Directors
S Ebenston
S Winstanley
O Yevmenchikova

Officer - Company Secretary
Friends Life Secretarial Services Limited
Pixham End
Dorking
Surrey
RH4 1QA

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square, 29 Wellington Street
Leeds
LS1 4DL

Registered Office
St Helen's
1 Undershaft
London
EC3P 3DQ

Company Number
Registered in England and Wales: No. 7304839

Other Information
Friends Life Funds Limited ("the Company") is authorised and regulated by the Financial Conduct Authority.

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

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Strategic report

The directors present their strategic report for Friends Life Funds Limited (the Company) for the year ended 31 December 2016.

Review of the Company's business

Principal Activities

The principal activity of the Company is the sale of shares in, and the management of, an Authorised Contractual Scheme (ACS).

Revenue for the year increased by 54% to £13.4 million (2015: £8.7 million). This is due to an increase in the closing Funds under Management (FUM) from £13.0 billion in 2015 to £14.0 billion in 2016 and also reflecting that the Company only commenced trading on 1 April 2015 and therefore the comparatives only cover 9 months.

Total equity has increased by £4.5 million reflecting the issuance of £4.5 million of ordinary share capital in the year.

Financial position and performance

The financial position of the Company at 31 December 2016 is shown in the statement of financial position on page 12, with the results shown in the income statement on page 10 and the statement of cash flows on page 13.

The Company operates to breakeven with all expenses being recovered by way of an investment fee charged to the investor and other operating expenses charged to the funds and therefore the Company has made a profit before tax of £nil (2015: £nil).

Future outlook

The ACS is an umbrella fund structure which has 26 Tax Transparent sub-funds (TTFs) in existence at 31 December 2016, each sub-fund offering one or more unit classes to reflect the withholding tax profile of the underlying investors.

The TTFs provide a strategic vehicle for investments from other parts of the Aviva Group, in particular Aviva's UK Life business.

The Company is expecting further investments of £27 billion in 2017 which will result in a projected FUM of £42.9 billion by 31 December 2017.

To support this strategy, three new funds have been launched in February 2017 as below:

AI Continental European Equity Alpha Fund
AI UK Equity Alpha Fund
AI UK Equity Dividend Fund

The Company also plans to launch a further 35 funds over the remainder of 2017.

Principal risks and uncertainties

The major risk facing the business is operational risk, which is in line with FCA expectations for investment businesses which hold assets in a fiduciary capacity and off balance sheet. Operational risk of loss can result from inadequate or failed internal processes, people and systems, or from external events, including regulatory risk. Exposure to credit default is low as exposure only arises on cash balances held. Credit risk is assessed on a regular basis, with credit ratings of banks closely monitored.

Management are responsible for the identification, assessment, control and monitoring of operational risks and for reporting these in accordance with the Group's escalation criteria for assessment in terms of their probability and impact in accordance with Group policy. A description of the principal risks and uncertainties facing the Company and its risk management policies are set out in note 12 to the financial statements.

Strategic report (continued)

Key performance indicators

Revenue represents investment management fees charged to the investors in the funds and the recovery of operating expenses which are recharged directly to the funds.

Revenue for the year increased by 54% to £13.4 million (2015: £8.7 million) as detailed in the business review above. The Company has made a profit before tax of £nil (2015: £nil).

By order of the Board, 24 April 2017

S Ebenston
Director

Directors' report

The directors present their annual report and audited financial statements of the Company for the year ended 31 December 2016.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were;

A Brown	resigned 22 Jul 2016
G Cass	appointed 16 Jun 2016, resigned 8 Feb 2017
M Connolly	resigned 6 Sep 2016
S Ebenston	
D Lis	resigned 31 Mar 2016
S Winstanley	
O Yevmenchikova	appointed 20 Mar 2017

Dividend

No dividend was paid during the year. No further dividend has been recommended by the Directors.

Future Outlook

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

Employees

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Investors Employment Services Limited, who make a management charge for the provision of staff to the Company. It is not possible to ascertain separately the element of the management charge that relates to staff costs. Disclosures relating to employee remuneration and the average number of persons employed are made in the Financial Statements of Aviva Investors 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; and
- 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.

Independent Auditors

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

Directors' report (continued)

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report.

In addition, note 12 to the financial statements includes the Company's capital and financial risk management objectives and policies. Based on this analysis, the directors consider that adequate processes exist to manage the risks of the Company to the extent that they relate to the Company's ability to continue as a going concern.

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 of accounting in preparing the annual financial statements.

