

# IGNIS INVESTMENT SERVICES LIMITED

Company Registration Number: SC101825

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS For the year ended 31 December 2012

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## IGNIS INVESTMENT SERVICES LIMITED

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## IGNIS INVESTMENT SERVICES LIMITED

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### Directors' report

Company Registration No: SC101825

Country of incorporation: Scotland

Registered Office:

50 Bothwell Street  
Glasgow  
G2 6HR

The Directors present their Report and Financial Statements of Ignis Investment Services Limited ("the Company") for the year ended 31 December 2012.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRS').

### Business review

#### **Principal activities**

The principal activity of the Company is the provision of investment management services and investment advice. The Company provides these services to The Phoenix Group companies and external clients. This will continue to be the principal activity for the foreseeable future.

The Company is a private limited company whose principal place of business is the UK. The Company is authorised and regulated by the Financial Services Authority.

The Company is a member of the Ignis Asset Management Group of companies. The Ignis Asset Management Group itself is a member of The Phoenix Group.

#### **Strategy**

The Phoenix Group aims to be the saver-friendly, industry solution for the safe, innovative and profitable management of closed life funds.

The Ignis Asset Management Group aims to be a leading asset management business committed to performance excellence and innovation, where talented people want to work and, most importantly, where clients want to invest their money.

The Ignis Asset Management Group intends to fulfil this aim by achieving its goals:

- Meet or exceed investment performance expectations for all clients;
- Work with clients to provide creative solutions to changing product needs;
- Maintain our business with a well-controlled and efficient operating platform;
- Develop further as a high quality and profitable company.

These goals are supported by our foundations of:

- Innovative people;
- Partnership culture;
- Processes and Technology;
- Stability.

The development of a profitable and growing third party business remains a key objective of the Ignis Asset Management Group.

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## IGNIS INVESTMENT SERVICES LIMITED

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### **Corporate activity**

On 28 May 2012, the Company sold part of its business to HSBC Bank plc ("HSBC"). This comprised investment operations, fund accounting and other related activities and resulted in a transfer of 147 roles to HSBC in both London and Glasgow on that date. The transition of the remaining activities, systems and processes will continue until May 2014. Details of the transaction are given in Note 11.

### **Result and dividends**

The result of the Company for the year is shown in the statement of comprehensive income on page 8. The profit before tax was £36,493,000 (2011: £43,556,000).

Dividends totalling £17,000,000 were paid during the year (2011: £18,800,000).

### **Principal risks and uncertainties**

The Ignis Risk Management framework provides a structured approach for identifying, assessing, controlling and monitoring risk within the Ignis Asset Management Group. The main risks to the Company's financial performance are loss of key investment management mandates and reductions in fees due to significant market movements. The key financial risks the Company is exposed to are market risk, credit risk and liquidity risk. The Company does not apply hedge accounting. Financial risk management is discussed within note 29 to the financial statements.

### **Key Performance Indicators ("KPIs")**

To understand the development, performance and position of the business we use the following KPIs:

- Ignis assets under management as at 31 December 2012 are £68.3bn (2011: £74.3bn) (this includes £9.3bn (2011: £10.8bn) of assets managed as collateral received for the Phoenix Life Companies stocklending programme). Ignis also provides advice and administration on assets totalling £7.0bn (2011: £7.2bn);
- Profit before tax for 2012 is £36m (2011: £43m); and
- Net sales for 2012 are £1.6bn (2011: £1.7bn).

### **Future developments**

The Company will continue to focus on delivering the key elements of its strategy. In achieving this, the Company seeks to grow profitability through growing third party business across its retail, institutional and international channels. This, together with outperformance of the funds managed by the Company, is key to the growth in profitability.

### **Going concern**

The Board has followed the UK Financial Reporting Council's "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" when performing their going concern assessment. As part of its comprehensive assessment of whether the Company is a going concern, the Board has prepared cash flow forecasts for the Company for the foreseeable future under both normal and stressed conditions. In addition the Board has also considered the cash position of the Ignis Group, Parent Company financial position, and contingent liabilities.

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the 12 months from the date of signing of the accounts. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### **Employees**

During the year, the Company maintained a policy of informing and involving employees on matters which concern them and in the achievement of its business goals. The Company has a comprehensive system for consultation and communication involving regular meetings between management and employees, team briefings, opinion surveys and the issue of various bulletins.

Employee development within the Company is promoted by encouraging staff to gain appropriate professional qualifications and assisting with wider personal development.

The Company is committed to providing equal opportunities to all employees irrespective of their sex, age, sexual orientation, marital status, religion, race or disability. It is the Company's policy to give positive consideration to disabled persons with respect to applications for employment, training, career development and promotion, having regards to each individual's particular aptitudes and abilities.

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## IGNIS INVESTMENT SERVICES LIMITED

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### Directors and their interests

The names of those individuals who served as Directors of the Company during the year or who held office as at the date of signature of this report are as follows:

C Bannister, Chairman  
C Samuel  
T Roberts – resigned 29 January 2013  
C Fellingham  
C Chene  
J McConville – appointed 28 June 2012  
P Miles – appointed 16 March 2012, resigned 19 December 2012  
I Paterson Brown – resigned 29 June 2012

### Company Secretary

S Griffin acted as Secretary throughout the year.

### Disclosure of indemnity

Qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) were in force for the benefit of the Directors of the Company during the year and remain in place at the date of approval of this report.

### Disclosure of information to auditors

So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

### Re-appointment of auditors

In accordance with section 487 of the Companies Act 2006, the Company's auditors, Ernst & Young LLP, will be deemed to have been re-appointed at the end of the period of 28 days following circulation of copies of these financial statements as no notice has been received from members pursuant to section 488 of the Companies Act 2006 prior to the end of the accounting reference period to which these financial statements relate.

### On behalf of the Board



**S GRIFFIN**  
Company Secretary

19 March 2013

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## IGNIS INVESTMENT SERVICES LIMITED

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### **Statement of Directors' responsibilities in relation to the Company's Financial Statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards as adopted by the European Union. Company Law requires the directors to prepare Financial Statements for each financial year, which give a true and fair view of the state of affairs of the Company and of the profit or loss for that financial year. In preparing those Financial Statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- 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 of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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## IGNIS INVESTMENT SERVICES LIMITED

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### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF IGNIS INVESTMENT SERVICES LIMITED

We have audited the financial statements of Ignis Investment Services Limited for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statements of Changes in Equity and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

#### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 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.

#### 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 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 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.



