Aviva plc
Annual Report and Accounts 2009

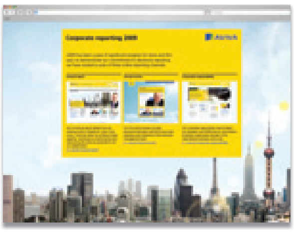
This is Aviva.

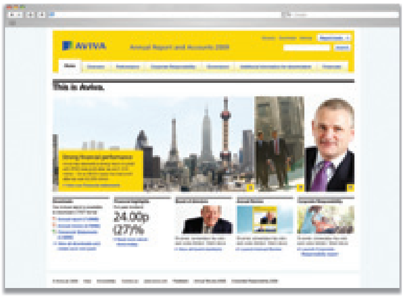
Aviva today

In 2007 we set our strategy to grow and transform Aviva to compete on a global scale. Nearly three years on, despite difficult market conditions, every day around the world we continue working to realise our vision 'One Aviva, Twice the Value'. By working together closely, we are transforming our business, optimising our performance and maximising the value we generate for all our stakeholders.

This year we have created a suite of three reporting channels which can be seen at www.aviva.com/2009reports. To help us minimise our paper usage and our impacts on the environment, if you haven't already done so, we would encourage all of our shareholders to opt to receive our reporting documents electronically.

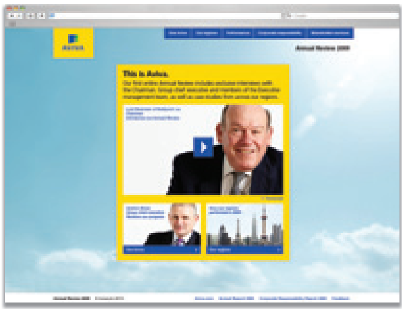
Please sign up for electronic communications here
www.aviva.com/ecomms





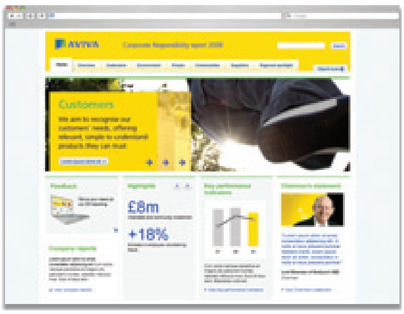
Our Annual Report and accounts is available online and to download.

You can view our Annual Report here
www.aviva.com/2009ara



In our online Annual Review, you will see exclusive interviews of the Group chief executive and members of our Executive management team.

You can view our Annual Review here
www.aviva.com/2009review



In our online Corporate Responsibility Report you can find out more about our commitment to acting as a responsible member of the international business community.

You can view our Corporate Responsibility Report here
www.aviva.com/2009cr

What's inside

Financial highlights

Visit Aviva at
www.aviva.com

More detail on our results available in the Performance review
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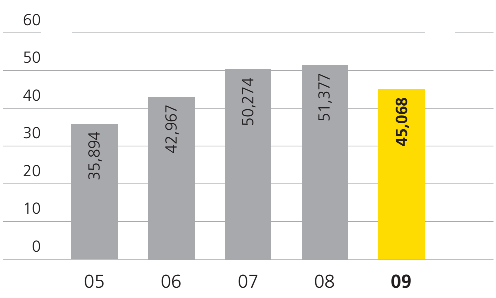
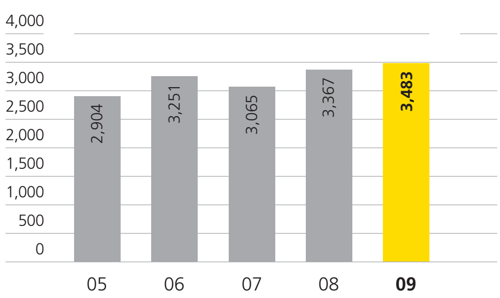
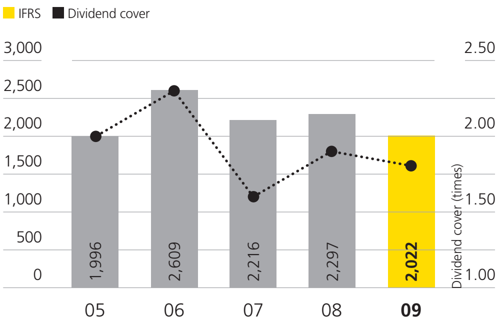
Worldwide sales* £m



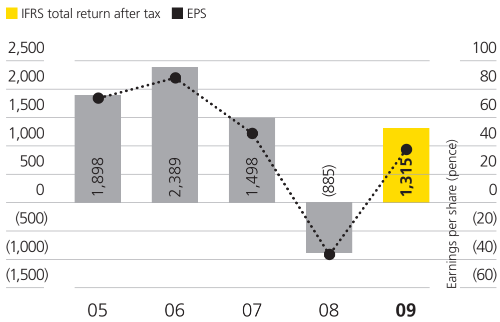
MCEV operating profit*** £m



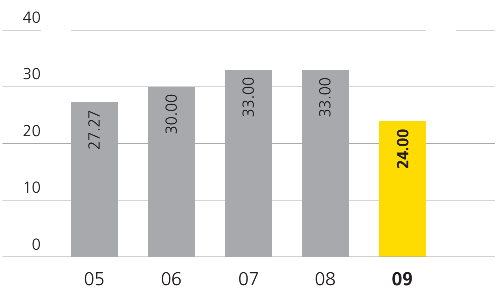
IFRS operating profit** £m



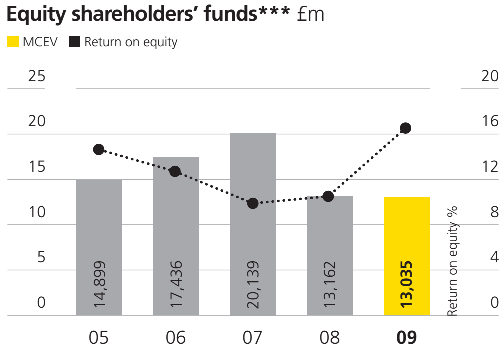
IFRS total return after tax £m



Full year dividend Pence



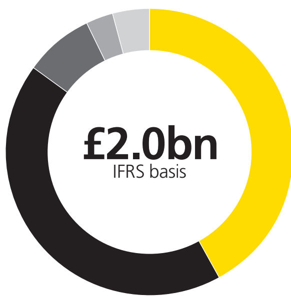
Equity shareholders' funds*** £m



* From continuing operations including share of associates' premiums
** Before tax attributable to shareholders
*** On a MCEV basis from 2007. Prior years presented on an EEV basis

Sales %

UK	32
Europe	48
North America	14
Asia Pacific	6



IFRS operating profit %

UK	42
Europe	43
North America	8
Asia Pacific	3
Aviva Investors	4

Chairman's statement

In good shape for the new decade

Lord Sharman of Redlynch OBE
Chairman

It is traditional for the Chairman to close his statement by formally thanking employees. This year, however, I think it's more appropriate to begin by saying that our strong results for 2009 are due to the extraordinary efforts made by the executive team and our people throughout the Aviva group.

A strong, single brand name is essential for us to compete effectively in the global insurance marketplace so the launch of the Aviva name worldwide in 2009 was fundamental. This was just one of a number of key deliverables during the year including: a successful partial sale of our Dutch business, Delta Lloyd, and the distribution of monies to our policyholders from the UK inherited estate.

In a year of 'business as usual', these would have been great achievements, so I am extremely proud that, through 2009's adverse conditions, at Aviva we have remained strong, resolute and on track. 2010 is unlikely to be any easier but we're now in an even better position to take advantage of new opportunities, and of achieving our vision for 'One Aviva, Twice the Value'.

Dividend

I am pleased to announce that the final dividend for 2009 will be 15 pence, bringing the total dividend to 24 pence. This follows our decision last year to reduce the dividend to a sustainable level, from which Aviva can grow over time. Our dividend policy remains unchanged and the final dividend cover of 1.8 times remains within the 1.5 to 2.0 times target range, which is based on IFRS operating earnings after tax.

Changes to the Board

I would like to thank Philip Scott, who retired from his role as chief financial officer (CFO) at the end of 2009 with an impressive 36 years' service with Aviva. With his knowledge of the insurance industry, he has successfully navigated us through some difficult market conditions. In February 2010, we welcomed Patrick Regan as our new CFO. He joined us from Willis Group Holdings in the US where he was group chief operating officer and CFO.

We further strengthened our Board with the appointment of Andrea Moneta, chief executive of Aviva Europe, Middle East and Africa, in September 2009. Other Board changes include: the retirement after nearly ten years of our senior independent non-executive director, Wim Dik; the resignation of Nikesh Arora, due to relocation to the United States; the appointment of new independent non-executive directors, Leslie Van de Walle, former chief executive officer of Rexam plc, who joined us in May 2009 and, from January 2010, Michael Hawker, who was previously chief executive and managing director of Insurance Australia Group.

Looking forward

As a realist, I am sure that 2010 will not be an easy year for the financial markets but there may be some cause for optimism as the year progresses. I am particularly pleased at how well we have reorganised the business and are ready to take full advantage of the upturn when it arrives.

Lord Sharman of Redlynch OBE
Chairman

Group chief executive's review

A year of significant progress

Andrew Moss
Group chief executive

Read more about our strategy
↘ 06 – 07

Read more about how our regions are performing
↘ 12 – 18

Listen to Andrew discuss our year in our new online review
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www.aviva.com

I'm pleased with our progress this year. It has been a year of strong financial performance and delivery against our strategic plans. I'm proud of the way my team has performed and I'm confident that by remaining focused on our strategy we will make further progress in 2010.

Aviva has delivered a strong return to profit with IFRS total profit after tax at £1,315 million. On an MCEV basis, which takes into account the long-term nature of life insurance business, the total profit after tax was £2,935 million compared to a loss of £7,707 million in 2008. This rebound in total profits reflects the combined effects of a recovery in equity markets, together with our disciplined business management and cost control. Operating profit is 12% lower at £2,022 million on an IFRS basis and up 3% on an MCEV basis to £3,483 million.

We have strengthened Aviva's capital position substantially over the past year and IGD solvency surplus, the buffer we hold above our liabilities, has more than doubled to £4.5 billion reflecting some bold capital management initiatives and a recovery in investment markets.

We have made excellent progress in the delivery of our strategy, including our move to a single brand, the IPO of our Dutch business, the reattribution of the inherited estate in the UK and the restructuring of our cost base.

In driving Aviva forward, we will retain our disciplined approach. We expect the external environment to remain unpredictable for some time but are encouraged that we saw the first signs of an improved appetite to save among our customers in the final quarter of last year.

We will continue to deliver against the strategy that has helped us to navigate the global economic crisis so successfully. We will maximise the value of being a single, global group, as we aim to deliver a consistently positive experience for our 53 million customers around the world.

Progress

Creating a global brand has been the most visible sign of 'One Aviva' so far. We're working hard to ensure it's much more than a name change.

We're making progress towards delivering 'twice the value' – improving the way we serve our customers, increasing our efficiency, focusing on profitability, removing cost from the business and delivering strong results.

Regions

— Successful rebrand to Aviva in the UK
— Integrating 12 of our businesses in Europe
— Life assurance portfolio outperforms market in North America
— Expanded customer reach in Asia Pacific through new bancassurance deals
— Improved investment and earnings performance for Aviva Investors

Highlights

— Improved financial strength with IGD solvency more than doubled in 2009
— Successful partial sale of Delta Lloyd in the Netherlands for £1 billion
— Sale of Australian life business
— £471 million paid to policyholders from reattribution of inherited estate

Q How has Aviva performed throughout a difficult 2009?

Like all financial services companies, we have been affected adversely, both by market volatility and understandable customer caution. However, the business has stood up well. This is due, in part, to our global diversity, having both life and general insurance operations and also because of the decisive action we have taken through the strategy put in place two years ago.

Several months into 2010, we have made great progress in transforming our UK business under one team. We are also starting to see positive results from the creation of our 'one Europe' operating model. In North America, the life market has been really challenged and it's good to see that coming back. In Asia Pacific, despite customers being cautious, we have continued to grow our business, particularly in China and South Korea. Aviva Investors' investment performance has radically improved along with solid earnings.

Q How financially strong is Aviva?

We've seen a marked improvement in our capital position. Focusing on costs in order to improve margins has meant that, whilst we have seen volumes drop, we still reported a resilient operating profit and a strong balance sheet. We have worldwide sales of £45 billion and £379 billion of funds under management. We are managing our financial risks prudently and skilfully.

Q Why did you cut your dividend mid-year?

In light of Aviva's lower IFRS operating earnings, the continuing economic uncertainty and our desire to retain flexibility, we felt it was the right decision to make. So in spite of it being a tough decision, we believe it was the right one.

Q Do you remain committed to your 'One Aviva, Twice the Value' strategy?

We have made good progress towards our target this year. If you compare earnings per share of 37.8 pence in 2009 with those of 2008 (a loss of 36.8 pence), it's a great improvement.

In the past 12 months we've increased the pace of transformation and restructured our portfolio, giving us new opportunities to redeploy capital to support profitable growth. Our senior management team is committed to this target and it remains our focus in 2010.

Q How is your business changing?

In 2008 we initiated a programme to create a simplified and more modern way of doing business to improve efficiency and reflect customers' preference to do business online; we've invested in new technology and streamlined our processes.

This fundamental change in the way we operate means our business is now fit for the future, with improved capacity and productivity. We have reduced our costs by £500 million and Aviva has 19% fewer employees than two years ago.

What's really pleasing is that during this period our customer satisfaction has improved, with nearly 70% of our businesses at or above the local market benchmark and 50% are in the upper quartile.

Q What are you most proud of in 2009?

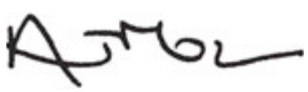
I'm most proud of our people: their dedication and resilience over the past year has been incredible. They've remained focused on what we're here for – delivering prosperity and peace of mind to our customers – and have done a great job.

I've already talked about our financial strength and the strategically significant achievements in our business. However, none of this could have been done without the hard work of all of our people around the world.

Q Looking forward – how would you sum up your priorities for 2010?

There's no question that the economic climate remains uncertain: 2010 is still challenging but I'm confident we have the right team, strategy and commitment to make it another successful year. We will continue to deliver our strategy, maintain our capital strength and focus on the profitable growth of our company.

53 million customers place their business with us. That's a great responsibility and we will be working harder than ever in 2010 to continue to earn their trust and attract new customers to Aviva.



Andrew Moss
Group chief executive

Group strategy

Our purpose is to deliver prosperity and peace of mind to our customers. We will do this by realising our vision: 'One Aviva, Twice the Value'.