Qualifying Indemnity Provisions

Aviva plc, the Company's ultimate parent, granted in 2004 an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 (which continue to apply in relation to any provision made before 1 October 2007). This indemnity is a 'qualifying third party indemnity' for the purposes of Sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' Report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors have the benefit of an indemnity provision contained in the Company's Articles of Association, subject to the conditions set out in the Companies Act 2006. This is a 'qualifying third party indemnity' provision as defined in Section 234 of the Companies Act 2006.

Statement of Directors' Responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union, and IFRSs as issued by the IASB, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors 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 24 April 2017

S Ebenston
Director

Independent auditors' report to the members of Friends Life Funds Limited

Report on the financial statements

Our opinion

In our opinion, Friends Life Funds Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual report and financial statements 2016 (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2016;
- the income statement for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Separate opinion in relation to IFRS as issued by the IASB

As explained in the Accounting Policies to the financial statements, the Company, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the financial statements comply with IFRSs as issued by IASB.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Friends Life Funds Limited (continued)

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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

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

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

What an audit of financial statements involves

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

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

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

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

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

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

24 April 2017

Income statement

For the year ended 31 December 2016

	Note	2016	2015
		£'000	**£'000**
Revenue		**13,406**	8,722
Operating expenses	2	**(13,406)**	(8,722)
Profit before Tax		**-**	-
Tax charge	5	**-**	-
Profit for the year		**-**	-

The company has no other comprehensive income.

The accounting policies on pages 14 to 16 and notes on pages 17 to 21 are an integral part of these financial statements.

Statement of changes in equity

For the years ended 31 December 2016 and 31 December 2015

	Note	Ordinary share capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January 2015		4,500	-	4,500
Profit for the year		-	-	-
Balance at 31 December 2015		**4,500**	-	**4,500**
Profit for the year	8	-	-	-
Share capital Issue	7	**4,500**	-	**4,500**
Balance at 31 December 2016		**9,000**	-	**9,000**

The accounting policies on pages 14 to 16 and notes on pages 17 to 21 are an integral part of these financial statements.

Statement of financial position

As at 31 December 2016

	Note	31 Dec 2016	31 Dec 2015
		£'000	**£'000**
Current assets			
Trade and other current receivables	6	**6,347**	6,702
Cash and cash equivalents	10(b)	**6,696**	833
Total assets		**13,043**	7,535
Equity			
Ordinary share capital	7	**9,000**	4,500
Retained earnings	8	**-**	-
Total equity		**9,000**	4,500
Current liabilities			
Trade and other payables	9	**4,043**	3,035
Total current liabilities		**4,043**	3,035
Total equity and liabilities		**13,043**	7,535

The financial statements on pages 10 to 21 were approved by the Board of directors on 24 April 2017 and were signed on its behalf by

S Ebenston

Director

Statement of cash flows

For the year ended 31 December 2016

	Note	2016	2015
		£'000	£'000
Cash flows generated by/(used) in operating activities			
Cash generated by / (used in) operations	10(a)	**1,363**	(3,667)
Net cash generated by/(used in) operating activities		**1,363**	(3,667)
Cash flows generated from financing activities			
Share issue		**4,500**	-
Net cash generated from financing activities		**4,500**	-
Net increase/(decrease) in cash and cash equivalents		**5,863**	(3,667)
Cash and cash equivalents at 1 January		**833**	4,500
Cash and cash equivalents at 31 December	10(b)	**6,696**	833

The accounting policies on pages 14 to 16 and notes on pages 17 to 21 are an integral part of these financial statements.

1. Accounting policies

The Company is a limited company incorporated and domiciled in the United Kingdom (UK). The Company's principal activity is the sale of shares in, and the management of an Authorised Co-ownership Scheme (ACS).

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of presentation

The financial statements are prepared under the historical cost convention, except for those financial instruments and financial liabilities that have been measured at fair value. Items included in the financial statements are measured in the currency of the primary economic environment in which the Company operates ('the functional currency'). The Company's presentational currency is pounds sterling. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling ('£'000').

Statement of compliance

The Company's financial statements have been prepared and approved by the directors in accordance with the International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board ('IASB') and adopted by the European Union ('EU'), the Companies Act 2006 that applies to companies reporting under IFRS and International Financial Reporting Interpretation Committee ('IFRIC') interpretations. The Company's financial statements have been prepared in accordance with IFRS applicable at 31 December 2016 and have been prepared on a going concern basis.

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 2016.