Amarjit Singh (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
20 March 2013

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**IGNIS INVESTMENT SERVICES LIMITED**

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**Statement of comprehensive income**  
for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
<b>Continuing Operations</b>			
<b>Revenue</b>			
Fees and other income	3	125,364	125,642
Net investment income	4	656	717
<b>Total income</b>		<u>126,020</u>	<u>126,359</u>
Administrative expenses	5	(89,519)	(82,785)
Impairment loss		-	-
<b>Profit before finance costs and tax</b>		<u>36,501</u>	<u>43,574</u>
Finance costs	9	(8)	(18)
<b>Profit for the year before tax</b>		<u>36,493</u>	<u>43,556</u>
Tax charge	10	(9,509)	(12,165)
<b>Profit for the year from continuing operations</b>		<u>26,984</u>	<u>31,391</u>
<b>Discontinued operations</b>			
Loss for the year from discontinued operations		(435)	(1,074)
<b>Total profit for the year attributable to owners</b>		<u>26,549</u>	<u>30,317</u>
<b>Other comprehensive income</b>		-	-
<b>Total comprehensive income for the year attributable to owners</b>		<u>26,549</u>	<u>30,317</u>



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**IGNIS INVESTMENT SERVICES LIMITED**


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**Statement of financial position**  
 as at 31 December 2012

	Notes	2012 £000	2011 £000
<b>Equity attributable to owner</b>			
Share capital	12	580	580
Share premium	13	870	870
Capital contribution reserve	14	50,800	50,800
Retained earnings		28,538	18,989
<b>Total equity</b>		<u>80,788</u>	<u>71,239</u>
<b>Non-current liabilities</b>			
Long-term provisions	16	18,608	8,035
<b>Total non-current liabilities</b>		<u>18,608</u>	<u>8,035</u>
<b>Current liabilities</b>			
Short-term provisions	16	4,199	-
Trade & other payables	17	47,626	37,863
<b>Total current liabilities</b>		<u>51,825</u>	<u>37,863</u>
<b>Total liabilities</b>		<u>70,433</u>	<u>45,898</u>
<b>Total equity and liabilities</b>		<u>151,221</u>	<u>117,137</u>
<b>Non-current assets</b>			
Investments in subsidiaries	20	3,104	3,104
Investments in associates	21	500	750
Financial assets	22	16,289	15,695
Intangible assets	23	12,364	13,695
Property, plant and equipment	24	8,090	8,492
Deferred tax	18	6,521	4,861
<b>Total non-current assets</b>		<u>46,868</u>	<u>46,597</u>
<b>Current assets</b>			
Trade & other receivables	25	52,866	60,984
Cash and cash equivalents	26	51,487	9,556
<b>Total current assets</b>		<u>104,353</u>	<u>70,540</u>
<b>Total assets</b>		<u>151,221</u>	<u>117,137</u>

On behalf of the Board

  
 Chris Samuel  
 19 March 2013

Company Registration Number: SC101825

# IGNIS INVESTMENT SERVICES LIMITED

## Statement of cash flows

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
<b>Cash flows from operating activities</b>			
Cash generated by operations	27	49,632	10,266
<b>Net cash flows from operating activities</b>		<u>49,632</u>	<u>10,266</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,192)	(7,143)
Purchase of intangibles		(902)	(603)
Disposal of investments in associates		250	-
Purchase of financial assets	22	(16,342)	(15,019)
Disposal of financial assets	22	16,342	261
Interest received		60	50
Discontinued Operations	11	12,091	-
<b>Net cash flows from investing activities</b>		<u>9,307</u>	<u>(22,454)</u>
<b>Cash flows from financing activities</b>			
Subordinated loan paid		-	(1,500)
Ordinary share dividends paid		(17,000)	(18,800)
Interest paid		(8)	(18)
<b>Net cash flows from financing activities</b>		<u>(17,008)</u>	<u>(20,318)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>41,931</u>	<u>(32,506)</u>
Cash and cash equivalents at the beginning of the year		9,556	42,062
<b>Cash and cash equivalents at the end of the year</b>	26	<u>51,487</u>	<u>9,556</u>

# **IGNIS INVESTMENT SERVICES LIMITED**

## **Statement of changes in equity** for the year ended 31 December 2012

	Share capital (note 12) £000	Share premium (note 13) £000	Capital contribution reserve (note 14) £000	Retained earnings £000	Total £000
<b>At 1 January 2012</b>	580	870	50,800	18,989	71,239
Profit for the year	-	-	-	26,549	26,549
<b>Total comprehensive income for the year</b>	580	870	50,800	45,538	97,788
Dividends paid on ordinary shares	-	-	-	(17,000)	(17,000)
<b>At 31 December 2012</b>	580	870	50,800	28,538	80,788

	Share capital (note 12) £000	Share premium (note 13) £000	Capital contribution reserve (note 14) £000	Retained earnings £000	Total £000
<b>At 1 January 2011</b>	580	870	50,800	7,472	59,722
Profit for the year	-	-	-	30,317	30,317
<b>Total comprehensive income for the year</b>	580	870	50,800	37,789	90,039
Dividends paid on ordinary shares	-	-	-	(18,800)	(18,800)
<b>At 31 December 2011</b>	580	870	50,800	18,989	71,239

**Notes to the financial statements**

**1. Accounting policies**

**(a) Basis of preparation**

The financial statements have been prepared on a historical cost basis except for investments in seed capital, which are valued at fair value at the period end.

The financial statements are presented in sterling (£) rounded to the nearest £000 except where otherwise stated.

The financial statements are separate financial statements and the exemption in paragraph 10 of IAS 27 *Consolidated and Separate Financial Statements* and section 401 of the Companies Act 2006 have been used not to present consolidated financial statements.

**Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

**(b) Critical accounting estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the determination of the fair value of financial assets, impairment of financial assets, impairment of investments in subsidiaries, impairment tests for intangible assets, amortisation period for intangibles, and income taxes.

**Fair value of financial assets**

The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policy (k). All financial assets are categorised as Level 1 financial instruments and do not involve estimates.

**Impairment of financial assets**

The Company assesses at the end of each reporting period whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

**Impairment of investments in subsidiaries and associates**

The Company assesses at the end of each reporting period whether objective evidence of impairment exists for investments in subsidiaries and associates. Impairments are measured at the difference between the carrying value of the investment and its estimated recoverable amount. Impairments are recognised in the statement of comprehensive income in the period in which they occur. The Company's policies in relation to impairment testing of investments in subsidiaries and associates are detailed in accounting policy (h) and (i) respectively.

**Impairment of intangible assets**

The Company assesses at the end of each reporting period whether objective evidence of impairment exists for intangible assets. Impairments are measured at the difference between the carrying value of a particular asset and its recoverable amount. Impairments are recognised in the statement of comprehensive income in the period in which they occur. For further details please refer to accounting policy (f).

**Amortisation period of intangible assets**

All intangible assets have finite lives and are amortised on a straight line basis over their useful economic lives. Intangible assets are assessed for impairment whenever there is an indication that the recoverable amount of the intangible asset is less than its carrying value. For further details please refer to accounting policy (f).

**Income taxes**

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. Any judgements made, and uncertainties considered, in arriving at the carrying values of deferred tax assets and liabilities in the financial statements are discussed in note 18.

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (c).

**(c) Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of financial position together with adjustments to tax payable in respect of previous years.

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(d) Foreign currency transactions**

Assets and liabilities denominated in foreign currencies are translated into sterling at the closing rate at the period end. Income and expenses denominated in foreign currencies are translated at the prevailing rate at the date of the transaction. Foreign exchange 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 statement of comprehensive income.

**(e) Employee benefits**

Employees of the Company are members of the Phoenix Group Pension Scheme which now comprises only a defined contribution section; the defined benefit section was closed for future accrual on 30 June 2011. Please refer to note 19 for further details.

**Defined contribution pension plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

**Defined benefit scheme**

The Company did not make any contributions to the defined benefit scheme and all costs were borne by Pearl Group Holdings (No 1) Limited, a fellow Phoenix Group company. For details of the closure of the defined benefit scheme please refer to note 19.