In support of our purpose and our 'One Aviva, Twice the Value' vision, Aviva provides a composite portfolio of life and pensions, general insurance, health insurance and asset management products through a multi-channel distribution approach. Working together across regions under one Aviva brand provides greater financial stability and flexibility through diversification and a reduced reliance on any one channel, product, country or customer group.

Progress on our current strategic priorities is set out below.

Our strategic priorities

Manage composite portfolio

We are fully committed to maintaining the composite nature of the group. We firmly believe in the benefits of life insurance, general insurance and asset management as complementary parts of an overall business model that balances cashflow, returns and long-term value creation, and delivers prosperity and peace of mind to customers.

Progress 2009

Active management of our composite model provided us with strength in a challenging environment, specifically:
— Focused on profitability above sales volume by exercising price discipline and leadership in general insurance and by increasing margins and driving long-term value creation in life and pensions
— Robust performance in Europe benefiting from our strong bancassurance relationships despite the challenging environment with excellent sales performance in Italy (55%) and France (26%)
— Strengthened our position in Asia through strong growth in China (15%) and Korea (93%). Withdrew capital intensive products in Hong Kong and Taiwan
— Brought UK life and general insurance businesses together under a single management team
— Grew Aviva Investors worldwide (see below)

Build global asset management

Launched in September 2008, Aviva Investors is a clear example of the 'One Aviva, Twice the Value' strategy in action. Integrating our global asset management businesses under one umbrella, Aviva Investors is now a leading asset manager, with offices in 15 countries and £250 billion of funds under management. We plan to continue to grow Aviva Investors and significantly increase its contribution to group profits.

— Achieved robust investment performance across all key markets around the globe
— Experienced positive net flows of £2.4 billion from third party clients in difficult market conditions
— Enhanced our global distribution and manufacturing capability
— Made significant progress in building a truly global business development capability and achieved a strong sales pipeline across a range of asset classes and markets
— Achieved top quartile ranking in the most recent UK Greenwich Quality Index measuring client service and investment performance

Allocate capital rigorously

Capital management will continue to be a key focus. Capital is treated as a scarce resource, and is allocated to provide the highest sustainable returns for shareholders. We continuously seek improvements in capital structure and efficiency.

Strengthened our capital position through a combination of successful strategic initiatives and disciplined capital and balance sheet management including:
— Robust underlying earnings rebuilding our capital base
— IPO of Delta Lloyd in the Netherlands
— Sale of Australian business
— Reattribution of inherited estate in UK

Multi-channel customer reach

We sell our products in 28 countries in ways that our customers choose to buy them. We will get closer to our customers through better understanding of their needs and by providing products and services that customers want. We will continue looking for the right distribution in the right markets.

— Implemented initiatives to improve the customer experience and support the Aviva brand overall (such as introducing the Aviva Customer Cup to promote customer focused projects)
— Expanded our distribution reach through renewal of DBS bancassurance agreement which now extends to markets such as China and India
— Successfully carried out our major rebrand campaign in the UK creating a significant increase in spontaneous awareness among consumers
— Invested in our e-commerce capability in the UK with the launch of Aviva for Advisers website and made our online pension tracker proposition available to over 1 million customers
— Created further value from our leading and unique bancassurance franchise in Aviva Europe with sales growth of 14% in 2009
— 50% of all business units participating in our annual benchmarked relationship survey were ranked upper quartile by customers when compared to local market averages

Boost productivity

We constantly look for ways to boost our productivity, to support sustainable growth, increase our competitiveness, improve our services, and deliver higher value to our customers. Working together as 'One Aviva', we deliver operational excellence through shared services, shared knowledge, rationalised systems and effective outsourcing.

— Achieved £510 million of cost savings against £500 million target including reducing total headcount from 54,000 in 2008 to 46,000 in 2009
— Developed a leaner 'One Aviva' operating model through:
  – Increased use of regional shared services in all regions
  – Implementation of centres of excellence in technology
  – Outsourced part of the UK Life book to Swiss Re, outsourced IT data centres in UK and Canada and transferred UK Life Lifetime and Collectives administration to Scottish Friendly and IFDS, respectively

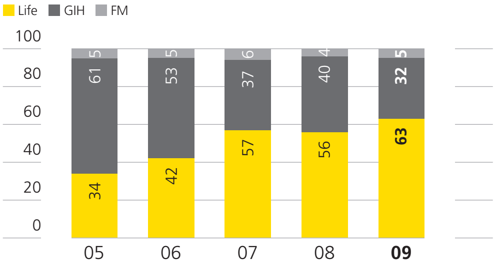
Group strategy continued

Our strategy and priorities need to be responsive to any changes in the external environment that may provide opportunities or cause strategic risks. These potential changes include capital market developments, an evolving regulatory environment, changes in the competitive landscape, development of major trends (such as climate change, changing consumer behaviour and improving longevity) or the emergence of potential discontinuities (such as a pandemic).

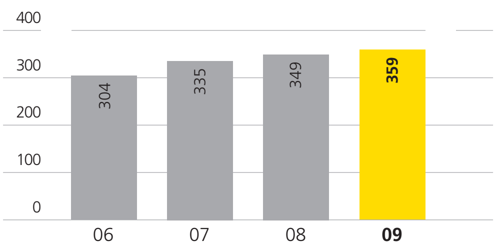
We manage these risks and opportunities through disciplined risk management. For further details refer to the risk management section on pages 56 to 59.

2009 Trend

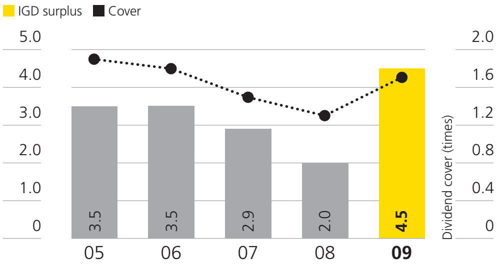
IFRS operating profit by line of business %



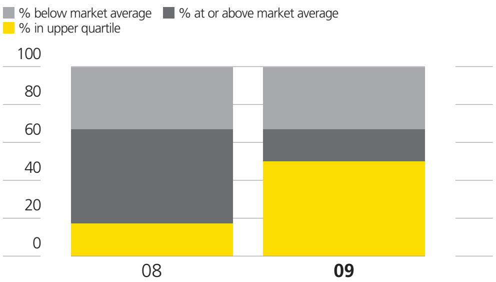
Funds under management £m



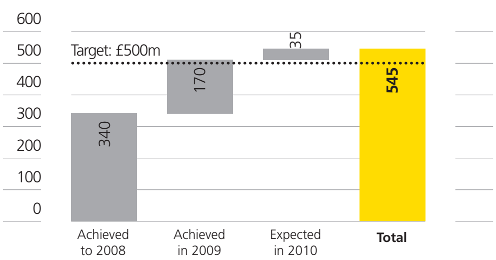
IGD surplus and cover £bn



Performance v market average – Net Promoter Score©



Cost savings £m



2010 Priorities

- Manage our general insurance business for value and growth
- Drive profitable growth and long-term value creation in our life and pensions business
- Strategically manage our investment in Delta Lloyd following the IPO
- Successfully progress the restructuring of our Aviva Europe division to create a single business benefiting from increased use of shared services and a simplified, more integrated corporate structure
- Grow Aviva Investors worldwide

- Continue to drive robust and consistent investment performance
- Further develop the global integration of our business with an expanding footprint across mature and emerging markets
- Focus on our client-centric solutions driven investment approach
- Continue our focus on attracting third party business and cross border sales and developing a strong pipeline across all asset classes and markets
- Further enhance business effectiveness and nurture our high performance culture

- Maintain a strong balance sheet
- Continue to focus on strong capital management and financial flexibility
- Monitor and manage market and operational risks in an uncertain, external environment
- Allocate capital to the highest risk-adjusted return opportunities by country, product and business line
- Participate actively in all consultations with European regulators to develop an appropriate outcome for Solvency II regulations

- Continue to invest in our brand and in improving customer experience to increase customer advocacy and consumer demand for our products
- Continue to focus on developing new products to suit our customers' changing needs
- Continue to increase customer access through our multi-channel distribution approach

- Focus on strong cost discipline through reducing operational complexity and simplifying product ranges
- Continue to focus on expense management and customer retention
- Continue executing our tailored shared services strategy including:
  - Regional service centres, centres of excellence and shared processes
  - Globally consistent operating models for IT, HR, Finance, Risk, Procurement and Marketing
- Increased use of outsourcing where appropriate

Summary of regional strategic priorities

UK
Market leadership
- Drive up profitability
- Generate capital
- Insurance excellence
- Operational excellence

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Europe
- Scale, growth, capital
- Seize unique growth opportunities
- 'One Europe' operating model
- Generate capital

↘ 14 – 15

North America
Profitable growth
- Optimise business mix, growth and margin
- Diversify distribution and products
- Generate net capital returns

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Asia Pacific
Scale, growth
- Prioritised portfolio
- Regional operating model
- Investment required

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Aviva Investors
- Globally integrated business
- Transform the investment model
- Increase third party business

↘ 18

Group structure

UK

Products
- Long-term insurance and savings: Pensions, annuities, protection, bonds and savings, equity release
- General insurance: personal: motor, home, travel, breakdown (RAC), commercial: motor, property, liability
- Health

Distribution
- Bancassurance
- Corporate partnerships
- IFAs/brokers
- Direct (phone/online)

Employees
21,663
2008: 28,424

Europe

Products
- Long-term insurance and savings: protection, bonds and savings, pensions
- General insurance: motor, home, travel, commercial, agricultural, construction, marine
- Health

Distribution
- Bancassurance
- Corporate partnerships
- IFAs/brokers/agents
- Direct (phone/online)
- Direct sales force

Employees
16,038
2008: 16,501

North America

Products
- Long-term insurance and savings: protection, annuity, savings, wellness
- General insurance: personal: motor, home, niche products commercial: motor, property, liability

Distribution
- Independent Marketing Organisations
- Brokers/agents

Employees
5,247
2008: 5,627

Asia Pacific

Products
- Long-term insurance and savings: protection, bonds and savings, pensions
- General insurance: personal and commercial motor and property
- Health

Distribution
- Bancassurance
- IFAs
- Direct (phone/online)
- Direct sales force

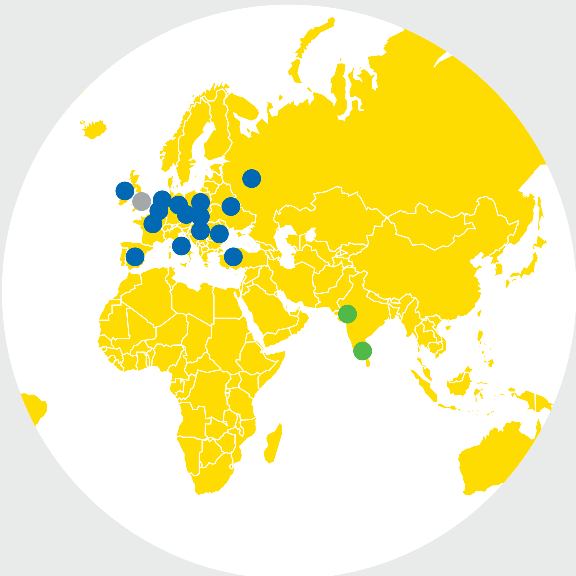
Employees
1,599
2008: 2,376

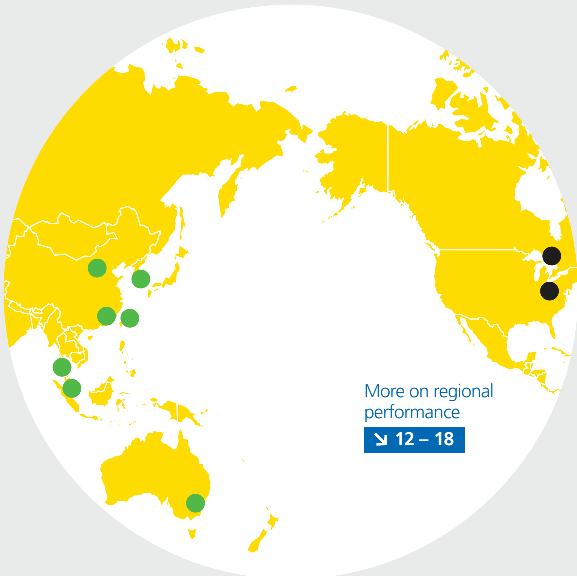
Aviva Investors

Products
Our investment capabilities, products and services comprise:
- alternatives
- equities
- fixed income
- global investment solutions
- real estate

Distribution
- Business to business
- Wholesale distributors
- Asset allocators
- IFAs/fund platforms
- Institutional/pensions

Employees
1,311
2008: 1,298





More on regional performance
12 – 18

UK
Our life and general insurance businesses are based in York and Norwich respectively, with operations spread across the UK. We also have overseas operations in India and Sri Lanka

European Locations
Belgium*
Czech Republic
France
Germany*
Hungary
Ireland
Italy
Lithuania
Netherlands*
Poland
Romania
Russia
Slovakia
Spain
Turkey

North American Locations
Canada
United States

Asia Pacific Locations
Australia**
China
Hong Kong
India
Malaysia
Singapore
South Korea
Sri Lanka
Taiwan

Aviva Investors
Australia
Canada
China
France
Germany
Ireland
Italy
Luxembourg
Poland
Romania
Singapore
Spain
Taiwan
United Kingdom
United States

* Delta Lloyd operations
** Australia business disposed of on 1 October 2009

Performance review

In this section

Key performance indicators

The key measures that are used by the board and executive management team to assess performance at a group level are set out below.

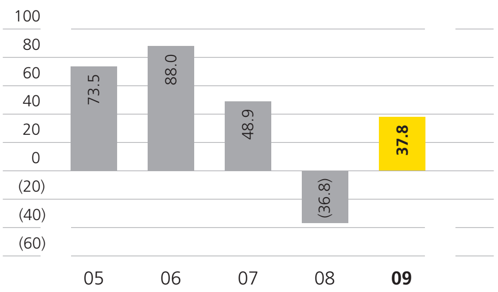
Earnings per share

Our IFRS earnings per share for 2009 was 37.8 pence (*2008: 36.8 pence loss*). This mainly reflects the improvement in financial markets in 2009. Economic and investment return assumptions during the year were in line with our long-term expectations with a positive variance of £77 million (*2008: £2,544 million adverse*).

Relevancy

- To demonstrate our commitment to 'One Aviva, Twice the Value' we are aiming to double earnings per share by 2012.
- This ambition is based on total IFRS return, including investment volatility and non-operating items over the weighted average number of shares.