(i) Narrow scope amendments to IFRS 10, IFRS 12 and IAS 28 - Applying the Consolidation Exception
These narrow scope amendments clarify the application of the requirements for investment entities to measure subsidiaries at fair value instead of consolidating them. There are no implications for the Company's financial statements.

(ii) Amendments to IAS 1 Disclosure Initiative
These amendments form part of the IASB's Disclosure Initiative and are intended to assist entities in applying judgement in considering presentation and disclosure requirements. The amendments clarify guidance in IAS 1 *Presentation of Financial Statements* on materiality and aggregation, the presentation of subtotals, the order of the notes to financial statements and the disclosure of accounting policies. The adoption of these amendments has no impact on the Company's statements.

(iii) Annual Improvements to IFRSs 2012-2014
These improvements consist of amendments to five IFRSs including IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*. The amendments clarify existing guidance and there is no impact on the Company's financial statements.

1. Accounting policies (continued)

(A) Basis of presentation (continued)

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

The following applicable new standards, amendments to existing standards and interpretations have been issued, are effective for accounting periods beginning on or after 1 January 2017 and have not been adopted early by the Company:

(i) ***Narrow scope amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses***
The revisions to IAS 12 *Income Taxes* clarify the accounting for deferred tax assets on unrealised losses and state that deferred tax assets should be recognised when an asset is measured at fair value and that fair value is below the asset's tax base. It also provides further clarification on the estimation of probable future taxable profits that may support the recognition of deferred tax assets. The adoption of this amendment is not expected to have an impact on the financial statements as the clarifications are consistent with our existing interpretation. The amendment is effective from 1 January 2017 and has not yet been endorsed by EU.

(ii) ***Amendments to IAS 7 - Disclosure initiative***
The amendments to IAS 7, *Statement of Cash Flows*, which form part of the IASB's Disclosure Initiative , require disclosure of the movements in liabilities arising from financing activities with cash and non-cash changes presented separately. The adoption of this amendment is not expected to have an impact on the financial statements.

(iii) ***IFRS 15, Revenue from Contracts with Customers***
IFRS 15 will replace IAS 18 *Revenue* and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 also includes enhanced disclosure requirements. The impact of the adoption of the new standard is being assessed by the Company. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has not yet been endorsed by the EU.

(iv) ***IFRS 9, Financial Instruments***
In July 2014, the IASB published IFRS 9 *Financial Instruments* which will replace IAS 39 *Financial Instruments: Recognition and Measurement.* The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

The impact of the adoption of IFRS 9 on the Company's financial statements has yet to be fully assessed. IFRS 9 has not yet been endorsed by the EU.

(B) Critical accounting policies and 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 may differ from those estimates, possibly significantly.

The Directors do not consider any items particularly susceptible to changes in estimates and assumptions

Notes to the financial statements (continued)

1. Accounting policies (continued)

(C) Revenue recognition

Revenue, which excludes value added tax, consists of investment management fees charged to the investors in the funds and the recovery of operating expenses which are recharged directly to the funds.

All revenue is attributable to one continuing activity and arises in the UK.

(D) Receivables and payables

Receivables and payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are held at amortised cost, which given the short term nature of the items is considered a reasonable approximation to fair value.

(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.

Operating cash flows

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

(F) Income tax

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated 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 temporary differences arise from the difference between the accounting values and tax base cost of certain assets. The rates enacted or substantially enacted at the statement of financial position date are used to determine the deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

(G) Share capital

Equity instruments

A financial instrument is treated as equity if:

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

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

Dividends

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

2. Operating expenses

Under a management agreement Aviva Investors Global Services Limited (AIGSL), a fellow group undertaking, supplies and makes charges for the provision of operational assets and staff to the Company. The agreement specifies the amounts payable in respect of these expenses. The amount of this recharge is £432,000 (2015: £351,000).

AIGSL also makes charges for the investment management of some of the Company's funds. The charge for 2016 is £1,402,000 (2015: £950,000). The external fund management charge for the year is £9,318,000 (2015: £5,962,000) and other expenses amounted to £2,254,000 (2015: £1,459,000).

3. Directors' emoluments

The directors were remunerated by Aviva Investors Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc. The emoluments are recharged, as part of a head office management charge under management service agreements, to all operating divisions of the Aviva Group. No direct recharge has been made to the Company in respect of these emoluments as these directors were not primarily remunerated for their services to the Company. Accordingly, no emoluments are disclosed in respect of these directors.

4. Auditors' remuneration

Auditors' remuneration in relation to the Company for 2016 was £14,000 (2015: £14,000).