The assets of the defined benefit section (the scheme) are held in a trustee administered fund. An independent actuary carries out a valuation of the scheme every three years and contributions to the scheme are paid in accordance with his recommendations after consultation with the sponsoring employers.

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## IGNIS INVESTMENT SERVICES LIMITED

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### (f) Intangible assets

Intangible assets held by the Company are split into three classes and accounted for as follows:

#### (i) *Investment management contracts*

Investment management contracts were acquired as part of the purchase of the business and net assets of Ignis Investment Management Limited (formerly Axial Investment Management Limited). They are measured on initial recognition at cost. Following initial recognition, the investment management contracts are carried at cost less any accumulated amortisation and accumulated impairment loss. Impairment reviews are conducted when management are aware of signs of impairment with any impairment loss being taken to the statement of comprehensive income. Amortisation is charged on a straight-line basis, to administrative expenses in the statement of comprehensive income, over the estimated useful life of the asset which is ten years. The majority of the value attributed to the investment management agreements relates to the first 10 years and as the majority of agreements are in run-off, an estimated useful life of 10 years seems reasonable.

#### (ii) *Computer software*

Computer software licences acquired are capitalised on the basis of costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the creation of identifiable and unique software products controlled by the Company, which are expected to generate future economic benefits, are recognised as intangible assets. Direct costs include software development and associated contractor costs. Computer software is carried at cost less any accumulated depreciation and accumulated impairment. Amortisation is charged on a straight-line basis, to administrative expenses in the statement of comprehensive income, over the estimated useful life of the asset which is three years.

#### (iii) *Product development expenditure*

Costs directly associated with external product development expenditure, relating to individual projects, are recognised as intangible assets if they are identifiable, unique and expected to generate future economic benefits. Product development expenditure is carried at cost less any accumulated depreciation and accumulated impairment. Amortisation is charged on a straight-line basis, to administrative expenses in the statement of comprehensive income, over the estimated useful life of the asset which is three years.

### (g) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation. Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives. The useful lives of plant and equipment have been taken as follows: computer equipment three years, equipment and fittings ten years.

### (h) Investment in subsidiaries

Investments in shares in subsidiaries held for strategic purposes are carried in the statement of financial position at cost less impairment.

The Company assesses whether objective evidence of impairment exists. Evidence of impairment is obtained by comparing the carrying value of the investment in the subsidiary with the estimate of the recoverable amount of the subsidiary.

#### (i) *Investments in associates*

Investments in associates are accounted for under IAS 27 *Consolidated and Separate Financial Statements* at cost less impairment, rather than under IAS 28 *Interests in Associates* and the equity method, because separate financial statements are prepared for the entities.

The Company assesses whether objective evidence of impairment exists. Evidence of impairment is obtained by comparing the carrying value of the investment in the subsidiary with the estimate of the recoverable amount of the subsidiary.

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

Cash and cash equivalents comprises cash balances held with at least BBB+ rated banks (Standard and Poor's rating).

**(k) Financial Assets**

The company classified its investments as financial assets at fair value through profit and loss and all such assets were designated at fair value through profit and loss on the transition to IFRS. Financial assets held by the Company relate to seed capital for related funds managed by the Company (see note 22 for further details).

The assets are recognised initially at fair value and transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of comprehensive income. The assets are derecognised when the rights to receive cash flows have expired or the entity has transferred substantially all the risk and rewards of ownership.

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

**Fair value**

For holdings relating to seed capital, fair value is determined by reference to published bid-values.

**(l) Operating lease payments**

Operating lease payments are recognised in the statement of comprehensive income as an expense on a straight line basis over the lease term. Operating leases are discussed in more detail in note 31.

**(m) Provisions and contingent liabilities**

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Company has a present legal or constructive obligation, as a result of a past event, but it is not probable that there will be an outflow of resources to settle the obligation or the amount cannot be reliably estimated, this is disclosed as a contingent liability.

**(n) Dividends**

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

**(o) Income recognition**

Income is derived primarily from business transacted in the UK. Income is recognised as follows:

**(i) Management fees**

Fund management fees (non-performance related) are recognised as the services are provided. Income is measured at the fair value of the consideration received or receivable.

**(ii) Service fees**

Service fees (non-performance related) are recognised as the services are provided. Income is measured at the fair value of the consideration received or receivable.

**(iii) Performance fees**

Performance fees are calculated by reference to the appreciation in the net asset value of the relevant fund in comparison to benchmark during the performance period. Performance fees are only recognised once they can be measured reliably, at interim and the reporting period end, and it is probable that economic benefit will flow to the Company.

**(iv) Interest income**

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method.

**(v) Other fee income**

All other fee income (including income from stock lending) is recognised as the services are provided based on the fair value of the consideration received or receivable.

**(p) Share capital**

**Ordinary share capital**

The Company has issued ordinary shares which are classified as equity.

**(q) Share premium**

The share premium account includes any excess contribution received on the initial issuing of the share capital over nominal value. Incremental costs directly attributable to the issue of new share are shown in equity as a deduction from the share premium account.

**(r) Capital contribution reserve**

Capital contributions received by the Company and which contain no agreement for their repayment are recognised directly in the statement of changes in equity as a distributable reserve.

**(s) Events after the reporting period**

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

**2. Financial Information**

The financial statements for the year ended 31 December 2012, set out on pages 8 to 35, were authorised by the Board of Directors for issue on 19 March 2013.

In preparing the financial statements the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU. None of these have a material effect on the results of the Company.

- **Deferred tax – Recovery of Underlying Assets (Amendments to IAS 12) (2012).** This provides a practical approach to the measurement of deferred tax liabilities and assets when investment property is measured at fair value, according to whether the entity expects to recover an asset by using or selling it.
- **Disclosure – Transfer of Financial Assets (Amendments to IFRS 7) (2012).** This revises the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.

The IASB has issued the following standards, interpretations and amendments which, subject to adoption for use by the EU, apply from the dates shown. The Company has decided not to early adopt any of these standards, interpretations or amendments where this is permitted. The impact on the Company of adopting them is subject to evaluation:

- **IFRS 9 Financial Instruments (2015).** This is the first two parts of a replacement standard for IAS 39 *Financial Instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets and financial liabilities, including some hybrid contracts.
- **IFRS 11 Joint Arrangements (2013)** establishes principles for financial reporting by parties to a joint arrangement.
- **IFRS 13 Fair Value Measurement (2013)** defines fair value and sets out in a single IFRS a framework for measuring fair value.
- **IAS 27 Separate Financial Statements (Revised) (2013).** IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.
- **IAS 28 Investments in Associates and Joint Ventures (Revised) (2013).** This standard supersedes IAS 28 *Investments in Associates* and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- **Annual Improvements to IFRS 2009-2011 cycle (2013).** This makes a number of minor improvements to existing standards and interpretations.



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## IGNIS INVESTMENT SERVICES LIMITED

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- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (2013).