Earnings per share Pence



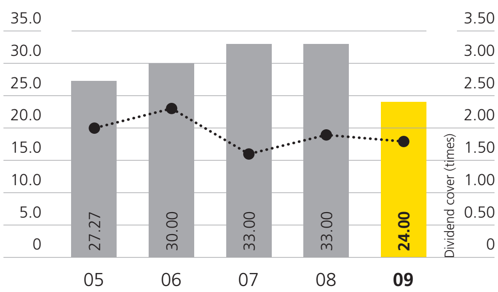
Proposed ordinary dividend per share and dividend cover

Our board has recommended a final dividend of 15.00 pence per share (*2008: 19.91 pence*). This brings the total dividend for the year to 24.00 pence and a dividend cover of 1.8 times (*2008: 1.9 times*) based on IFRS operating earnings after tax.

This is in line with last year's decision to reduce the dividend to a sustainable level from which it can grow.

- Our intention is to pay a dividend on a basis judged prudent using dividend cover of 1.5-2.0 times, while retaining capital to fund future growth.

Proposed ordinary dividend per share and dividend cover Pence



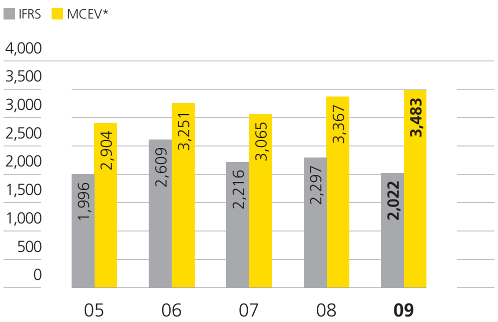
Group adjusted operating profit before tax

In 2009 MCEV operating profit increased 3% to £3,483 million (*2008: 3,367 million*). IFRS operating profit reduced 12% to £2,022 million (*2008: £2,297 million*).

These results reflect higher long-term and savings results offset by lower general insurance and health profits and increased group debt costs.

- We aim to achieve steady sustainable growth in our operating profit, both on a MCEV and IFRS basis. In seeking to achieve this growth, we continue to adopt strict financial management disciplines underpinned by strong corporate governance.

Group operating profit £m



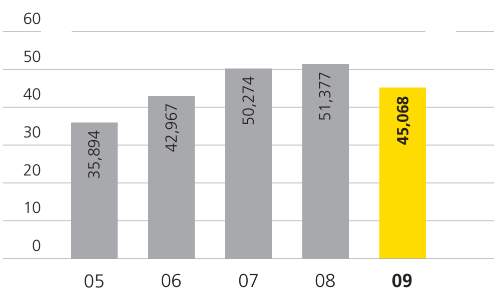
Worldwide sales

Total worldwide sales decreased by 12% in 2009 to £45,068 million (*2008: £51,377 million*).

Long-term and savings sales decreased 11% to £35,875 million (*2008: £40,240 million*) mainly reflecting the tough economic climate. General insurance and health sales of £9,193 million *(2008: £11,137 million)* were down 17% reflecting the focus on writing for profit rather than volume.

- While our focus is on capital efficiency and profit rather than volumes, sales remain an important indicator. Worldwide sales comprise the PVNBP of long-term savings new business sales and net written premiums from the general insurance and health businesses.

Worldwide sales £m



* On a MCEV basis from 2007. Prior years presented on an EEV basis

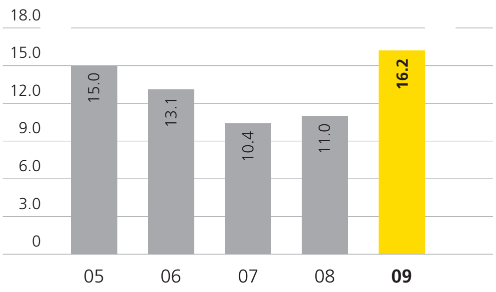
Return on equity shareholders' funds

The improvement in 2009 to 16.2% (*2008: 11.0%*) reflects the increase in the post-tax MCEV operating result and the impact of lower opening equity shareholder's funds following falls in asset values in 2008.

Relevancy

— Return on equity shareholders' funds is calculated as after-tax operating return, before adjusting items, on opening equity shareholders' funds, including life profits on a market consistent embedded value (MCEV) basis.

Return on equity shareholders' funds %



Employee engagement and leadership

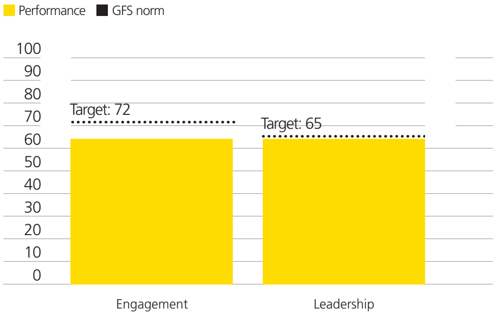
Key performance indicators relating to our employees' views on Aviva are based on questions in our annual global 'Employee Promise' survey. We changed our external provider in 2009 and we now report and set targets in line with their stronger global financial service (GFS) benchmark norms. To ensure consistency, we have therefore removed the historical trend data.

— Employee engagement represents the degree to which people believe in Aviva being a great place to work and are contributing to help meet our collective goals and ambitions.

— The survey results are used each year to determine and implement actions with the aim of achieving continuous improvement. The climate survey measures employees' perceptions of leadership, verifying alignment with our strategic direction and immediate business plans.

— Our aim is to improve both measures over time and meet or exceed a global financial services benchmark.

Employee engagement and leadership %

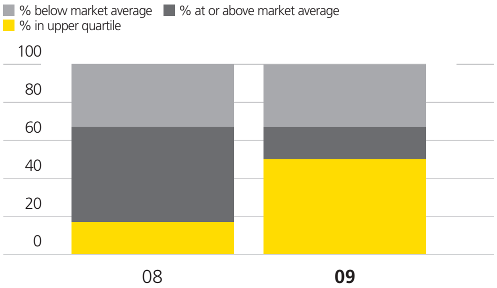


Customer advocacy

24 businesses took part in our 2009 Net Promoter Score® survey (*2008: 12*). 16 met or exceeded the benchmark with 12 in the upper quartile. The ratio beating benchmark is the same as 2008; however, more businesses are in the upper quartile rankings.

— Customer advocacy gives us, in a single, simple measure, an accurate predictor of customer retention and cross-sell opportunity.

Performance v market average – Net Promoter Score©



Aviva UK

A leader in our home market

From 1 January 2010 we have brought together the Aviva UK life and general insurance businesses, creating a new organisation led by one chief executive officer. In 2009, in addition to completing the rebranding to Aviva, both businesses have continued their extensive transformation programmes, which will make significant improvements to customer service, and they have delivered combined cost savings of £450 million, a year ahead of plan.

Strategy
Our core strategies for the UK business are:
— to leverage our extensive distribution network and customer base to increase profits in a mature but evolving marketplace
— to maintain market leadership through balanced distribution and broad product mix, improved customer retention and the simplification of processes, services and costs

Aviva UK
Total sales were £14,261 million in 2009, down 24% on 2008. IFRS operating profit for the year decreased 15% to £1,165 million reflecting the impact of lower premiums and lower investment returns. These results are discussed in more detail on page 44 of this report.

The rebrand to Aviva in the UK took place on 1 June 2009. Our successful advertising campaigns, highlighting Aviva's products and services and encouraging customers to 'get the Aviva deal', have increased recognition and awareness of the Aviva brand significantly.

UK life business

Market environment
During 2009 the overall long-term savings market declined by 17%[1]. This contraction, for the second consecutive year, was primarily driven by falls in the pension and bond markets as lower consumer confidence, limited salary increases and higher unemployment reduced customers' propensity to save and invest for the future. Specific regulatory events, such as the cessation of sales of single premium creditor business, also impacted the market. Despite this, we have maintained a disciplined focus on profitability, significantly improving our new business margin.

Performance
In the UK life market, Aviva has built a leading position across a broad product range. We have gained competitive advantage through our financial strength, product development and taking actions to simplify the business making it easier for customers.

We delivered new propositions recognising consumer needs, including offering 12-months, free life cover to new parents, the launch of a With-Profit Guaranteed bond and recently re-opening our Wrap and Sipp platforms to new business. Our innovative Simplified Life protection product continues to go from strength to strength with a 147% increase in new applications compared to 2008, whilst our market-leading individual annuity pricing capability attained record new business volumes for this product in the fourth quarter of 2009.

As a result of our major simplification and efficiency initiatives, designed to better meet customer needs, we have outsourced the administration of almost three million policies to industry experts: Swiss Re, Scottish Friendly and International Financial Data Services. We have decommissioned over 300 IT systems, delivered a more flexible cost base and made £100 million of annualised cost savings.

We have continued to invest in our e-commerce offerings with the launch of further new propositions to help our customers and distribution partners. 'Customer Portal' and 'Aviva for Advisers' provide secure online access to over 4.5 million policies, enabling customers and advisers to manage their Aviva life products quickly and easily at a time convenient to them. We were also the first in the industry to offer a virtual online guide as part of our innovative 'Pension Tracker', making it possible for almost 1.5 million customers to manage their Aviva pension plans online. This approach contributed to Aviva winning the Personal Finance 'Pension Provider of the Year' award voted for by customers and judged on proposition quality, brand, service and sustainability.

Throughout 2009 our commitment to deliver service excellence has driven improved satisfaction and advocacy results. By listening to and understanding what matters most to our customers and distributors, we can ensure they have a better service experience.

Outlook
We expect the market to remain challenging in the short term as the impact of the recession continues to influence demand for investment and savings products. Longer term, major regulatory changes including the Retail Distribution Review and Solvency II will be implemented. Our strategies will enable us to exploit the opportunities emerging in our market as we continue to build on our e-commerce and service capability and product and distribution breadth.

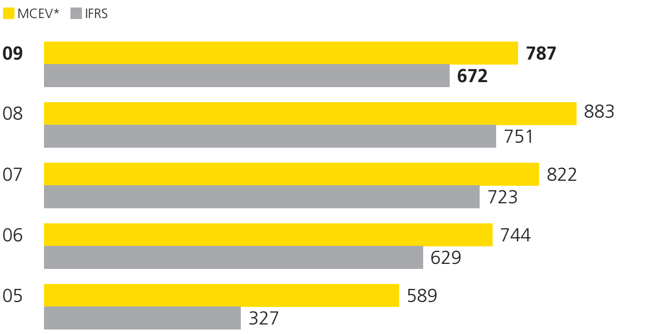
Fair reattribution payments

Following the announcement in May 2009 of a new, more flexible offer – and the subsequent FSA and High Court approval in September – the reattribution of our inherited estate completed on 1 October. Our objective was always to create a reattribution that was fair to both shareholders and policyholders, making sure that customers had a choice of whether they wished to accept the offer, depending on their personal circumstances. As a result, over 87% of eligible policyholders voted during the election process, with 96% of these voting in favour of the offer. By the end of 2009, the majority of the £471 million reattribution payment had been distributed to those policyholders who accepted the offer.

Long-term and savings sales £m

[1] Source: Association of British Insurers (ABI)

Long-term and savings operating profit £m



* On an MCEV basis from 2007. Prior years presented on an EEV basis.

UK general insurance business

Market environment

2009 has been a challenging year, with strong competition and the recession impacting all lines of business. More customers are searching for cheaper deals, while fewer are making discretionary purchases such as breakdown cover. A significant fall in creditor volumes, resulting from lower lending, was compounded by a sharp rise in creditor claims. Fewer start-ups, more business failures and reduced exposures have resulted in shrinking commercial markets. However, there have been some recent encouraging signs that more realistic pricing is emerging in the market, particularly in personal motor.

Performance

The UK general insurance operation has significantly improved the profitability of business written in 2009. By simplifying the business, reducing costs, achieving scale benefits and taking a disciplined approach to underwriting and distribution, we have created a platform for future growth.

Progress on our transformation programme remains ahead of plan, with all business now being undertaken in our new 'centres of excellence'. We are on track to deliver annualised savings of more than our £150 million target from this phase by 2010, in addition to savings of £200 million already delivered.

We have refocused our brands to offer our customers the best price when they buy direct from Aviva supported by our 'Get the Aviva Deal' marketing campaign, complemented by the RAC panel which is available on all major online price comparison sites and supported by 17 insurers. The impact has been extremely positive: we sold more direct personal motor policies in the fourth quarter than in the same period in the previous three years and the RAC panel had gained a share of around 3.5% of new business in the UK personal motor market by the end of 2009.

Overall business volumes have fallen reflecting the action we have taken to exit unprofitable business and the challenging market conditions. We continue to support independent brokers through a range of initiatives including customised networks (such as the Broker Independence Group and Club 110) as well as providing easy and fast access to our best prices. In addition, we were delighted to renew the Barclays homeowner account.

Outlook

In the general insurance market, quality of earnings remains our priority and we aim to increase profitability through enhanced risk selection and tightly controlling our costs. Whilst there are some encouraging signs in personal motor, we continue to see intense competition in many segments of the market and we await the significant shift in attitude that the market requires.

This is particularly true in the case of Commercial lines and there is little evidence that the market is hardening significantly.

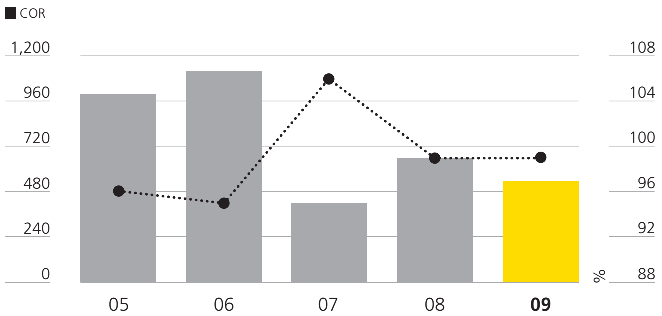
RAC insurance

RAC continues from strength to strength as a leading UK service brand, coming fifth in the Institute of Customer Service's 2009 survey, comparable with John Lewis, Waitrose and M&S. In its core breakdown category it won the JD Power survey for an unprecedented fourth consecutive year. The service culture is not just delivered by our patrol staff either: RAC's membership call centre entered the Times Top 50 UK call centres at 14th.

In January 2009 we launched our car insurance panel under the iconic RAC brand to complement our existing direct offering from Aviva. This ensures that almost every customer that calls us can be provided cover at competitive prices. The panel is on all the major online price comparison sites and it is writing growing volumes of business through this channel of distribution.

General insurance and health net written premiums £m

General insurance and health IFRS operating profit £m



Europe

Building a truly pan-European business with a broad and diverse portfolio

We have a clear strategy to exploit the considerable opportunities in Europe. There is significant growth potential in the region, in both under-penetrated Western markets and developing markets in Eastern Europe. With our proven ability to operate across distribution channels, we will be able to respond favourably to market developments as customer confidence begins to return.

Strategy

Our strategy is to capitalise on the significant opportunities within Europe through:
- Aviva Europe's Quantum Leap transformation plan, creating one market leading pan-European business from 12 federated businesses,
- the strategic development of our 58% investment in Delta Lloyd following the IPO in November 2009.

Our principal financial objective is long-term, sustainable, profitable growth.