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

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies.

5. Tax charge

Tax charged to the income statement

	2016	2015
	£'000	£'000
Current tax		
For this year	-	-
Adjustments in respect of prior years	-	-
Total current tax charge	-	-

6. Trade and other receivables

	2016	2015
	£'000	£'000
Amounts due from fellow subsidiaries	**5,943**	6,267
Prepayments and accrued income	**404**	435
	6,347	6,702

None of the above (2015: £nil) is expected to be recovered more than one year after the statement of financial position date.

There is no difference in the value at contractual maturity and the value in the financial statements.

7. Ordinary share capital

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

	2016	2015
	£'000	£'000
The allotted, called up and fully paid share capital of the Company at 31 December 2016 was: 9,000,001 (2015: 4,500,001) ordinary shares of £1 each	**9,000**	4,500

During the year, in order to comply with regulatory capital requirements, the Company increased the issued share capital as below:

14 Mar 2016: £2.0 million, representing 2,000,000 ordinary shares of £1 each
29 Jul 2016: £2.5 million, representing 2,500,000 ordinary shares of £1 each

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to IPRU (INV) investment firms imposed by the Financial Conduct Authority (FCA).

8. Retained earnings

	2016	2015
	£'000	£'000
Balance at 1 January	-	-
Profit for the year	-	-
Balance at 31 December	-	-

9. Trade and other payables

	2016	2015
	£'000	£'000
Amounts owed to fellow subsidiaries	**813**	35
Trade creditors and accruals	**3,230**	3,000
	4,043	3,035

None of the above total (2015: £nil) is expected to be paid more than one year after the statement of financial position date.

Notes to the financial statements (continued)

10. Cash and cash equivalents

(a) The reconciliation of profit before tax to the net cash generated by/(used in) operating activities is:

	2016	2015
	£'000	£'000
Operating profit before tax	-	-
Adjustments for:		
Changes in working capital:		
Decrease/(increase) in receivables	355	(6,702)
Increase/(decrease) in payables and other financial liabilities	1,008	3,035
Cash generated by/(used in) operations	**1,363**	(3,667)

(b) The cash and cash equivalents consist of:

	2016	2015
	£'000	£'000
Cash at bank and in hand	6,696	833

11. Regulatory Capital

In managing its regulatory capital, the Company seeks to:

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- Maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of its customers and its regulator, the Financial Conduct Authority (FCA);
- Retain financial flexibility by maintaining liquidity; and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company is subject to the capital requirements applicable to UCITs firms imposed by the FCA.

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

	2016	2015
	£'000	£'000
Total IFRS shareholder's funds	9,000	4,500
Total available regulatory capital resources	9,000	4,500

Further details on risk and capital management are given in note 12.

In addition to the minimum regulatory requirements outlined above, the Company complies with Group mandated Capital Management Risk Standards which include the setting of risk appetites which are designed to give some buffer against adverse events when compared with minimum solvency. These appetites define what action should be taken by management where the actual capital level is above or below the desired target level.

12. Risk and Capital management policies

(a) Governance framework

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

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

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

Regulatory impact on risk and risk assessments

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

(b) Management of financial risk

i) Liquidity risk

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

(ii) Credit risk

The nature of the Company's business means that it is not exposed to significant credit risk. This is because its receivables are mainly trade debtors and inter-company balances. The Company has an actively managed debtors policy to minimise the risk that amounts due will not be collected. In the extreme event of non payment units can be cancelled and the loss limited to adverse market movements. A significant amount of business relates to the Aviva Group of companies and exposure is managed through regular and timely payments.

(iii) 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, measurement, management, monitoring and reporting of risks to the FLFL Board, in accordance with Aviva Group policies. The Aviva Investors 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.

13. Related party transactions

(a) Income receivable from related parties	2016 £'000	2015 £'000
Fellow subsidiaries	**10,719**	6,913
(b) Expense payable to related parties		
Fellow subsidiaries	**1,834**	5,151
(c) Receivable at year end		
Fellow subsidiaries	**5,943**	6,267
(d) Payable at year end		
Fellow subsidiaries	**813**	35

The related parties' receivables are not secured and no guarantees were received in respect thereof. No provision or expense has been recognised in respect of bad or doubtful debts (2015: £nil).

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

(e) Key management compensation

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

(f) Ultimate controlling party

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

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

Aviva plc is the parent undertaking of both the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2016. The consolidated financial statements of Aviva plc are available at www.aviva.com or are on application to the:

Group Company Secretary
Aviva plc
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