In addition, the following standards, interpretations and amendments have been issued but are not currently relevant to the Company:

- IFRS 10 *Consolidated Financial Statements* (2013) provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.
- Investment Entities (Amendment to IFRS 10) (2013).
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1) (2012).
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (2013).
- Government Loans (Amendments to IFRS 1) (2013).
- IFRS 12 *Disclosure of Interests in Other Entities* (2013) combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.
- IAS 19 *Employee Benefits* (Amendment) (2013). The IASB has issued numerous amendments to IAS 19.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (2013).

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**IGNIS INVESTMENT SERVICES LIMITED**

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**3. Fees and other income**

	2012	2011
	£000	£000
Fund management fees	77,082	71,310
Service fees	5,692	6,654
Performance fees	28,770	34,004
Portfolio fee	2,187	2,166
Other fees	593	621
Income from associates	345	1,394
Income from Castle Hill	742	2,140
Income from stock lending	9,953	7,353
	<u>125,364</u>	<u>125,642</u>

**4. Net investment income**

	2012	2011
	£000	£000
Fair value gain	594	755
Foreign exchange gain	2	(88)
Interest income	60	50
	<u>656</u>	<u>717</u>

The fair value and foreign exchange gains relate to the Company's seed capital investments held throughout the year; please refer to note 22 for further details.

**5. Administrative expenses**

	2012	2011
	£000	£000
Employee costs (see note 6)	49,568	49,065
Other administration expenses	34,268	26,351
Amortisation of intangible assets	2,233	2,016
Depreciation of property, plant and equipment	2,594	3,089
Non-recurring administrative expenses:		
Staff	856	1,810
Non -staff	-	454
	<u>89,519</u>	<u>82,785</u>

The Company incurred costs of £10,772,000 (2011: £13,939,000) for Ignis Fund Managers Limited, a fellow Group entity. These costs are recharged in full.

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**IGNIS INVESTMENT SERVICES LIMITED**

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**6. Staff costs**

	2012 £000	2011 £000
Wages and salaries	33,499	35,903
Bonus	17,000	19,577
Social security contributions	3,567	3,634
Defined contribution pension (ex defined benefit)	1,131	1,337
Other pension	2,222	1,524
	<u>57,419</u>	<u>61,975</u>
Staff costs recharged to Ignis Fund Managers Limited, a fellow Group entity	(5,294)	(6,317)
Staff costs attributable to discontinued operations	<u>(2,557)</u>	<u>(6,593)</u>
Net staff costs	<u>49,568</u>	<u>49,065</u>

	2012 Number	2011 Number
Average number of persons employed	<u>456</u>	<u>551</u>
Number of employees allocated to Ignis Fund Managers Limited, a fellow Group entity	<u>86</u>	<u>124</u>

The average number of employees was made up as follows:

	2012 Number	2011 Number
Executive and Governance	26	28
Investment Management	138	141
Sales and Marketing	66	75
Support Services	226	307
	<u>456</u>	<u>551</u>

**IGNIS INVESTMENT SERVICES LIMITED**

**7. Directors' remuneration**

	2012	2011
	£000	£000
Salaries and other short term benefits	2,916	3,287
Termination benefits	<u>949</u>	<u>286</u>
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	<u>3,865</u>	<u>3,573</u>
Post-employment benefits	<u>163</u>	<u>104</u>
Amounts provided for Directors under phantom share-based payment schemes	<u>2,887</u>	<u>457</u>
Number of Directors who:		
- are members of a defined benefit pension scheme	<u>-</u>	<u>-</u>
	2012	2011
	£000	£000
Highest paid Director's remuneration:		
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	<u>483</u>	<u>801</u>
Termination benefits	<u>-</u>	<u>-</u>
Remuneration under long-term incentive scheme	<u>1,473</u>	<u>397</u>
Total pension contributions	<u>-</u>	<u>22</u>

**8. Auditors' remuneration**

The remuneration of the auditors of the Company in respect of services supplied to entities included in the financial statements was £259,000 (2011: £498,000).

	2012	2011
	£000	£000
Audit of the financial statements	71	65
Other services provided	<u>188</u>	<u>433</u>
	<u>259</u>	<u>498</u>

The remuneration receivable by the Company's auditors for auditing the 2012 accounts was paid by Phoenix Group Management Services Limited, a fellow Group entity and recharged to the Company.

**9. Finance costs**

	2012	2011
	£000	£000
Interest expense		
On subordinated loan	-	11
Bank charges	<u>8</u>	<u>7</u>
	<u>8</u>	<u>18</u>

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**IGNIS INVESTMENT SERVICES LIMITED**

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**10. Tax charge**

	2012 £000	2011 £000
Current tax:		
UK Corporation tax	11,578	12,463
Adjustment in respect of prior years	<u>(549)</u>	<u>184</u>
	11,029	12,647
Deferred tax:		
Restatement of opening at 23% (2011: 25%)	(389)	(296)
Provisions and other temporary differences	1,303	284
Accelerated capital allowances	<u>747</u>	<u>881</u>
	1,661	869
 Total tax charge	 <u>9,368</u>	 <u>11,778</u>

***Reconciliation of tax charge***

	2012 £000	2011 £000
Profit / (loss) before tax from continuing operations	36,493	43,556
Profit / (loss) before tax from discontinued operations	<u>(576)</u>	<u>(1,461)</u>
Total profit before tax	35,917	42,095
 Tax at standard UK rate of 24.5% (2011: 26.5%)	8,799	11,155
Disallowable expenses	595	73
Adjustment to tax charge in respect of prior years	(549)	184
Rate movement of deferred tax asset	<u>523</u>	<u>366</u>
Total tax charge for the year	<u>9,368</u>	<u>11,778</u>
 Tax attributable to continuing operations	9,509	12,165
Tax attributable to discontinued operations	<u>(141)</u>	<u>(387)</u>
	<u>9,368</u>	<u>11,778</u>

The tax is paid to the fellow Group entity, Impala Holdings Limited, for group relief.

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**IGNIS INVESTMENT SERVICES LIMITED**

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**11. Discontinued Operations**

On 28 May 2012, Ignis sold part of its business to HSBC. The business comprised investment operations, fund accounting and related activities. This sale will provide many benefits for both Ignis and its clients. HSBC's platform will enhance Ignis' scalability, will improve client service, reduce operational risk and will allow greater flexibility for Ignis as it focuses solely on investment management and distribution.

The proceeds from the sale were fully absorbed by the costs incurred in selling the business and no gain or loss is recorded in the Statement of Comprehensive Income. The revenue, expenses and cash flows relating to this discontinued operation and its disposal are shown below.

a) analysis of the result of the discontinued operations and the result recognised on disposal of the operations

	2012 £000	2011 £000
Revenue	2,173	5,601
Costs	<u>(2,749)</u>	<u>(7,062)</u>
Loss before tax from discontinued operations	(576)	(1,461)
Tax	141	387
Loss after tax of discontinued operations	<u>(435)</u>	<u>(1,074)</u>
Gain / loss before tax on disposal of discontinued operation	-	-
Tax	-	-
Gain / Loss after tax on disposal of discontinued operation	<u>-</u>	<u>-</u>
Loss for the year from a discontinued operation	<u>(435)</u>	<u>(1,074)</u>

b) analysis of the cash flows related to the discontinued operations

	2012 £000	2011 £000
Operating cash flows	4,272	(5,592)
Investing cash flows	12,091	-
Financing cash flows	-	-
Net Cash Flows	<u>16,363</u>	<u>(5,592)</u>

**12. Share capital**

The Company's Articles of Association contain a restriction, for five years from December 2008, on the number of shares that may be allotted up to the level of authorised share capital.