Market environment

Europe is already the largest insurance market in the world with an affluent population of over 800 million people, generating 31% of global insurance premiums[1] and accounting for over 30% of global personal financial assets[2]. Europe offers significant growth opportunities in both under-penetrated Western markets and developing markets in Eastern Europe.

As elsewhere, the slowdown in economic growth has impacted customer behaviour in the majority of the region with customers favouring deposit bank accounts or guaranteed insurance products. Customer confidence is beginning to return particularly in France, Italy and Poland where customers are starting to re-invest in more attractive insurance products such as unit-linked bonds.

Aviva Europe performance

Aviva Europe operates in 12 businesses across Europe (excluding the UK) with substantial operations in France, Italy, Ireland, Poland and Spain. We also have a presence in the developing markets in Central and Eastern Europe of Czech Republic, Hungary, Lithuania, Romania, Russia, Turkey and Slovakia. As part of our strategy, we are transforming our 12 federated businesses through our Quantum Leap programme into one market leading pan-European business.

Since January 2010, Aviva Europe has assumed responsibility for developing Aviva's business interests in the Middle East, based in the United Arab Emirates. We expect this high-potential market to grow, benefiting from Aviva Europe's experience and resources.

We achieved total sales of £16,258 million during 2009, up 8% on 2008. IFRS operating profit for the year decreased 4% to £797 million, reflecting exceptional weather losses in France and Ireland. These results are discussed in more detail on page 45 of this report.

We have made significant progress in our migration to a single Aviva brand. Having operated as Hibernian Aviva in 2009, we adopted the Aviva name in Ireland at the start of 2010 and we will complete our brand migration programme in June 2010 when we will operate as Aviva in Poland. Recognition of the Aviva brand continues to grow in both markets, with Ireland recording prompted awareness rates in excess of 90%[3].

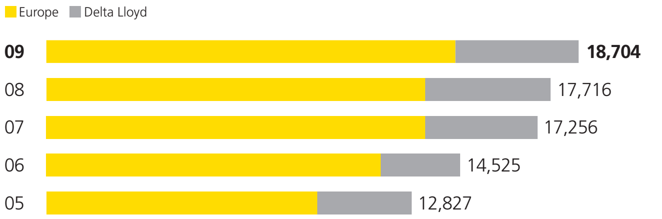
Our bancassurance franchise is the largest in Europe with 50 bank agreements and our retail[4] channel accesses nine million customers through 18,000 financial advisers. With this proven ability to operate across distribution channels, we are able to meet different customer preferences and respond favourably to market developments.

Our business is performing strongly in both distribution channels. In retail, our partnership with AFER, a leading savings association in France, continues to be extremely successful with customer numbers growing by 5% to 712,000 in 2009. In bancassurance, our Italian partnership with Banco Popolare that commenced in 2008 performed strongly in highly profitable protection products, one of our key strategic objectives.

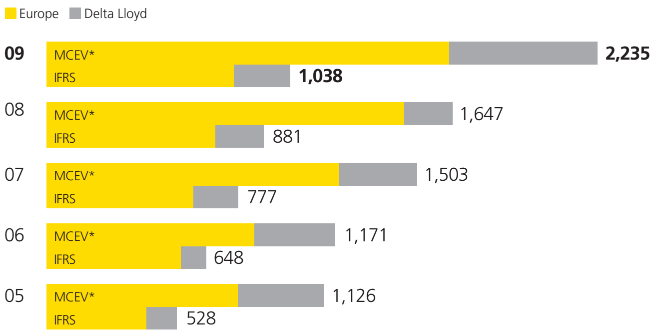
In 2009, we developed our suite of guaranteed products which have proved attractive particularly in France, Spain and Italy.

Being there for customers in times of need is crucial: following flooding and storms in France during 2009, we paid out 90% of claims in the year. And to reinforce this, 94% of our customers in France who were hit by Hurricane Klaus were happy with the way we handled their claims.

Long-term and savings sales £m



Long-term and savings operating profit £m



* On a MCEV basis from 2007. Prior years presented on an EEV basis.

1. Sigma (2008) – UK is excluded.
2. Aviva/Oliver Wyman research (2007) – UK is excluded.
3. Millward Brown Lansdowne study, Q3 2009.
4. Retail refers to the sale of insurance products outside of the bancassurance chanel through our direct sales force, IFAs, brokers or internet sales.

Delta Lloyd performance

Our Delta Lloyd business is one of the top-five financial services providers in the Netherlands and also operates in Belgium and Germany. In 2009, we completed the successful IPO and partial sale of Delta Lloyd on Euronext Amsterdam with gross proceeds of £1 billion for a 42% stake. This was a significant strategic milestone in our management of Delta Lloyd and gives us further opportunity to reallocate capital within the group.

The market environment in the Netherlands remained challenging, with weak asset values constraining activity in the corporate pensions market, before improving in the latter part of the year when Delta Lloyd secured two large group contracts. Total sales in 2009 of £5,492 million were down 18% reflecting the sale of the health business. IFRS operating profit for the year increased 29% to £399 million. These results are discussed in more detail on page 46 of this report.

Delta Lloyd continues to offer innovative, high quality products backed by strong fund management performance. In June, in collaboration with Rabobank, Delta Lloyd launched a €200 million fund, which offers an alternative source of capital for promising Dutch ventures.

In 2009, we successfully integrated the Swiss Life Belgium operation with our existing Belgian life operations. Belgium extended the ABN AMRO distribution arrangement to include Fortis branches when they are rebranded in 2010.

Outlook

Market conditions will continue to vary considerably between countries: the recession is still challenging in Ireland, Spain and Hungary but we are seeing signs of recovery in France, Italy and Poland. By continuing to carefully balance profit generation and investment opportunities across our broad and diverse portfolio and by enhancing innovative customer focused offerings, we are confident that we can benefit from the growth potential within Europe.

Aviva Europe: Making a 'Quantum Leap' in performance

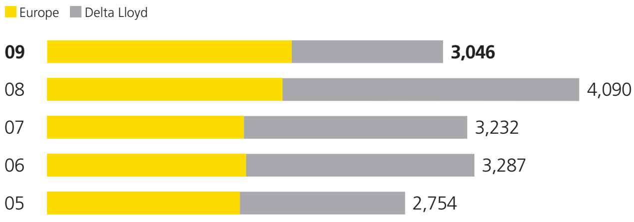
In 2009, we announced our new strategy to make a 'Quantum Leap' in performance by integrating the operations of our 12 separate Aviva Europe businesses. We are creating a single pan-European organisation which will create significant value for Aviva's customers and shareholders.

By moving to a pan-European operating model, we are simplifying our product range, shortening the time to launch new products for our customers and making significant efficiency gains by centralising our operations, enabling us to improve cost management, grow net profits and enhance dividends remitted to the Group.

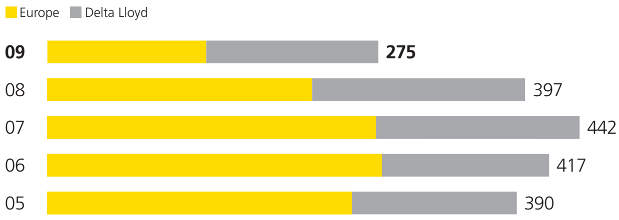
As part of our transformation, we are also establishing a single holding company for our European operations in Ireland. This new structure will deliver economic, operational and regulatory benefits, especially with the anticipated introduction of Solvency II in 2012.

Our two pan-European distribution channels, bancassurance and retail, supported by pan-European product development, operations and governance will enable us to take full advantage of the significant growth potential and opportunities in Europe and contribute fully to the 'One Aviva, Twice the Value' target.

General insurance and health net written premiums £m



General insurance and health IFRS operating profit £m



North America

Poised to benefit from recovery in the world's wealthiest market

The North American marketplace provides us with access to a strategically attractive population with a growing demand for products that offer prosperity and peace of mind in both the general insurance and life and annuities marketplaces.

Strategy

We will continue to grow our existing businesses and raise our profile in North America on the back of the strength of the global brand, communicating with financial analysts, key financial and business media, consumers and distributors.

Our strategic priorities for the region are:

— to enhance capital efficiency and optimise margins
— to selectively expand and grow our core life insurance and annuity distribution and product capabilities
— to operate as a great underwriting company
— to make best use of the synergies created within the regional operating model
— to enhance strong and valuable relationships with our customers and distributors.

Market environment

The US economy, and its financial sector in particular, suffered a severe contraction as a result of the financial crisis. The recession also had a major impact on Canada, the US' largest trading partner. There are now increasing signs of economic recovery and, despite the recession, North America's economies remain among the world's largest and its population among the world's wealthiest.

Performance

Total sales were £6,345 million in 2009, down 13% on 2008. IFRS operating profit for the year improved 43% to £213 million reflecting the improved long-term and savings result. Our financial results are discussed in more detail on page 47 of this report.

In our US business we have deliberately moderated annuity sales in comparison to the prior year and centred on capital management. We have grown our life insurance portfolio, outperforming in a market that contracted by 19% in the first nine months of the year.

In the Canadian business we have focused on initiatives that improve our operational and underwriting effectiveness. Examples include the implementation of our three-company model, enabling us to price the auto business in the heavily regulated Ontario market more accurately, and enhanced underwriting through the use of more standardised and automated processes. Elsewhere the Canadian business has seen an unusually high frequency of large losses through a combination of commercial fires and Ontario personal auto claims.

As part of the 'One Aviva, Twice the Value' strategy, we are consolidating each of our non-market-facing functions into single North American business areas giving us improved capability at lower cost.

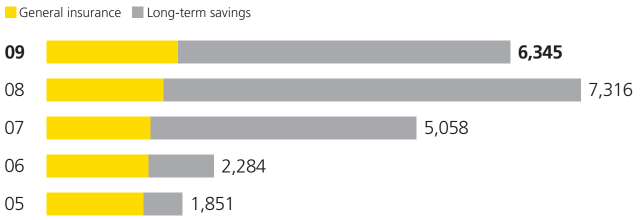
Outlook

A number of economic indicators are starting to point to a steady recovery in 2010. We will continue to grow our life insurance portfolio in the US and our contribution to total Aviva profits, building on 2009 successes. We await the outcome of the SEC151A debate concerning the future regulation of annuity products and will respond appropriately. In Canada we will further enhance our underwriting processes to improve risk selection, profitability and capital efficiency.

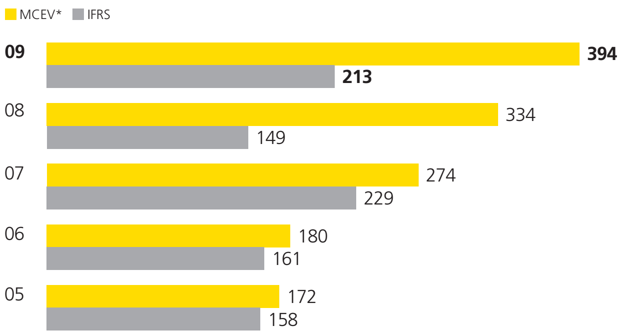
Innovative pricing

In the Canadian business we have successfully implemented an innovative approach to the pricing of personal property business known as 'Rate by Peril'. We have used a detailed and sophisticated mapping approach combined with proprietary and public information to deconstruct the blended approach to pricing used for multi-peril household policies. Using this approach we are able to determine a unique rate for each individual property reflecting its unique exposure to the perils covered by the policy including fire, water damage, wind-storm, sewer back-up, theft and liability. The increased pricing precision that we are able to apply enables us to 'right-price' each property.

Total sales £m



Operating profit £m



* On an MCEV basis from 2007. Prior years presented on an EEV basis.

Committed to building a high-growth and value-creating region

We operate in eight countries across the Asia Pacific region through both joint ventures and wholly-owned operations. India and China, both with large populations and relatively high economic growth, are 'must-win' markets capable of generating a significant proportion of our future expansion within Asia. Throughout the rest of the region, our focus is on developing the strength of our bancassurance business with joint venture partners.

Strategy

Our ambition is to build a high growth and value-creating region driven by the 'must-win' markets of China and India. We will achieve this by:

- securing strong organic growth across all our markets
- leveraging our multi-distribution platforms and core capabilities in bancassurance
- exploring new growth opportunities in particular health and general insurance
- expanding our regional footprint in fast-growing, high potential insurance markets
- investing in the Aviva brand.

Market environment

Trading conditions were difficult in 2009. Long-term savings sales were affected by the economic climate as investors turned to low volatility investments such as bank deposits. The industry also experienced an increase in lapses and clients exercising their premium holiday options.

Performance

Total sales were £2,712 million in 2009, down 22% on 2008. IFRS operating profit for the year improved 114% to £77 million reflecting the improved long-term and savings result. Our financial results are discussed in more detail on page 48 of this report.

During 2009, customers' increased caution has led to a growing demand for protection and health products and those savings products with guarantee features. We have strengthened our proposition in these areas which, together with our investment product capabilities, will enable us to harness the expected economic rebound.

We made substantial efforts to conserve capital and control costs, reducing the sale of capital intensive products in Hong Kong, Malaysia and Taiwan and implementing a region-wide cost-reduction programme. The sale of our Australian business in October also realised a £0.4 billion contribution to capital.

As part of our commitment to achieving 'One Aviva, Twice the Value', we launched a number of new initiatives in the region. These included our wrap platform in Hong Kong and new protection, savings and investment products, both conventional and Takaful (Islamic insurance), in Malaysia through our shared services platform.

We expanded our customer reach in local markets during the year with a particular focus on bancassurance: we renewed our partnership with DBS Bank in Singapore and Hong Kong until 2015, extended to additional markets in India, China and Taiwan, and also agreed extended terms with key partners in India. We opened our tenth provincial branch in China, ahead of our 2010 target; achieved encouraging sales through Woori Bank in South Korea and opened 13 new branches around the Seoul area.

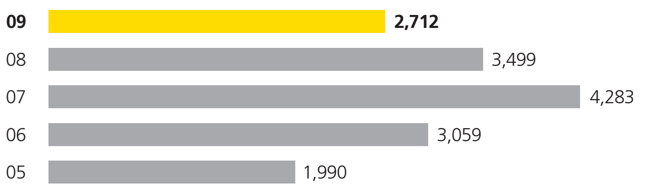
Outlook

Looking forward, we expect recovery in Asia Pacific to be ahead of other regions. Prospects for 2010 are more optimistic with the Asia Development Bank predicting GDP growth of 6.6% for emerging Asia versus 4.3% in 2009. We are committed to building a high-growth and value-creating region and establishing Aviva as a leading international player in Asia.

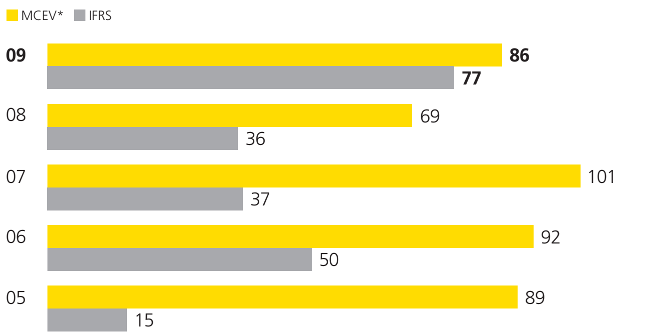
Joint venture in Malaysia

We signed a joint venture partner deal with CIMB, the second largest bank in Malaysia in 2007 to capitalise on its distribution network by providing market leading insurance products and excellent servicing capability. To achieve this we drew on our regional shared services capability and technical infrastructure in Singapore to deliver and administer the product set. We successfully launched a portfolio (EasyLife Solutions) of 10 investment-linked products within a six-month timeframe. Sales of EasyLife Solutions have gone from strength to strength, contributing to our position as fourth in the industry for single premium business in 2009. This has also strengthened our partnership with CIMB at all levels.

Total sales £m



Operating profit £m



* On an MCEV basis from 2007. Prior years presented on an EEV basis.

Focused on clients, focused on performance

Aviva Investors combines the group's asset management components into a single, globally integrated business. We manage internal funds for Aviva, as well as for a growing range of institutional and retail third party clients. Our focus on client service has brought external recognition and contributed to a strong performance in 2009.

Strategy

Our core strategic objective is to build our presence as a globally integrated asset manager and establish Aviva Investors as a leading player in the market for retirement solutions.
We aim to increase revenues and profitability by delivering significant growth in higher-margin assets under management from external clients.

The key strategic imperatives central to our success are:

- our commitment to client focus, delivering investment solutions that fully meet their requirements
- delivering strong investment performance to underpin product sales activity
- finalising the roll-out of a global business development function with a footprint in mature and emerging markets
- a high performance culture that rewards those who make the strongest contribution to the achievement of our goals
- further increases in business effectiveness and efficiency through the adoption of global core processes

Market environment

Following a turbulent start to 2009, market conditions improved with some markets registering their best annual performance in over 20 years. The pace of any further rally across markets is likely to be more modest with the uncertainty around central banks removing stimulus measures. Although some economies remain in recession, we remain optimistic that recovery will gather pace.

Performance

IFRS operating profit was in line with the prior year at £115 million while funds under management increased 6% to £250 billion as markets recovered. Our financial results are discussed in more detail on page 48 of this report.

A number of positive trends emerged to support our strategic objectives in 2009. Our focus on client service gained us improved rankings in UK-focused independent client service/investment performance surveys for investment quality. Investment performance was also an area of strength. Where clients have specified performance benchmarks, Aviva Investors has met or exceeded 83% of these over one year and 68% over three years, with particularly strong performance in France, Australia and Poland. We also generated record levels of performance fees.

Our liquidity funds attracted strong inflows in France and the UK and from our continental European distribution channel through our SICAV range. In the UK, our Sterling Government Liquidity and Sterling Liquidity Funds gained Standard & Poor's highest possible 'AAAm' stability rating.

We have made significant progress in developing a global marketing, sales and distribution capability, re-engineering our global business development function to facilitate sales to external clients and underpin our client-centric approach. This was enhanced by group-led PR and advertising for the global rebrand, which helped to cement trust in, and recognition of, the Aviva name in both established and new markets and by our own marketing efforts which helped to raise Aviva Investors' profile in a competitive market.

Aviva Investors also received a number of external accolades in Austria, Singapore, Australia and the UK. In November we were proud to work alongside the United Nations for the launch of their report on 'sustainable stock exchanges', a programme that is continuing in 2010.

Outlook

Since Aviva Investors launched in September 2008 we have made strong progress. The loss of confidence in financial markets has meant that clients are increasingly looking for risk-aware investment options and, as an insurance-owned asset manager, we are well placed to capitalise on that trend. We look forward to 2010 with confidence and anticipation.

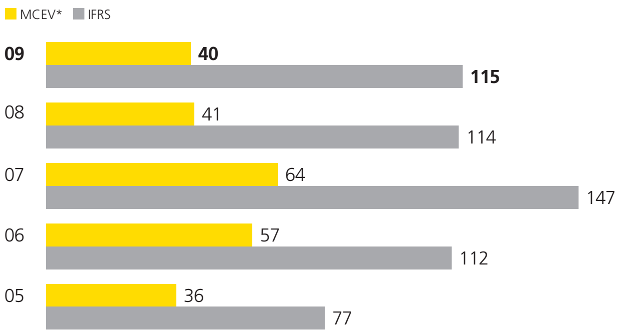
Listening to our clients

First Securities Investment Trust (FSITC) is a leading asset manager, marketing investment products to customers in Taiwan. In 2009, we won a mandate to handle a new global high yield product through our high yield investment team in North America. We supported the local Aviva Investors team in Taiwan and managed FSITC's successful initial offering.

As a follow-up, we initiated a customer survey to ensure that issues and insights from FSITC were captured and acted upon. Despite the significant commercial success of the new launch the survey uncovered some concerns and a need for improvement on operations and communications.

We were able to act quickly and decisively to resolve these concerns. FSITC's response was very positive: our actions had shown that we had listened to their feedback at a senior level, creating a much stronger relationship.

Investors operating profit £m



* On an MCEV basis from 2007. Prior years presented on an EEV basis.

Funds under management £bn

Information on the company

History and development of Aviva

General

We are a public limited company incorporated under the laws of England and Wales. We are one of the world's leading global insurance groups. We are the fifth largest insurance group in the world, based on gross written premiums for the 2008 year. We are one of the top five providers of long-term insurance and savings products in the UK, Ireland, the Netherlands, Poland and Spain and one of the top 10 providers of long-term insurance and savings products in France, Italy, Hungary and Romania for 2008. More detail is provided within the operating segment review later in this section. Our main activities are the provision of products and services in relation to long-term insurance and savings, general insurance and fund management.

Our history

The Group was formed by the merger of CGU plc and Norwich Union plc on 30 May 2000. CGU plc was renamed CGNU plc on completion of the merger, and subsequently renamed Aviva plc on 1 July 2002.

CGU plc and Norwich Union plc were both major UK-based insurers operating in the long-term insurance business and general insurance markets. Both companies had long corporate histories. CGU plc was formed in 1998 from the merger of Commercial Union plc and General Accident plc. Hand in Hand, which was incorporated in 1696, was acquired by Commercial Union in 1905, which itself was incorporated in 1861. General Accident plc was incorporated in 1865. Norwich Union plc was founded as a mutual society in 1797 and operated as such until 1997, when Norwich Union plc demutualised and became an English public limited company.

Between 2000 and 2002 we actively withdrew from lines of business and markets that did not offer the potential for market-leading positions or superior returns, or did not otherwise meet our strategic objectives, principally through the disposal of property and casualty businesses in the UK London Market, the US, Australia, New Zealand and certain European countries.

Since 2002, we have grown in part through carefully selected acquisitions, in particular the acquisitions of RAC in 2005 and AmerUs in 2006.

During 2009, we disposed of our long-term and savings and wealth management in Australia and through an IPO we sold approximately 42% of our Dutch business, Delta Lloyd.

As at 1 January 2010, we have integrated our life, general insurance and health businesses in the UK under one CEO. On 5 January 2010, we announced the acquisition of River Road Asset Management, a US equity manager, to support the expansion of Aviva Investors business.

Further details of recent acquisitions and disposals can be found in the section "Financial statements IFRS – Note 3 – Subsidiaries".

Business overview

Our aims and strategy

In support of our purpose and our 'One Aviva, Twice the Value' vision, Aviva provides a composite portfolio of life and pensions, general insurance, health insurance and asset management products through a multi-channel distribution approach. Working together across regions under one Aviva brand provides greater financial stability and flexibility through diversification and a reduced reliance on any one channel, product, country or customer group. In summary our five strategic priorities are:

- **To manage the composite portfolio of life, general insurance and fund management**
  We are fully committed to maintaining the composite nature of the group. We firmly believe in the benefits of life insurance, general insurance and fund management as complementary parts of an overall business model that seeks to balance cash flow, returns and long-term value creation.
- **To build a global asset management business that will foster investment performance and create solutions**
  We have significant asset management functions across the group. These businesses have historically been managed separately and we are now bringing them together in a global asset management business, Aviva Investors, in order to capitalise on existing strengths around the world and leverage those strengths in key product and specialist areas. Our goal is that Aviva Investors will foster investment performance and create solutions under a single brand across the world, with an increased focus on obtaining new external clients.
- **To allocate capital rigorously to provide the highest sustainable returns for our shareholders**
  Capital management will continue to be a key focus for us going forward. We treat capital as a scarce resource, and strive to allocate capital to provide the highest sustainable returns for shareholders. We continuously seek improvements in capital structure and efficiency.
- **To increase our customer reach through better understanding customer needs**
  We sell our products in 28 countries in the way that our customers choose to buy them. We will continue looking for the right distribution in the right markets. We believe we can get closer to our customers through better understanding their needs, which would further our goal to generate profitable sales, by providing products and services that customers want at a fair price.
- **To boost productivity to increase our competitiveness, improve our services and deliver higher value to our customers**
  We constantly look for ways to boost our productivity, to support our sustainable growth, increase our competitiveness, improve our services and deliver higher value to our customers. Working together as 'One Aviva', we deliver operational excellence through shared services, shared knowledge, rationalised systems and effective outsourcing.

Our business

Overview

Our principal activity is the provision of financial products and services, focused on the following lines of business: long-term insurance and savings business, fund management and general insurance and health.

Our business is managed on a geographic basis through a regional management structure based on four regions, UK, Europe, North America and Asia Pacific. The four regions function as six operating segments as both the UK and Europe regions are split into two operating segments. Due to the size of the UK region it is split into the UK Life and UK General Insurance segments, which undertake long-term insurance and savings business and general insurance respectively. In Europe, Delta Lloyd is managed separately from the other European businesses; therefore the region is split into Aviva Europe and Delta Lloyd operating segments.

Aviva Investors, our fund management business and sixth operating segment, operates across all four regions providing fund management services to third-party investors and to our long-term insurance business and general insurance operations. Our geographic operating segments offer the following lines of business to a greater or lesser extent:

Long-term insurance and savings business

Long-term insurance and savings business accounted for over 80% of our total business based on sales for the year ended 31 December 2009. We reported total long-term insurance and savings new business sales of £32.0 billion and investment sales of £3.9 billion for the year ended 31 December 2009. Our focus remains on growing our business profitably and improving our operational efficiency so that we can fully benefit as our major markets return to economic growth.

Market position

In the UK we have a market share of 10% based on annual premium equivalent (APE) according to the Association of British Insurers (ABI) 2009 data. APE is a recognised sales measure in the UK and is the total of new annual premiums plus 10% of single premiums. Long-term insurance and savings products in the UK represented 22% of our worldwide sales for the year ended 31 December 2009.

Long-term insurance products from our European businesses (excluding the UK) represented 42% of total group worldwide sales for the year ended 31 December 2009.

In North America the purchase of AmerUs in the United States was completed on 15 November 2006 for consideration of £1.7 billion. This operation has been rebranded to trade as Aviva USA and is ranked first in both fixed indexed life and fixed indexed annuity products in 2008, according to LIMRA and AnnuitySpecs.

In the Asia Pacific region we operate in eight countries with businesses at different stages of development.

Brands and products

In the UK we operated under the Norwich Union brand until June 2009, when Norwich Union became Aviva. Following the rebrand of Hibernian Aviva in Ireland to Aviva on 11 January 2010, we operate under the brand name Aviva throughout Europe and the rest of the world, except in Poland and the Netherlands, where we operate under the names Aviva Commercial Union and Delta Lloyd, respectively. The business in Poland will fully adopt the Aviva name in June 2010. The brand in the Netherlands, Delta Lloyd, will remain unchanged.

Our long-term insurance and savings businesses offer a broad range of life insurance and asset accumulation products. Our products are split into the following categories:

- Pensions – a means of providing income in retirement for an individual and possibly his or her dependants. Our pension products include personal and group pensions, stakeholder pensions and income drawdown.
- Annuities – a type of policy that pays out regular amounts of benefit, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependents or on a bulk purchase basis for groups of people. Deferred annuities are asset accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked.
- Protection – an insurance contract that protects the policyholder or his or her dependants against financial loss on death or ill-health. Our product ranges include term assurance, mortgage life insurance, flexible whole life and critical illness cover.
- Bonds and savings – accumulation products with single or regular premiums and unit-linked or guaranteed investment returns. Our product ranges include single premium investment bonds, regular premium savings plans, mortgage endowment products and funding agreements.
- Other, which includes equity release and structured settlements.
- Investment sales comprise of retail sales of mutual fund type products such as unit trusts, individual savings accounts (ISAs) and Open Ended Investment Companies (OEICs).

Some of our insurance and investment contracts contain a discretionary participating feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contacts.

General insurance and health

General insurance and health insurance together accounted for 20% of our total sales for the year ended 31 December 2009. In the year ended 31 December 2009, we reported general and health insurance net written premiums of £9.2 billion.

Market position

We are the leading general insurer in the UK and Ireland based on gross written premiums for the year ended 31 December 2008 and we are one of the top five general insurers in Canada and the Netherlands, as based on gross written premiums for the year ended 31 December 2008. The group has other European general insurance operations in France, Italy, Poland and Turkey, and in Asia Pacific we sell general insurance and health products in Malaysia, Singapore and Sri Lanka.

In the year ended 31 December 2009, 47% of our total general insurance and health business was written in the UK.

Brands and Products

Our general insurance business currently operates under different brand names, with Aviva and the RAC in the UK, Delta Lloyd in the Netherlands and Commercial Union Aviva in Poland. Our other general insurance operations in Europe, Canada and Asia Pacific operate under the Aviva brand. During 2010, the business in Poland will complete its transition across to the Aviva brand as part of a global branding exercise. RAC in the UK and Delta Lloyd in the Netherlands will remain unchanged.

Our general insurance business concentrates on personal lines and commercial lines insurance through the provision of motor, household, travel, creditor, commercial liability and commercial property coverage. Our health insurance business concentrates on private health insurance, income protection and personal accident insurance, as well as a range of corporate healthcare products.

Distribution

We have various distribution agreements with bancassurance partners and joint ventures across many markets in which we operate. The agreements contain similar terms and depending on our line of business in that market offer long-term insurance products, general insurance and health products, asset management services or a combination thereof. The agreements have a defined contract term, frequently with the option to extend. In return for offering our products to their customers, the bank or joint venture partners receive a commission as a percentage of sales and in some cases achieve extra commission if agreed target levels of sales are met. Certain agreements have a profit sharing element based on a predetermined percentage. The success of the agreement is regularly monitored against certain performance indicators which are those typically used by the management of the business. In some cases, if the agreed targets are not met, the terms of the contract can be renegotiated, typically with respect to the level of commission or profit sharing percentage. Under joint venture agreements, the costs of running the venture are often split between the partners.