	2012 £000	2011 £000
Authorised: 10,000,000 (2011: 10,000,000) ordinary shares of £0.1 each	<u>1,000</u>	<u>1,000</u>
Issued and fully paid: 5,801,000 (2011: 5,801,000) ordinary shares of £0.1 each	<u>580</u>	<u>580</u>

The holders of the ordinary shares are entitled to one vote per share on matters to be voted on by owners and to receive such dividends, if any, as may be declared by the Board of Directors in its discretion out of legally available profits.

**IGNIS INVESTMENT SERVICES LIMITED**

**13. Share premium**

	2012 £000	2011 £000
At 1 January	870	870
At 31 December	<u>870</u>	<u>870</u>

**14. Capital contribution reserve**

	2012 £000	2011 £000
Brought forward as at 1 January	50,800	50,800
At 31 December	<u>50,800</u>	<u>50,800</u>

On 1 January 2010 the Company received a capital contribution of £50,800,000 from Ignis Asset Management Limited, the immediate parent entity, in the form of £25,400,000 in cash and £25,400,000 in shares of Ignis Investment Management Limited. The capital contribution of shares is not distributable by the Company as qualifying consideration was not received. However, the capital contribution of cash is distributable as qualifying consideration was received. The ultimate source of the capital contribution was Impala Holdings Limited who transferred the balance, via Ignis Asset Management Limited.

**15. Dividends on ordinary shares**

	2012 £000	2011 £000
Final dividend for prior year at 293p per share (2011: 128p per share)	17,000	7,400
First interim dividend in current year at Nil per share (2011: 197p per share)	-	11,400
	<u>17,000</u>	<u>18,800</u>

**16. Provisions**

	Long Term Incentive Plans £000	Onerous Lease £000	Total £000
At 1 January 2012	8,035	-	8,035
Additions in the year	5,930	9,400	15,330
Utilised during the year	(558)	-	(558)
Effect of discounting and of changes in the discount rate	-	-	-
At 31 December 2012	<u>13,407</u>	<u>9,400</u>	<u>22,807</u>

**Analysis of Provisions**

	Long Term Incentive Plans £000	Onerous Lease £000	Total £000
Current	3,078	1,121	4,199
Non current	10,329	8,279	18,608
At 31 December 2012	<u>13,407</u>	<u>9,400</u>	<u>22,807</u>

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## IGNIS INVESTMENT SERVICES LIMITED

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2 Long Term Incentive Plans were in operation as at 31 December 2012. The details of these plans are as follows:

**(a) Long Term Equity Plan 2010 (LTEP)**

This Ignis Long Term Phantom Equity Plan was approved by the Remuneration Committee of Phoenix Group Holdings on 28 May 2010, amended on both 27 March 2011 and 10 August 2011. Initial awards were granted over a three year period, however following the amendment on 10 August 2011 awards may be granted over different time periods in particular where awards are granted to new hires in substitution of forfeit deferred compensation (in line with the FSA Code on Remuneration). Awards under the plan may be made to any employee of Ignis Investment Services Limited. Participants were granted awards totalling £5,093,152 (2011: £5,123,000) based on a Company valuation of £448,511,688 (2011: £431,380,000). The Company valuation is calculated as ten times the pre tax profit of the Company less adjustments as specified in the plan rules. At the end of the vesting period a cash award dependent on the growth in the value of the Company will be paid to participants reflecting any growth or decline in the notional value of the Company.

**(b) Long Term Option Plan 2010 (LTOP)**

The Ignis Long Term Phantom Option Plan was approved by the Remuneration Committee of Phoenix Group Holdings on 28 May 2010 and amended on 27 May 2011. Awards under the plan may be made to any employee of Ignis Investment Services Ltd. Phantom options may be granted over 11% of Ignis's 375,000,000 notional shares. Awards are cash settled with one third of the initial award vesting (and subject to automatic exercise) on the fourth, fifth and sixth anniversaries of the date on which the award was granted. Details of notional shares during the year are summarised below:

	2012	2011
Total number of notional shares	375,000,000	375,000,000
Exercise price per notional share	£1.00/£1.16	£1.00/£1.15
% notional shares granted	1.25%	6.00%
% notional shares lapsed	(1.75%)	(1.40%)
% notional shares exercised	0	(0.35%)
Number of notional shares granted	4,687,500	22,500,000
Number of notional shares exercised	0	(1,312,500)
Number of notional shares lapsed	(6,562,500)	(5,250,000)

The provision in respect of each award is calculated by aggregating in each case in respect of one third of the award, 25% per annum in respect of each calendar year from the date of grant for four years, 20% per annum in respect of each calendar year from the date of grant for five years and 16.7% per annum in respect of each calendar year from the date of grant for six years, together multiplied by the increase in the notional value of a share above the exercise price less any accrual in respect of those same awards in any prior year.

**Onerous Lease**

The sale of investment operations to HSBC results in a proportion of the space leased in Bothwell Street, Glasgow becoming vacant during 2013.

Accordingly, provision has been made for an onerous lease, reflecting the rent and occupancy costs expected to be incurred from the date the space becomes vacant to the next lease break point (December 2017).

Rent and occupancy costs provided reflect actual costs incurred in 2012; however, future costs incurred in this regard may differ from the 2012 actuals.

The provision will be released on a straight line basis over the period from 2013 to 2017.



# IGNIS INVESTMENT SERVICES LIMITED

## 17. Trade and other payables

	2012	2011
	£000	£000
Accruals	30,588	26,012
Other taxes and social security costs	1,373	1,725
Other payables	490	1,748
Amounts due to fellow Group entities	15,175	8,378
	<u>47,626</u>	<u>37,863</u>

## 18. Tax assets and liabilities

	2012	2011
	£000	£000
Deferred tax assets	6,521	4,861
Total tax assets	<u>6,521</u>	<u>4,861</u>

### *Deferred tax assets comprise:*

	2012	2011
	£000	£000
Provisions and other temporary differences	3,442	2,195
Accelerated capital allowances	3,079	2,666
Deferred tax assets	<u>6,521</u>	<u>4,861</u>

### *Movements in deferred tax assets comprise:*

	2012	2011
	£000	£000
Brought forward as at 1 January	4,861	3,992
Acquired as at 1 January	-	-
Amounts credited to the statement of comprehensive income	1,660	869
At 31 December	<u>6,521</u>	<u>4,861</u>

Deferred income tax assets are recognised because the current profitability of the Company indicates that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised.

## 19. Pension scheme

The majority of the employees of Ignis Investment Services Limited are members of the Phoenix Group Life Pension Scheme.

Ignis Investment Services Limited is a participating employer in the Phoenix Group Life Pension Scheme. The scheme comprises both a defined benefit and a defined contribution section. The defined benefit section was closed to future accrual by active members with effect from 1 July 2011. The Company introduced an enhanced contribution rate with effect from 1 July 2011 for former members of the defined benefit section.