Fund management

The fund management businesses manage the funds of Aviva's general insurance and long-term insurance and savings operations and provide investment management for institutional pension funds, as well as developing and selling retail investment products. Our main brand for fund management is Aviva Investors. The main fund management operations are in the UK, France, the Netherlands, Ireland, the US and Australia. All sales of retail fund management products are included in our long-term insurance and savings business sales.

Market position

Aviva Investors is ranked twenty fourth globally and third based in the UK by assets under management, according to Cerulli Associates' December 2008 ranking of asset managers by assets under management. Aviva Investors operates under a single brand in 15 countries across our regions of the UK, Europe, North America and Asia Pacific. The other fund management businesses of Aviva comprise our collective investment business with the Royal Bank of Scotland Group in the UK, Delta Lloyd in the Netherlands and our Navigator wrap administration business in Hong Kong and Singapore. Total worldwide funds managed by Aviva managers at 31 December 2009 was £250 billion, the substantial majority of which currently relates to Aviva's insurance and savings operations.

Brands and products

Our business in the UK manages investments including equities, fixed income, property, hedge fund and socially responsible investments (SRIs) on behalf of institutional, pension fund and retail clients. We also sell retail ISAs, unit trusts, OEICs and structured products under the Aviva Investors and the Royal Bank of Scotland Group (RBSG) brands.

Operating segments

Each operating segment has a member of our executive management team who is responsible for it and who is accountable to the group chief executive for the operating performance of their segment. The full membership of our executive management team is set out on page 82. This structure for our operating segments is intended to ensure the Group's ability to take advantage of market opportunities, improve speed of response, eliminate duplication of effort, and encourage the sharing of best practice in the interests of our customers and shareholders, while providing local knowledge.

United Kingdom Aviva Life

Business overview and strategy

Our UK life insurance business is a leading long-term insurance and savings provider in the UK with a market share of 10% based on 2009 ABI returns. Our main operations are based in York though we have a significant presence in Norwich, Eastleigh, Bristol and Sheffield. We also have outsourcing relationships with a number of partners including Swiss Re, Scottish Friendly and International Financial Data Services (IFDS) in the UK, and WNS in India. We employ over 9,000 people and have more than seven million customers as at 31 December 2009.

We believe that we provide a broad product offering, with a wide distribution reach throughout the UK. We identify brand, financial strength, with-profits performance, investment performance and rates on protection products as our key strengths.

Our core strategy is to leverage our extensive distribution network and customer base to increase profits in a mature but evolving marketplace. We seek to outperform the UK market while delivering enhanced margins. To achieve this, our strategy includes the rigorous use of capital, further improving customer retention, reducing new business acquisition costs while boosting productivity, all of which will drive greater value for shareholders.

We aim to maintain market leadership through balanced distribution and broad product mix and the simplification of processes, services and costs.

Market and competition

The UK long-term insurance market is highly competitive. However, there is a potential annual savings gap of some £30 billion, the difference between what an individual saves today, and what they need to save in order to pay for a comfortable standard of living in retirement, as well as a potential protection gap of £2.3 trillion, which is the difference between the life insurance and financial protection cover an individual has and the amount they need to meet their needs, according to the ABI and Swiss Re respectively. We believe these shortfalls offer significant opportunities for long-term insurance companies within this market.

In 2009 the long-term insurance and savings markets have continued to be affected by the turbulent economic conditions, the slowdown in the housing market and regulatory impacts, such as the ban on the sale of single premium payment protection insurance.

We consider our main competitors to be Prudential, Legal & General, AEGON, Standard Life and Lloyds Banking Group. The principal competitive factors for our life insurance business in the UK are:

- Financial strength and ratings
- Brand strength and customer advocacy
- Focus on customer and quality of service
- Range of product lines and quality of products on offer
- Strength of distribution channels
- Pricing
- Investment management performance

Products

We provide an extensive product range in the UK that covers pensions, annuities, protection, bonds and savings and equity release products, as well as investment products. We hold strong positions in each of our key markets of savings, protection, and annuity products based on APE in 2009 according to ABI returns.

We write both non-profit and with-profit business. Non-profit business means that shareholders retain 100% of the distributed profits. With-profit business means that policyholders are entitled to at least 90% of the distributed profits, with shareholders receiving the balance.

The with-profit products share profits and losses of the with-profit fund with its investors. This is achieved through a system of bonuses. In deciding the regular bonuses Aviva aims to smooth the return of the policyholder's plan. As bonuses are added to the plan, valuable guarantees build up. These guarantees are unique to with-profits investments. At the close of the plan the investor receives a terminal bonus based on the performance of the fund.

We provide a number of traditional life insurance products including level-term, decreasing-term and guaranteed whole life insurance, guaranteed lifelong protection plans and critical illness cover products.

Our savings and investment products include ISAs, investment bonds, funds, base rate trackers, capital protected plan and with-profits products.

The pensions and retirement products we offer include stakeholder, personal pensions, equity release, annuities, income drawdown and with-profits products. Our annuity offerings include immediate life, enhanced, and with-profit pension annuities.

Distribution

We are a leading provider in the UK financial adviser market and also have a successful joint venture with the Royal Bank of Scotland Group, strong relationships with a number of banks and building societies, distribution deals with the Co-operative Insurance Society and the Post Office, and growing corporate and direct channels.

The majority of our sales are through independent financial advisers (IFAs). This is particularly the case for our savings and investment products as customers seek advice due to the complex nature of the products, the regulation surrounding them and the need for these products to meet the individual circumstances of the customer.

United Kingdom Aviva General Insurance

Business overview and strategy

Our UK general insurance business currently operates in the UK through two major brands, Aviva (which was changed from Norwich Union in June 2009) and the RAC. The combined business was the leading general insurer in the UK for 2008, with a market share of 13% *(2007: 14%)* according to Datamonitor. We focus on personal and commercial insurance and are also a leading provider of roadside assistance through the RAC, as voted by the JD Power survey since 2006. We operate from a number of locations in the UK, India and Sri Lanka.

We aim to maintain our market leading position through underwriting excellence and product and distribution leadership. Our strategy is to focus on insurance fundamentals to maximise returns through the insurance cycle. We seek to control the impact of claims inflation, provide excellent customer service and maintain disciplined underwriting and pricing. To this end, we are nearing completion of the process to transform our customer service centres and simplify our policy range.

Market and competition

The UK is the third largest insurance market in the world according to the ABI based on data for 2008. In 2008, the top four companies had approximately 38% *(2007: 35%)* of the general insurance market share, based on Datamonitor figures for gross written premiums.

Insurance profits in the UK general insurance market are cyclical in nature and after a lengthy period of soft market conditions in commercial lines, characterised by high competition and falling prices, we have seen some tentative signs of hardening since late 2008. There are also signs of market rating increases in personal lines, particularly within personal motor.

In 2009, we believe the proportion of customers buying insurance online has continued to increase and this is now a major distribution channel. In particular we believe that internet price comparison sites for personal motor and homeowner insurance have again grown their market share as customers seek price transparency.

We consider our main competitors to be RBS, RSA, AXA, Zurich, Lloyds Banking Group, Allianz, and Admiral Group. The principal competitive factors for our general insurance business in the UK are:

— Range and quality of products
— Access to distribution
— Pricing and underwriting discipline
— Brand association
— Customer satisfaction, claims handling
— Cost management

Products

We provide a range of general insurance products focused on personal and commercial customers. We held top one or two positions in all our major classes of business for 2008, according to Datamonitor. Our general insurance business mix is approximately 60% personal lines and 40% commercial lines.

Our general insurance products include personal motor, home, travel insurance, payment protection, commercial motor, commercial property, and commercial liability insurance. We also offer a range of breakdown cover through the RAC.

Our personal motor insurance product range includes cars, motorcycles and vans. For businesses we offer cover for fleets and commercial vehicles.

Our home insurance products include building and contents insurance and home emergency cover.

Our commercial products focus on insurance for small to medium enterprises and, from 2010, we plan to expand our product range in the larger UK corporate risk market.

Distribution

We have a multi-distribution strategy. Our personal products are sold directly to customers over the phone and through our website www.aviva.co.uk, via brokers, through over 100 corporate partnerships and our RAC Insurance offering is also available through price comparison sites. For commercial insurance, we focus on broker distribution and believe that independent brokers remain the best source of the advice required by business customers.

Europe

Regional overview and strategy

Aviva operates in 15 countries across Europe (excluding the UK) offering a range of life, pensions and insurance products distributed through a wide range of channels. We are one of the leading providers of life and pension products in Europe, based on 2007 gross written premiums according to the Comité Européen des Assurances (CEA), a European insurance and reinsurance federation.

In 2009, we announced a clear two-part strategy to exploit the considerable opportunities in Europe.

Aviva Europe

In 2009 we announced a new strategy to make a ‘Quantum Leap’ in performance by integrating the operations of 12 previously separate businesses (excluding the operations of Delta Lloyd), under a single pan-European executive team.

The Quantum Leap transformation plan will build a pan-European approach to operations, governance and product development. Distribution has been centralised into two pan-European channels, bancassurance and retail, allowing us to take advantage of the significant growth potential in Europe, build competitive advantage and shorten time to market. A single holding company has been established in Ireland which, subject to regulatory approval, will deliver economic, operational and regulatory benefits to Aviva.

Delta Lloyd

As a result of the IPO, the strategic management of our investment in Delta Lloyd is now managed independently from our other operations.

Delta Lloyd is one of the top five financial services providers in the Netherlands, with a significant operation in Belgium. In November 2009, Aviva successfully completed an IPO of Delta Lloyd which is now listed on NYSE Euronext Amsterdam. Aviva retains 58.3% of the ordinary share capital and 54.0% of the voting rights in Delta Lloyd after having raised £1 billion of gross disposal proceeds. Its listing enables Delta Lloyd to strengthen its profile and brand, as well as more effectively pursue its growth strategy in the Netherlands and Belgium, in particular, ahead of anticipated sector consolidation in those countries.

Aviva Europe

As the leading bancassurer in Europe we have sustained our performance by leveraging our unique bancassurance model, serving customers through our 50 bancassurance agreements. We also have a significant retail franchise, operating through more than 8,000 brokers and agents, and a direct sales force of over 10,000 consultants.

Our pan-European distribution model aims to exploit our market leading bancassurance model by leveraging existing banking relationships, by expanding our product mix into higher margin products such as protection and general insurance and by reducing the cost per policy through the roll out of a pan-European shared platform. The shared platform will also give us the ability to meet the demands of each prospective partner's requirements, in a rapid and efficient way, creating value for both Aviva and our partner.

We are also building a single retail operating model with common tools and methods supported by centralised sales support and a pan-European customer retention centre of excellence. This strategy will enable us to increase our sales force productivity, improve customer retention and create economies of scale through pan-European retail cost management.

Our Aviva Europe business has substantial operations in France, Ireland, Italy, Poland and Spain, with significant long-term insurance businesses. Following early success in Poland, we have been building our long-term insurance and savings business in developing markets in Central and Eastern Europe, and now have businesses in the Czech Republic, Hungary, Lithuania (which for financial reporting purposes we include in Poland), Romania, Russia, Turkey and a distribution capability in Slovakia (which for financial reporting purposes we include in Hungary).

In addition, we have large general insurance businesses in Ireland and France, as well as developing general insurance businesses in Italy, Poland and Turkey. Fund management operations exist in France, Ireland, Poland and Romania. The fund management operations in France, Ireland and Romania are managed by Aviva Investors, and since 1 January 2010 the fund management operation in Poland has transferred to Aviva Investors.

Since January 2010, Aviva Europe has also had responsibility for developing Aviva's business interests in the Middle East, based in the United Arab Emirates.

Market and competition

The region is split between mature Western European markets with high wealth and insurance penetration and the developing markets of Central and Eastern Europe. We expect to see growth of the European long-term insurance and savings market above GDP growth over the next decade as a result of a growing ageing population and the developing markets in the Central and Eastern Europe region.

Competitive intensity and market consolidation varies across the region depending on the size and stage of development of each market. Our competitors comprise a mixture of large pan-European insurers, such as Allianz and AXA, and local insurers, such as Powszechy Zaxlad Ubezpieczan (PZU) in Poland and CNP Assurances (CNP) in France. Across the region consolidation is low; based on total insurance premiums from the CEA the top five insurers hold only 35% of the market. The CEA data shows that Aviva has a 4.8% share of the market (including UK, excluding business written outside of Europe, non primary insurance and inaccessible markets eg compulsory healthcare) which makes us the fourth largest. The largest insurers are Allianz, Generali and AXA. If the UK is excluded, Aviva's market share on the same basis is 4.1%.

We consider our competitive factors in the European region (with such factors to a greater and lesser extent for mature and rapidly developing markets) to be:

- Bancassurance partnerships
- Existing retail franchise
- Pan-European distribution model
- Position in large emerging markets (Russia, Poland, Turkey)
- Customer-centric range of products and services
- Global scale
- Depth of technical expertise across region and ability to transfer to developing business units
- Europe-wide approach to distribution management, product development and support functions
- Pricing
- Brand strength and customer advocacy
- Focus on customer and quality of service
- Financial strength and ratings
- Investment management performance

France

Business overview and strategy

Aviva France is one of the top 10 long-term insurance and savings businesses in France based on 2008 new business premiums, according to L'Argus de L'Assurance. We offer a range of long-term insurance and savings products, primarily for individuals, which focus on the unit-linked market. We have a partnership with the Association Française d'Epargne et de Retraite (AFER), which is the largest retirement savings association in France. Aviva France operates through two main companies: Aviva Vie and Aviva Direct.

Our general insurance business in France has a 2.3% share of the market as based on 2008 premium income according to L'Argus de L'Assurance. We predominantly sell personal and small commercial lines insurance products through an agent network and our direct insurer, Eurofil. We believe Eurofil is the second-largest direct sales insurer in France, based on total written premiums, and it sells motor, home and health insurance. Direct sales to private customers are conducted through the internet and by telephone.

Our strategy for Aviva France is to continue the diversification and growth of our business and to maintain our profitability at a high level. We seek to accomplish these goals through our distribution expertise, innovation of products and services, greater communication and brand visibility.

Market

We believe that the long-term insurance and savings market in France has long-term growth potential due to the ageing population and need for private pensions. We believe that the recent volatility in the market has affected sales as some consumers are lacking confidence in long-term investments, preferring safer forms of investment while they await a recovery in financial markets.

Recent changes in the inheritance tax system have eroded the long-term insurance tax advantages compared to other asset accumulation businesses, which has impacted our individual single premium savings product and undertakings for collective investment in transferable securities (UCITS).

We believe that the general insurance market in France is mature, showing signs of saturation and increased competition. In this market we aim to offer competitive pricing and a wide range of products and services.

Products

Aviva France long-term insurance and savings business sells mainly protection and bonds and savings products. These include protection and unit-linked and with profits savings products. We are the sole distributor of AFER products, which includes unit linked and with-profits products.

With profits savings products are traditional savings products with an agreed duration, a minimum guaranteed credit rate and a profit sharing mechanism to pass part of the excess return to policyholders. Unit-linked savings products return all investment returns earned on policyholder assets directly back to the policyholder.

Aviva France's general insurance business sells personal and small commercial insurance including motor, home, commercial, agricultural and construction products, as well as health insurance.

Distribution

Aviva France sells products through a complete range of distribution channels, including approximately 1,800 branch staff, 400 insurance advisers, more than 1,000 active partner brokers, as well as Aviva Assurances' 875-member network. It has partnerships with AFER, the Union Financière de France (UFF) network of financial advisers, Médéric, and a bancassurance partnership with Crédit du Nord, a subsidiary of Société Générale, which gives Aviva access to 1.4 million customers through approximately 780 branches as at 31 December 2009. We also have direct sales to private customers through the internet and by telephone.

AFER is a market reference savings association, which we believe has strong customer loyalty. AFER products are sold through Epargne Actuelle, an Aviva Vie network and other brokers and makes up approximately 53% of our total French life sales in 2009.

We also have a joint venture with Crédit du Nord called Antarius. We have exclusive rights to distribute Antarius-branded life products, which include protection, and unit-linked bonds and savings products, through Crédit du Nord bank branches.

Ireland

Business overview and strategy

Our recently rebranded business in Ireland is one of the country's leading multi-line insurers with more than one million customers. As the initial part of the move to a global Aviva brand, the business was renamed Hibernian Aviva in early 2009 and from 11 January 2010 has traded as Aviva Ireland. It provides long-term insurance and savings products, asset management (which is managed by Aviva Investors), general insurance and health insurance products. We had a 16.7% share of the Irish long-term insurance and savings market in 2008 based on gross written premiums according to the Irish Insurance Federation (IIF), and were the third largest life and pension provider in Ireland. Our general insurance business is the largest in Ireland, with a market share of 20% in 2008 according to the IIF.

Our strategy in our life business in Ireland is to maximise market opportunities through re-energising the broker distribution channel and pushing forward new initiatives with our bancassurance partner Allied Irish Banks plc (AIB). This includes developing products with attractive safety features to meet customer needs when investment markets are more volatile. In our general insurance business we aim to take advantage of opportunities to grow our business through building innovative products, increasing scale and exploiting distribution advantages.

In May 2008 we acquired 70% of VIVAS Health (now renamed Aviva). We believe that this initiative presents significant growth opportunities in a new market sector and extends our existing partnership with AIB who own the remaining 30% of this company.

Market

The life insurance market in Ireland is largely consolidated with approximately 71% of the market share being held by the top three providers, including Aviva, according to a report by IFF based on 2008 gross written premiums. Price competition in the market continues to increase, with focus increasingly on market share. We believe that customers have moved away from traditional life products in Ireland because of volatility in the stock markets and a slowdown in the housing market in the last two years.

We believe that the general insurance market in Ireland continues to be very competitive for both personal and commercial lines business and there is continued downward pressure on premium rates.

Products

Our long-term insurance and savings business offers a comprehensive range of protection, bonds and savings and pension products. The protection products include single, dual and joint life insurance, mortgage protection, specified illness and guaranteed whole life cover products. The pension range covers retirement and investment products including government promoted personal retirement savings account (PRSA) schemes.

Our general insurance and health businesses provide a wide range of products including property, motor, travel, farm and business insurance. Our motor business is more focused on personal lines, while our property business is primarily commercial lines.

Distribution

Aviva has a wide range of distribution channels in the Irish market. Customers can purchase our products through intermediary channels such as brokers, corporate partners and through retail channels including call centres, a nationwide branch network and the internet.

Our long-term insurance and savings products are distributed through a broker network and our bancassurance partnership with AIB. This partnership gives us access to more than 280 branches. We also provide branded products for a number of financial institutions.

The majority of our general insurance business is sold through brokers, with an increasing proportion offered by direct and corporate partners.

Italy

Business overview and strategy

Aviva Italy is the country's seventh-largest life insurer, with a market share of 5% in terms of 2008 gross written premiums according to Associazione Nazionale fra le Imprese Assicuratrici (ANIA) and has over 1.3 million customers. We also have a stake in Banca Network Investimenti, a 900-member financial adviser network. Aviva is the 13th largest general insurance company in Italy with a market share of 1% according to the Associazione Nazionale fra le Imprese Assicuratrici (ANIA).

Our strategy is to continue to work with our partners on new products, suited to the current markets, to develop our bancassurance relationships and to expand our customer reach, through customer penetration and expanding our distribution reach.

Market

In the Italian life market, large groups dominate the market, with the top four providers writing more than 50% of the life premium income in 2007 according to AXCO Insurance Information Services. While the market has been reasonably stable over the last five years, it shrank in both 2007 and 2008 *(by 11.2% and 11.7% respectively)*, with total market premiums at about €55 billion for the year, according to ANIA.

In the Italian market, we believe that many consumers prefer investment products from well established long-term insurance companies as long-term savings vehicles. We also think that consumers prefer developing a personal relationship with the bank distributing products through one-to-one contact. Internet and telephone channels are not widely used in Italy.

In the last few years the Italian government has introduced legislation to break the exclusive relationship between general insurance companies and their 'tied' agents and therefore widening the availability of general insurance products from different insurers. This has opened up the general insurance marketplace and increased competition from different channels.

Products

Our long-term insurance and savings business offers a wide range of products covering protection, bonds and savings and pensions. The largest segment is single and regular premium savings and investment products. These include unit-linked policies linked to a range of investment funds and profit-sharing policies where there is a minimum annual return credited to the policy, with the potential for an additional bonus. Also we provide index-linked products where there is typically some protection of capital at the end of the policy term and a pay-out linked to the performance of an index or basket of shares.

A growing area of the market is credit protection insurance, where protection on death and disability is provided for mortgages and credit loans. Individual and group pension plans are also available and this part of the market is expected to grow in the long-term given the ageing population and government reforms to reduce the cost of state retirement provision.

Our general insurance business in Italy mainly provides motor and home insurance products to individuals, as well as small commercial risk insurance, including marine, to businesses. For reporting purposes the Italian general insurance business is shown within "Other Europe" in the general insurance segment.

Distribution

Our products are distributed principally through bancassurance partnerships with UniCredit Group, Banco Popolare Italiana Group (BPI), Banca Popolari Unite (BPU) and Unione di Banche Italiana (UBI). Our partnership with Banca Delle Marche ended in May 2009. These partnerships give us access to more than 6,200 branches and additionally we also have 650 insurance agents and access to approximately 5,800 sales advisers.

In December 2007, Aviva Italy entered into an exclusive long-term partnership with Banco Popolare and acquired a 50% interest in Avipop Assicurazioni, a general insurance company, for a total consideration of £188 million. This replaced our previous agreement with BPI to distribute long-term insurance and savings products.

In 2007, we also purchased, together with other investors, a stake in Banca Network Investimenti, a 900-member financial adviser network, from BPI. We believe that this network will further extend and diversify our distribution reach in the market for long-term insurance and savings business.

In 2008, we acquired 50% plus one share in UBI Assicurazioni Vita S.p.A. (UBI Vita). UBI Vita distributes life insurance products through Banca Popolare di Ancona and other channels and further expands our distribution capability and customer base.

We distribute general insurance products primarily through agents and brokers, with a growing proportion of bancassurance sales.

Poland (including Lithuania)

Business overview and strategy

Our operations in Poland and Lithuania provide long-term insurance and savings products. Our businesses have a 4,200-member direct sales force, with 66 sales offices across the country as at 31 December 2009. Completing the move to a global brand, our Polish business, currently known as Aviva Commercial Union, will commence trading as Aviva in June 2010.

Our Polish life operation is the second-largest overall life insurer, with a market share of 10% based on total premium income in 2008 according to the Polish Financial Supervision Authority (KNF). It has more than 900,000 individual and group customers and manages over £2.5 billion of customers' assets. The pension business has been leading the second-pillar pension fund market since its launch in 1999, with a market share of around 26% and almost 3 million customers and over £9.8 billion of assets under management, according to KNF. Second pillar pension funds are those privately managed, first pillar are the pay-as-you-go state pensions and third pillar are voluntary contributions.

Our long-term insurance strategy is to expand our distribution network, particularly in the direct channel, and to also develop other alternative points of contact for potential clients, for example, bancassurance. We seek to capitalise on our new product launches and maximise cross-selling opportunities. Our product strategy for pensions is to retain our status as the market leader in terms of customers and assets.

Our general insurance business in Poland commenced in 1997 and continues to develop. In 2007 we launched a direct motor insurance product in order to pursue further potential for growth in this dynamic market. For reporting purposes the general insurance business is shown within "Other Europe" in the general insurance segment.

Market
The Polish market for protection products has seen significant growth since 1999, although penetration rates remain relatively low according to our analysis of KNF statistics. Insurance companies in Poland are either state-owned or private, with the public sector companies continuing to have a strong share of the market. The private companies are often under the control of international insurers.

In 1999, Poland launched a comprehensive reform of its state pension system and created privately managed funds. This enabled private companies to offer pension products and made it obligatory for all employees under 30 years of age to join one of the competing pension funds.

In 2009 the Polish government agreed further pension legislation changes which restrict the fees that pension fund management companies can charge. This is effective from 1 January 2010.

The general insurance market is continuing to grow, although at a slower rate than the long-term insurance and savings market. The general insurance market is mainly driven by the motor insurance market. Distribution has been dominated by direct sales force and agents, however direct sales are now growing.

Products
Our life business in Poland provides a broad range of protection, annuities and bonds and savings products. For individuals it offers unit-linked life policies, annuities, single premium savings and, for institutions, group life insurance and employee pension programmes, which are both unit-linked products.

Our pension business offers a standard product for all customers as part of the privately managed pensions market.

We offer general insurance products to both institutions and individuals in Poland. For institutions we offer selected commercial lines risks such as fire and loss-of-profit insurance, technical insurance, insurance against loss of property during transportation, civil liability insurance and commercial health insurance. For individuals we offer home, accident and travel insurance, which are primarily sold by tied agents, whilst motor insurance is sold through our direct operation.

Distribution
The direct sales force is the main distribution channel for most of the Poland group and is made up of 4,200 tied insurance agents whose work is co-ordinated by a network of our sales offices run by sales managers.

In 2008 we increased the productivity and size of our direct sales force and entered a joint venture with Bank Zachodni WBK (a subsidiary of AIB) to sell both life and general insurance products through the bank's network of over 500 branches.

We also co-operate with independent insurance agencies and brokers. We believe that these insurance brokers play a key role in selling commercial lines general insurance. Our mutual funds are also sold in brokerage houses and our individual products are supported by call centre and website sales.

Spain

Business overview and strategy
Aviva Spain sells long-term insurance and savings, health and accident insurance in Spain through a bancassurance network based on joint ventures with six banks (Bancaja, Caja España, Caixa Galicia, Unicaja, Caja de Granada and Cajamurcia) and through Aviva Vida y Pensiones, the wholly owned Aviva-branded long-term insurance company. Aviva Spain is the country's fifth-largest long-term insurer by gross written premiums with a market share of 6% in 2009 according to Investogación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones (ICEA).

In February 2008, we exercised an option to acquire an additional 45% shareholding in our joint venture with the Spanish savings bank Caja de Ahorros de Murcia, Cajamurcia Vida, which brings our total shareholding to 50% and enables the migration of the majority of the Cajamurcia protection products to this joint venture company. The new company distributes long-term insurance and savings products via Cajamurcia's network of over 400 branches.

Our strategy in Spain is to further develop our bancassurance relationships and attract new partners if the opportunities arise. We hope to develop our general insurance offerings through our existing partnerships. Overall, we want to continue to be customer-focused, react quickly to market trends and maximise the sales of our core products, such as pensions and savings.

Market
Spain's financial market has a strong banking tradition, and as such customers are accustomed to receiving advice through traditional banking channels. We believe that customers have a high level of financial understanding and require comprehensive advice on products and services. The top positions in the long-term insurance market are dominated by bank-owned or bank-insurer joint ventures, with the overall bancassurance channel accounting for more than 70% of new business premiums in 2007 in the Spanish life insurance market according to ICEA.

Products
We offer a wide range of bonds and savings, and protection products. Investment products include both unit linked and traditional plans, where profit sharing is regularly used to increase the policy return. Our traditional plans include savings schemes and income products. Pension savings products have valuable tax advantages each year for such contributions within permitted limits and we offer a flexible range of individual and group plans with alternative investment choices. We also offer protection products, covering both mortgages and credit loans typically providing cover for the family in the event of death or disability.

The PIAS 'pension' product was launched in 2007: this is a savings contract with attractive tax benefits if the policy remains in force for at least 10 years and if an annuity is purchased at the maturity of the product.

Distribution
Through bancassurance partnerships we have established subsidiaries to distribute our products with each of the banks as set out below:
- Aseval – in conjunction with Bancaja since 2000
- Unicorp Vida – in conjunction with Unicaja since 2001
- Bia Galicia – in conjunction with Caixa Galicia since 2001
- Caja España Vida – in conjunction with Caja España since 2001
- General Vida – in conjunction with Caja de Granada since 2002
- Cajamurcia Vida – in conjunction with Cajamurcia since 2007

Aviva Vida y Pensiones distributes our products through professional intermediaries (financial advisers, agents and brokers) and a direct sales force, supported by a branch office network and call centres.

Other Europe

Business overview and strategy

Aviva's other European businesses are in Turkey, the Czech Republic, Hungary, Romania, Russia and Slovakia.

In 2007, our Turkish long-term insurance and savings business merged with Ak Emeklilik, the long-term insurance and savings company of Sabancı Holdings, to form a joint venture company, AvivaSA. The new company merged on 31 October 2007 to become the largest pensions' provider in the market, with a market share of 22% in 2008 according to the Turkish Pensions Monitoring Centre, and the fourth largest life insurer with a market share of 6% in 2009 according to the Association of Insurance and Reinsurance Companies of Turkey. Under the merger, AvivaSA has a bancassurance agreement with Akbank T.A.S. (Akbank), Turkey's second largest privately-owned bank based on total assets according to the Banks Association of Turkey.

In the Czech Republic we are the 13th largest life insurer, with a 1.6% market share in 2008 according to the Czech Insurance Association. We have more than 46,000 customers and 117 staff as at 31 December 2009.

In Hungary, we are the sixth largest life insurance business, measured by 2008 gross written premiums, with an 8% market share, according to the Association of Hungarian Insurers. We have a tied agent sales force consisting of more than 600 agents and 22 agencies nationwide.