The assets of the defined benefit section are held in a trustee administered fund. An independent actuary carries out a valuation of the defined benefit scheme every three years and contributions to the defined benefit scheme are paid in accordance with the funding agreement agreed between the trustee and the sponsoring employer.

Until 30 June 2011, in accordance with the requirements of IAS 19 Employee Benefits the net defined benefit cost was borne by the sponsoring employer, Pearl Group Holdings (No.1) Limited, a fellow subsidiary company and no charge was made to Ignis Investment Services Limited. Ignis Investment Services Limited did not make any contributions to the defined benefit scheme.

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**IGNIS INVESTMENT SERVICES LIMITED**

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**20. Investment in subsidiaries**

	2012 £000	2011 £000
<b>Cost</b>		
At 1 January	25,488	25,487
Additions	-	1
Disposals	-	-
At 31 December	<u>25,488</u>	<u>25,488</u>
<b>Impairment</b>		
At 1 January	22,384	22,384
Impairment charge	-	-
On disposals	-	-
At 31 December	<u>22,384</u>	<u>22,384</u>
<b>Carrying amount</b>		
At 31 December	<u>3,104</u>	<u>3,104</u>

The principal subsidiaries of the Company are as follows:

	Country of incorporation and principal place of operation	Class of shares held	Percentage Ownership
Ignis Investment Management Limited	UK	Ordinary shares of £1	100%
Ignis Agency Management Limited	Republic of Ireland	Ordinary shares of €1	100%
IIML Management Limited	USA	Common stock, no par value	100%
Ignis Select General Partner Incorporation	USA	Common stock of \$0.01	100%
{Castle Hill Asset Management LLC – subsidiary of IIML Management Limited}	USA	-	{40%}

During 2009 Axial Investment Management Limited was purchased by Impala Holdings Limited. The newly purchased company was subsequently renamed Ignis Investment Management Limited. On 1 January 2010 the shares in Ignis Investment Management Limited were transferred to the Company, via Ignis Asset Management Limited, who then purchased the business and net assets of Ignis Investment Management Limited for the fair value of £25,400,000. The value of Ignis Investment Management Limited was subsequently written down to £3,016,000 as a result of dividends paid to the parent company (see note 15).

As part of the purchase of the business and net assets of Ignis Investment Management Limited, in 2010 the full share holding of IIML Management Limited was assigned to the Company. This subsidiary holds the Company's interest in the strategic partnership with Castle Hill Asset Management LLC. The Company's interest decreased from 49% to 40% with effect from 1 January 2012. Castle Hill Asset Management LLC is a specialist credit investment manager operating in both the US and UK.

During 2011 the Company subscribed for 100 shares in Ignis Select General Partner Incorporation; this new subsidiary acts as the General Partner of the new Ignis Select International Value Fund L.P. and Manager to the Ignis Select Master Group Trust that will be used to accept Employee Retirement Income Security Act 1974 (ERISA) compliant investments in North America.

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## 21. Investment in associates

	2012 £000	2011 £000
<b>Cost</b>		
At 1 January	750	750
Additions	-	-
Disposals	(250)	-
At 31 December	500	750
<b>Impairment</b>		
At 1 January	-	-
Impairment charge	-	-
On disposals	-	-
At 31 December	-	-
<b>Carrying amount</b>		
At 31 December	500	750

The principal associates of the Company are as follows:

	Country of incorporation and principal place of operation	Percentage Ownership
Argonaut Capital Partners LLP	UK	40%
Cartesian Capital Partners LLP	UK	50%
Hexam Capital Partners LLP	UK	35%

The member's agreement for Argonaut Capital Partners LLP was amended and restated effective from 1 September 2011, with implementation in three phases throughout 2012. The Company's equity stake reduced from 50% to 40% with effect from 14 July 2012. The new arrangement transferred the majority of the risks and rewards of the partnership to the individual members, with the Company receiving a reduction in profit share.

The members' agreement for Cartesian Capital Partners LLP was amended and restated effective from 5 October 2012, with implementation in three phases throughout 2012 and 2013. This has not impacted the percentage ownership during 2012, but will result in a reduction in the Company's ownership in 2013 to 0.01% and will remain there until 2016. The Company's revenue share reduced to 40% on signing of the new members' agreement and this will decline to 0% in 2013. The new arrangement will transfer the risks and rewards of the partnership to the individual members.

The members' agreement for Hexam Capital Partners LLP was renegotiated with effect from 1 July 2010. As a result the Company received repayment of capital of £250,000 in September 2012. The Company's percentage ownership remains at 35% (2011: 35%). The new arrangement transfers the majority of the risks and rewards of the partnership to the individual members, with the Company receiving a reduction in profit share.

As the associate's year ends are non-contemporaneous, financial information summarised below is based on the most recent audited and signed financial statements.

	Year End Date	Assets £000	Liabilities £000	Revenue £000	Profit* £000
Argonaut Capital Partners LLP	30 June 2012	535	(180)	3,138	2,932
Cartesian Capital Partners LLP	31 December 2011	345	(95)	1,931	1,931
Hexam Capital Partners LLP	30 September 2012	2,962	(549)	5,222	2,759

\*Profit before members' distributions

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**22. Financial Assets**

	2012	2011
	£000	£000
<b>Seed capital investments at fair value</b>		
At 1 January	15,695	270
Additions	16,342	15,019
Fair value gain	672	755
Foreign exchange loss	(78)	(88)
Disposals	<u>(16,342)</u>	<u>(261)</u>
At 31 December	<u>16,289</u>	<u>15,695</u>

Financial asset additions during the year related to seed money for the new Absolute Return Credit Fund. This Ignis Luxembourg domiciled SICAV launched on 31 July 2012. Disposals during the year related to disposal of seed capital investment in Absolute Return Government Bond Fund. All financial assets are classified as level 1, in accordance with the IFRS 7 definitions (see note 1). The fair value of the financial assets is not materially different to that of their carrying amount. The seed capital investment in the Absolute Return Credit Fund amounts to 33% of the total capital of the fund.

**23. Intangible assets**

	Investment Management Contracts £000	Computer Software £000	Total £000
<b>Cost</b>			
At 1 January 2012	15,798	1,625	17,423
Additions	-	902	902
Disposals	<u>-</u>	<u>(160)</u>	<u>(160)</u>
At 31 December 2012	<u>15,798</u>	<u>2,367</u>	<u>18,165</u>
<b>Amortisation</b>			
At 1 January 2012	3,160	568	3,728
Amortisation charge for the year	1,580	653	2,233
On disposals	<u>-</u>	<u>(160)</u>	<u>(160)</u>
At 31 December 2012	<u>4,740</u>	<u>1,061</u>	<u>5,801</u>
<b>Carrying amount</b>			
At 31 December 2012	<u>11,058</u>	<u>1,306</u>	<u>12,364</u>

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	Investment Management Contracts £000	Computer Software £000	Total £000
<b>Cost</b>			
At 1 January 2011	15,798	2,941	18,739
Additions	-	603	603
Disposals	-	(1,919)	(1,919)
At 31 December 2011	<u>15,798</u>	<u>1,625</u>	<u>17,423</u>
<b>Amortisation</b>			
At 1 January 2011	1,580	1,783	3,363
Amortisation charge for the year	1,580	436	2,016
On disposals	-	(1,651)	(1,651)
At 31 December 2011	<u>3,160</u>	<u>568</u>	<u>3,728</u>
<b>Carrying amount</b>			
At 31 December 2011	<u>12,638</u>	<u>1,057</u>	<u>13,695</u>

The intangible asset purchased on 1 January 2010 of £15,798,000 relates to the investment management contracts purchased from Ignis Investment Management Limited.

**24. Property, plant and equipment**

	Computer equipment £000	Equipment and fittings £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2012	5,029	6,377	11,406
Additions	2,127	65	2,192
Disposals	(448)	(12)	(460)
At 31 December 2012	<u>6,708</u>	<u>6,430</u>	<u>13,138</u>
<b>Depreciation</b>			
At 1 January 2012	1,839	1,075	2,914
Charge for the year	1,957	637	2,594
On disposals	(448)	(12)	(460)
At 31 December 2012	<u>3,348</u>	<u>1,700</u>	<u>5,048</u>
<b>Carrying amount</b>			
At 31 December 2012	<u>3,360</u>	<u>4,730</u>	<u>8,090</u>

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	Computer equipment £000	Equipment and fittings £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2011	5,523	5,005	10,528
Additions	2,703	4,440	7,143
Disposals	(3,197)	(3,068)	(6,265)
At 31 December 2011	<u>5,029</u>	<u>6,377</u>	<u>11,406</u>
<b>Depreciation</b>			
At 1 January 2011	2,608	2,758	5,366
Charge for the year	2,428	661	3,089
On disposals	(3,197)	(2,344)	(5,541)
At 31 December 2011	<u>1,839</u>	<u>1,075</u>	<u>2,914</u>
<b>Carrying amount</b>			
At 31 December 2011	<u>3,190</u>	<u>5,302</u>	<u>8,492</u>

As at 31 December 2012 the Company had no capital commitments (2011: nil). The fair value of the property, plant and equipment is not materially different to that of its carrying amount

**25. Trade and other receivables**

	2012 £000	2011 £000
Trade receivables	283	7,360
Accrued income and prepayments	6,279	17,272
Amount due from fellow Group entities	44,910	34,817
Amount due from associates	1,394	1,535
	<u>52,866</u>	<u>60,984</u>

**26. Cash and cash equivalents**

	2012 £000	2011 £000
Bank and cash balances	<u>51,487</u>	<u>9,556</u>
	<u>51,487</u>	<u>9,556</u>

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**IGNIS INVESTMENT SERVICES LIMITED**

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**27. Cash flows**

	2012 £000	2011 £000
Profit for the year before tax from continuing operations	36,493	43,556
Loss for the year before tax from discontinued operations	(576)	(1,461)
Total Profit for the year before tax	<u>35,917</u>	<u>42,095</u>
Non operating cash movements in profit for the year before tax		
Depreciation of property, plant and equipment	2,594	3,089
Amortisation of intangible assets	2,233	2,016
Loss on disposal of property, plant and equipment	-	993
Movement in provisions	5,372	861
Movement in deferred income	-	(4,166)
Finance cost	8	18
Finance income	(60)	(50)
Fair value gain	(594)	(755)
Foreign exchange (gain) / loss	(2)	88
Impairment of subsidiary	-	-
Ordinary share dividend from Ignis Investment Management Limited	-	-
Changes in operating assets and liabilities		
(Increase)/decrease in trade and other receivables	6,461	(13,136)
Increase/(decrease) in trade and other payables	7,071	(9,008)
(Increase)/decrease in investments	-	(1)
Current tax treated as group relief	(9,368)	(11,778)
Cash generated by operations	<u>49,632</u>	<u>10,266</u>

**28. Capital management**

The Ignis Capital Management Policy involves the close monitoring of capital. No dividend payments have been made or would be made that would result in a breach of regulatory requirements. Any decisions on dividends are taken with reference to the Capital Management Policy. The capital held by the Company relates to share capital of £580,000, share premium reserve of £870,000, capital contribution reserve of £50,800,000 and 2012 retained earnings of £28,538,000. For details of movements in capital please refer to the statement of changes in equity.

There were no changes to the Group's approach to capital management during the year.

During the year the Company complied with all external capital regulatory requirements.

Refer to note 29 for details of regulatory capital risks.

**29. Risk management**

The Ignis Risk Management Framework sets out the high level arrangements for risk management, control and assurance within Ignis Asset Management Limited, the immediate parent and its subsidiaries. It is designed to provide a structured approach for identifying, assessing, controlling and monitoring financial and non-financial risk within Ignis Asset Management Group.

The Company has an Audit, Risk and Compliance Committee comprising the Executive Directors, the Chief Risk Officer, the Chief Finance Officer and senior managers from Risk, Compliance and Internal Audit which meets monthly with the Chief Risk Officer as Chairman of the Committee. The Committee's remit covers operational and strategic risk. In addition it has taken responsibility for review of business continuity, data security, insurance and counterparty risk reporting. The Committee has discussed and analysed throughout 2012 the risks facing the business, based on the potential impact and the perceived likelihood of occurrence.

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The Company will strive to manage and mitigate the principal risks facing the organisation and is committed to maintaining a strong compliant culture. The Company also believes it is critical to its success to accept a degree of business risk in a conscious and managed manner that does not threaten its compliant culture.

The Company's activities expose it to a variety of financial risks including certain aspects of credit risk, market risk and liquidity risk.

### Credit risk

Credit risk is the risk of loss resulting from the failure of a counterparty to perform its financial obligations or to perform them in a timely fashion. The Company holds no significant concentrations of credit risk, and cash is held with at least BBB+ rated banks (Standard and Poor's rating). As at 31 December 2012 no financial assets were past due or impaired (2011: £nil). The amount disclosed in the statement of financial position in respect of current assets of £104,353,000 (2011: £70,540,000) represents the Company's maximum exposure to credit risk.

### Market risk

Market risk represents the potential loss in value of portfolios and financial instruments of funds managed by the Company, caused by adverse movements in market variables which would impact on the level of revenue and profitability of the Company.

The Company performs stress testing as part of both the Annual Operating Plan process and our regulatory FSA requirements in relation to the ICAAP. The objective of the stress testing is to consider various scenarios and risk factors which affect the business, such as falls in market levels, decreases in third party sales, and loss of associates. Whilst it is difficult to reduce costs to protect margins, there are some variable costs which could be reduced in the short term and other non-critical support costs which could be reduced over a period of continued lower markets. A significant amount of the Company's funds under management are fixed interest stock (2012: 77%, 2011: 72%) and these are unaffected by market falls. If we applied 10% increase/decrease in AUM proportionately across our different channels of business then the impact on revenues would be £10.8m.

A material proportion of the Company's income is now derived from performance fees. However, management fee income has remained consistent; it is sufficient to cover ongoing costs and ensure an effective operating business, should Life Company fund performance fall.

The Company's principal transactions are carried out in pounds sterling and therefore its exposure to foreign exchange risk is limited. At 31 December 2012, balances in US Dollars amounted to £1,825,000 sterling equivalent (2011: £564,000), cash held in Swiss Francs amounted to £38,000 sterling equivalent (2011: £25,000) and cash held in Euros amounted to £131,000 sterling equivalent (2011: £113,000).

The Company also receives management fees denominated in Euros (sterling equivalent £4,255,000) from funds domiciled in Ireland and Luxembourg. These fees are received on a monthly basis and converted on receipt. The new seed capital investment in the Absolute Return Credit Fund is partially denominated in Euros; sterling equivalent £891,000.

As a result of the economic turmoil in the Euro zone, the Euro bank account is monitored on a daily basis and funds are maintained at a minimum level, sufficient to meet our obligations.

### Liquidity risk

Liquidity risk is defined as failure of the Company to maintain adequate levels of financial resources to enable it to meet its obligations as they fall due. The Company has an exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short term cash flow requirements. The Company's policy is to maintain sufficient cash deposits to meet obligations at all times.

The table below summaries the maturity profile of the Company's undiscounted financial liabilities and provisions:

	1 year or less or on demand	1-5 years	Greater than 5 years	Total
	£'000	£'000	£'000	£000
<b>2012</b>				
<b>Financial liabilities and provisions</b>				
Non-current provisions	-	18,608	-	18,608
Current provisions	4,199	-	-	4,199
Trade and other payables	47,626	-	-	47,626
<b>Total financial liabilities and provisions</b>	<b>51,825</b>	<b>18,608</b>	<b>-</b>	<b>70,433</b>



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	1 year or less or on demand £'000	1-5 years £'000	Greater than 5 years £'000	Total £000
<b>2011</b>				
<b>Financial liabilities and provisions</b>				
Non-current provisions	-	8,035	-	8,035
Current provisions	-	-	-	-
Trade and other payables	37,863	-	-	37,863
<b>Total financial liabilities and provisions</b>	<b>37,863</b>	<b>8,035</b>	<b>-</b>	<b>45,898</b>

### Regulatory Capital

The Company is a BIPRU €125k firm and as such its capital requirements are the greater of: the 'base capital' resource requirement; or the sum of its market and credit risk requirements; or its Fixed Overhead Requirement. The Tier 1 capital resources held during the year consisted of share capital of £580,000, share premium of £870,000 and 2012 audited earnings of £28,538,000.

The Company is a 100% owned subsidiary of Ignis Asset Management Limited which has a group policy of maintaining capital in excess of its consolidated regulatory requirement in the form of a capital planning buffer. During the year capital was maintained in excess of the consolidated regulatory requirement. The capital requirements of the Group are monitored on an ongoing basis to ensure that at any time there is always sufficient capital in place.

The Company is also a member of an insurance Group, the ultimate parent of which, Phoenix Group Holdings, is required to maintain group capital resources in excess of its group capital resources requirement (Group Capital Adequacy (GCA)) in accordance with the FSA Handbook for Insurers.

### 30. Pillar 3 disclosure

Under Pillar 3 of the Capital Requirements Directive (CRD), a firm is required to disclose information relating to a firm's capital, risk exposures and management practices. The relevant disclosures are made on the Ignis Corporate website.

### 31. Operating lease payments

Operating lease rentals charged within administrative expenses amounted to £2,797,000 (2011: £3,015,000).

The Company has commitments under non-cancellable operating leases as set out below:

	2012 £'000	2011 £'000
Not later than one year	3,306	3,238
Later than one year and no later than five years	13,149	12,887
Later than five years	4,197	7,256
	<u>20,652</u>	<u>23,381</u>

The principal operating lease commitments include:

A lease relating to 50 Bothwell Street, Glasgow which is currently occupied by the Company. The lease expires on 6 December 2022, but is subject to a tenant break option in December 2017. The current rental figure was set in December 2007 and it is based on current market value.

A lease relating to 150 Cheapside, London which is currently occupied by the London staff of the Company. The lease expires in August 2025 and has a break option in August 2020. The rent is based on current market values. There is a rent free period of 24 months for the 4<sup>th</sup> floor and 27 months for the 3<sup>rd</sup> floor. Rent reviews are scheduled for August 2015 and August 2020.

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A lease relating to 46 Melville Street which is currently occupied by Cartesian Capital Partners LLP, an associate of the Company. The lease is due to expire on 11 December 2013. The rental figure is based on current market value.

A lease relating to 10 Via Mazzini, Milan which is currently occupied by the Italian sales staff of the Company. The lease expires on 14 September 2017 and is subject to six months notice for termination by the tenant. The rent is based on current market values and is subject to annual rent reviews, linked to the Italian consumer price index.

### 32. Related party transactions

The Company enters into transactions with related parties in its normal course of business. These are at arm's length on normal commercial terms.

The Company's main related parties are its subsidiaries (see note 20), its associates (see note 21), its parent entities (see note 34), key management personnel (see note 7) and the life funds managed by the Company.

The Company pays management expenses on behalf of its fellow Group entity Ignis Fund Managers Limited who is then recharged the balance in full. This amounted to £10,772,000 in 2012 (2011: £13,939,000).

In the year ended 31 December 2012 the Company received no dividends from its subsidiaries (2011: £nil) and paid dividends to its parent company of £17,000,000 (2011: £18,800,000). In addition, the Company received no interest on loans to its subsidiaries (2011: £nil).

#### *Amounts paid to related parties*

	2012	2011
	£000	£000
Dividend paid to parent company	17,000	18,800
Interest paid on subordinated loan	-	11
	<u>17,000</u>	<u>18,811</u>

#### *Amounts received from related parties*

	2012	2011
	£000	£000
Income from associates	1,169	1,394
Income from Castle Hill	444	2,140
Management, performance and service fees from related funds	114,778	118,374
Portfolio fee from Ignis Fund Managers Limited, fellow Group entity	2,187	2,166
Other fees from related funds	-	87
	<u>118,578</u>	<u>124,161</u>

#### *Amounts due to related parties*

	2012	2011
	£000	£000
Rebates due to related funds	642	1,718
Amounts due to fellow Group entities	15,175	8,378
	<u>15,817</u>	<u>10,096</u>

#### *Amounts due from related parties*

	2012	2011
	£000	£000
Amounts due from associates relating to loans	1,394	1,535
Amounts due from fellow Group entities	44,910	34,817
	<u>46,304</u>	<u>36,352</u>

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***Transactions with related pension schemes***

<b><i>Management fee received from related pension schemes</i></b>	2012	2011
	£000	£000
PGL Scheme	2,439	2,436
Pearl Group Staff Pension Scheme	818	597
	<u>3,257</u>	<u>3,033</u>

<b><i>Amounts due from related pension schemes</i></b>	2012	2011
	£000	£000
PGL Scheme	398	497
Pearl Group Staff Pension Scheme	147	158
	<u>545</u>	<u>655</u>

***Key management compensation***

During the year to 31 December 2012, key management and other family members made no contribution to products sold by the Company (2011 nil). In the previous year, contributions related primarily to investment, life and pension products. For details of amounts paid to key management personnel, please refer to note 7.

**33. Events after the reporting period**

There have been no significant events that have occurred between the period end and the date when the financial statements are authorised for issue that would have a material effect on the financial results.

**34. Other information**

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Ignis Asset Management Limited, registered in Scotland and its ultimate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey. A copy of the financial statements of Phoenix Group Holdings can be obtained from the Company Secretary, 1<sup>st</sup> Floor, 32 Commercial Street, St. Helier, Jersey, JE2 3RU.