Aviva Romania is the eighth largest life insurer as measured by premium income in 2008 according to the local insurance regulator, CSA. We were also the fourth largest voluntary pensions' provider in 2008 as measured by fund value according to the Private Pension Regulator (CSSPP). Aviva Romania has over 550 direct sales force agents and 157 staff. We have established a new company to sell newly created mandatory pensions.

In Russia, we started trading in early 2006, with a strategy to position the business to take advantage of the growth expected to occur as the life insurance industry develops. We were the fourth largest life insurer in 2009 compared to 21st in the prior year, with a 5% market share based on Aviva Russia's estimates based on statistics from the insurance market regulator and Interfax news agency.

Our strategy in the "Other Europe" region is to grow our direct sales force numbers and productivity, whilst continuing development of other distribution channels, including bancassurance, to enhance our product range and to continue to investigate profitable opportunities in new markets. In all of these markets, pension reform continues to offer long-term potential.

Market

Across these new European markets there are countries at different stages of development. Hungary and Czech Republic are the most developed markets although they still have a gap as compared to Western European markets.

We believe that Russia and Turkey, with their large populations and rapid economic growth, are highly attractive markets for the medium term. Countries such as Romania represent longer-term potential. With pension reform starting later in these countries, markets are at an early stage of development.

Competitiveness varies by country depending on its size and stage of development. In more developed markets competition is with regional players (eg AXA/Allianz), ex-state-owned insurers and new entities. The less developed markets do not have the same competitive intensity, although competition is growing.

Products

Aviva Turkey's products include unit-linked pensions, supplemented by protection insurance and other savings products, which are aimed at high-net-worth customers and leading national and multinational corporations. The general insurance segment offers motor, household, fire, marine, personal accident, travel and liability insurance.

Our Czech Republic business offers individual unit-linked savings, protection insurance, term insurance, other savings products, group life schemes for corporate clients and credit insurance for our own bancassurance partners.

In Hungary, we offer flexible unit-linked and traditional life products. Aviva also acts as a distributor for various banking products, such as mortgage loans and current accounts, as well as selling a combined product.

In Romania, we provide traditional life insurance products and started to offer pension products to customers following government reforms introducing compulsory pensions in 2008.

In Russia, we focus on individual accident insurance, group non-state pensions, accident and sickness insurance.

Distribution

In Turkey, we have a multi-channel distribution strategy through brokers, agencies, a direct sales force, corporate sales and bancassurance through an agreement with Akbank, which gives us access to their approximate six million retail customers through 868 branches. Our general insurance business is predominantly sold through agents, with the remainder coming through direct sales, a call centre and bank agents.

In the Czech Republic, our sales force is made up of over 450 agents operating across 14 branches, with 24 independent distributors and two bancassurance partners.

In Hungary, in addition to the direct sales force we also sell through brokerage partners. We commenced cross-border sales into Slovakia in August 2008, selling a single product through Brokernet Slovakia, which has increased our geographical coverage.

In Romania, we distribute through a direct sales force branch network and have bancassurance partners, which include local units of Piraeus Bank and ABN AMRO.

At the end of 2009 Aviva Russia had 43 financial consultants, servicing approximately 390,000 clients. Agreements with 13 leading retail banks have been signed and bancassurance sales are growing rapidly.

Delta Lloyd

Business overview and strategy

Delta Lloyd operates in the long-term insurance and savings, general insurance and the fund management markets in the Netherlands, Belgium and Germany. The group employs about 6,300 staff as of 31 December 2009.

In November 2009 Aviva successfully completed an IPO of Delta Lloyd which is now listed on NYSE Euronext Amsterdam. Aviva retains 58% of the ordinary share capital and 54% of the voting rights in Delta Lloyd after having raised £1 billion of gross disposal proceeds. Its listing enables Delta Lloyd to strengthen its profile and brand, as well as more effectively pursue its growth strategy in the Netherlands and Belgium, in particular ahead of anticipated sector consolidation in those countries. Delta Lloyd is considering its strategic options in Germany.

On 24 March 2010 Delta Lloyd Germany has announced the intention to discontinue writing new business. This is in line with the decision, as indicated in the prospectus for the initial public offering, to discontinue Germany as a core market. Delta Lloyd was one of the top five providers of life and general insurance in the Netherlands in 2008 based on gross written premiums according to an analysis of competitor press releases. The sale of our health operations to O.W.M CZ Groep Zorgverkeraar U.A (CZ) which was effective on 1 January 2009 realising a gain on sale of £31 million, has also given us an opportunity to sell long-term insurance and savings, and general insurance products to CZ's existing customer base.

Delta Lloyd Asset Management manages investments both for Delta Lloyd's own insurance operations and for third parties, including individual and institutional customers. In addition to managing equity and fixed interest funds, our operations include management of a property portfolio.

Delta Lloyd aims to be one of the leading financial service providers in the Netherlands and Belgium. To achieve this goal, our business is focused on achieving operating efficiencies and product and distribution innovation, while building the trust of our customers through improving customer service and strengthening financial disciplines.

Market

We believe that the Dutch insurance market is mature and that cost reduction and economies of scale are becoming increasingly important. Customers are increasingly demanding that suppliers provide value-for-money high-performing products with transparent charges. The Dutch savings market is extremely competitive with banks now able to offer retirement products on the same terms as insurers.

In the general insurance market there has been stiff competition on premium rates, particularly in the key motor account, and increasing claims frequencies linked with the economic downturn.

The credit crisis has resulted in a number of Delta Lloyd's competitors seeking state or shareholder support. We expect this situation to result in further industry reorganisation and consolidation in the coming years.

Products

The long-term insurance and savings business of Delta Lloyd offers a range of protection, bonds and savings and pensions services, including group pension schemes, annuities, unit-linked bonds, savings products and protection insurance.

Our general insurance business sells a range of products including personal, motor, travel and home insurance and small to medium sized commercial policies.

Delta Lloyd also sells retail investment fund and mortgage products in the Netherlands and retail banking products in Belgium.

Distribution

Delta Lloyd distributes long-term insurance and savings and general insurance products under three brands: Delta Lloyd, OHRA and through a joint venture with ABN AMRO. In the Netherlands the Delta Lloyd brand works exclusively with independent insurance intermediaries, while OHRA focuses on direct channels such as telephone, internet and mail. Delta Lloyd's third brand comprises a joint venture with ABN AMRO, reaching customers through the extensive distribution networks of ABN AMRO bank. In January 2009, Delta Lloyd and ABN AMRO bank confirmed that the joint venture remains the exclusive insurance partner for the current and future Dutch banking operations of ABN AMRO, including Fortis branches when they rebrand in 2010.

Mutual funds are primarily sold through third-party banks such as ABN AMRO, ING and Rabobank.

North America

Regional overview and strategy

Aviva North America consists of two businesses: the life insurance and annuity business in the US and the general insurance business in Canada. Our strategic priorities for the region are to improve margins and optimise capital usage, to selectively expand into market adjacencies and to optimise the regional operating model.

To enhance the growth in our existing businesses, we also seek to increase Aviva's profile in North America by building on the strength of the global brand through concerted communication efforts with financial analysts, key financial and business media, consumers and distributors. We continue to expand our distribution network with a focus on larger brokerage general agents.

Market and competition

The North America region is home to two of the world's largest and richest economies. Aviva has two businesses that currently serve their respective home markets and are led by our regional headquarters in Chicago.

We view both the US long-term insurance and annuity market and the Canadian property and casualty insurance market as highly fragmented markets with a large number of insurers, none of whom is in a truly dominant position. Competitors for the products in which we specialise, include global insurers such as AIG, Allianz, Royal & Sun Alliance, Manulife Financial, Old Mutual and AXA. Local market competitors also feature in various product segments.

We consider our competitive factors in the North America region to be:

— Tailored products
— Product innovation
— Technical expertise
— Quality of distribution partnerships
— Financial strength and performance
— Strong financial ratings
— Investment management performance
— Global brand

USA

Business overview and strategy

Aviva USA is the largest provider to both the fixed indexed life insurance and fixed indexed annuities according to reports on 2008 sales which were released by LIMRA and AnnuitySpecs in early 2009. Our acquisition of the former AmerUs Group was completed in late 2006. Following this we have achieved significant growth and market penetration in the US market, with more than one million customers.

Prior to the acquisition of AmerUs Group, the US business was headquartered in Boston and had a niche strategy, focused on retirement and estate planning with distribution through independent agents, banks and structured settlement brokers.

Our new strategy is to improve margins, optimise capital usage and to leverage our core life insurance and annuity distribution and product capabilities into adjacent markets. A key theme for Aviva is one of recognition; treating both employees and customers as unique people with unique circumstances.

Market

The US is the world's largest national economy, according to the World Bank, based on 2008 GDP, as well as the largest insurance market according to the Swiss Re Sigma Report, No.3/2009. This is especially true for retirement savings products as 78 million members of the baby boom generation move into retirement in the US.

At the same time, the US economy, and its financial sector in particular, suffered a severe contraction as a result of the financial crisis. There are now increasing signs of economic recovery and, despite the recession, North America's economies remain among the world's largest and its population among the world's wealthiest. Retirement savings represent 34% of household assets in the US, according to a report by Investment Company Institute, and, despite the uncertainty affecting the financial markets, we believe that people are still saving and buying insurance from brands they trust. In Aviva USA, we believe we are well positioned to respond to this customer need for safety, having savings and investment products with downside guarantees as a major component of our product portfolio. The indexed annuity and indexed life markets in which Aviva USA operates are dominated by a small number of large insurers. According to the fourth quarter 2008 Advantage Indexed Sales and Market Report by AnnuitySpecs, the top five providers hold 62% of the indexed annuities market, while for indexed life, the top five account for 64% of the market.

Products

Aviva USA has a strategic focus on protection, annuity and savings products. Our life products include our universal life, indexed life, no lapse guaranteed and term assurance products. Our savings products are primarily funding agreements. Our annuity products include indexed annuities, fixed index annuities, deferred fixed annuities, immediate annuities, guaranteed lifetime withdrawal benefits, and structured settlements. During 2008 we announced our withdrawal from the structured settlement business.

In addition, we now offer wellness products and services through our relationship with Mayo Clinic Health Solutions. We have also launched enhancements to our guaranteed income withdrawal benefits and a new bonus index deferred annuity.

Distribution

We use Independent Marketing Organisations ("IMOs") to promote and sell our fixed indexed annuities and protection products. Our network covers all 50 states and includes 11,500 annuity producers and 27,000 life insurance producers. The large majority of annuity sales are made through fewer than 3,000 producers, of who approximately one third are SEC registered. We believe that SEC registration provides a number of significant opportunities for the business, including the ability to cross-sell life products through the registered distribution force and product penetration of distribution organisations that already operate within the registered market. We also distribute through career marketing organisations, personal producing general agents and brokerage general agents.

Canada

Business overview and strategy

Aviva Canada has an 8% share of the Canadian general insurance market, with a top five position in all major provinces according to a report by MSA Research Inc.

We believe that we are well placed in Canada for steady organic growth and that our success is underpinned by stable broker relationships, underwriting excellence and a balanced portfolio of commercial and personal lines. Looking ahead, we aim to create value by repositioning our personal lines book in Ontario through greater pricing sophistication and customer segmentation. We will also continue to address increasing customer demand for choice and simplicity through our broker-distribution model and brand investment in key territories. In commercial lines, we aim to retain our current market position through our expertise in distribution and product innovation.

Market

As the seventh largest in the world, according to the Axco Insurance Market Report, Canada's general insurance market is established and stable. The four largest provinces generate around 90% of total premiums with Ontario, the largest, representing 47% on its own, according to a report by MSA Research Inc in 2008. The biggest growth market is western Canada, where economic development has resulted in significant population increases and a changing demographic profile.

The Canadian general insurance industry is highly fragmented with many small players and no dominant consumer brand. Steady consolidation has resulted in the top five companies sharing 36% of the market with the top two companies, Intact Insurance (formerly ING Canada) and Aviva, controlling 19%. The rest of the industry consists of smaller, provincially based or niche companies. Further consolidation is anticipated.

Distribution is primarily through the traditional broker channel, estimated by market commentators, including Axco, to account for over 70% of distribution, with the direct and affinity channels gradually increasing their share of the market. Competition for growth has moved to investment in brokers, direct to consumer marketing, and technology.

Products

We provide a number of general insurance products through our Canadian companies including:

- Property, home and automobile insurance, including recreational vehicles and mobile homes insurance
- Niche personal insurance products including holiday and park model trailers, horses, hobby farms, sailboats, power boats and antique classic and custom cars
- Small and medium-size enterprise commercial insurance, including motor, property, liability, boiler and machinery, and surety

Distribution

We operate in Canada through a distribution network primarily focused on approximately 1,700 independent retail brokers, who distribute our core personal and commercial lines. In addition, we work closely with both independent and wholly owned speciality brokers to distribute group insurance and speciality personal lines, such as insurance for antique cars.

Asia Pacific

Regional overview and strategy

Aviva Asia Pacific operates in eight countries across the region through both joint ventures and wholly owned operations. India and China, our 'must-win markets', have large populations, relatively high economic growth and are expected to generate a significant portion of the insurance growth in Asia in the future. Most of our 'developing businesses' in our other countries (Singapore, Hong Kong, South Korea, Malaysia, Taiwan and Sri Lanka) are bancassurance led with strong joint venture partners. We had an established business in Australia, which we sold on 1 October 2009. We believe that there is potential for growth in the Asia Pacific market due to low insurance penetration in most countries, an expanding middle class and relatively high gross domestic product (GDP) growth.

Aviva Asia Pacific aims to build a high growth and value-creating region driven primarily by 'must win' markets of China and India by increasing new business sales for long-term insurance and savings products through development of existing businesses, investment in new business development, leveraging shared services and harnessing the benefits of multiple distribution channels in all of our markets.

Market and competition

The Asia Pacific insurance market includes both mature markets such as Australia, Hong Kong, Singapore, Taiwan and South Korea and emerging markets such as India and China. The mature markets accounted for around 82% of our long-term and savings sales in 2009. However we expect that large emerging markets, particularly our 'must win' markets of India and China, will become increasingly more important in the future. In long-term insurance and savings, we believe that the long-term outlook is positive and will be driven by a generally high savings rate, under-penetration of insurance and diversified savings, relatively higher GDP growth and the growing need for old age provision.

At a regional level, Aviva Asia Pacific competes mainly with other large international insurance and financial services groups. The most significant competitors include AIG, ING, Prudential plc, HSBC and AXA. These groups are all early entrants into the region and most have significant operations and experience in all of the Asian markets. Nevertheless, in our chosen markets, we believe our strong distribution partnerships, wide footprint and regional operational model position us well to compete effectively in the region and create a solid platform for continued growth.

We consider our competitive factors in Asia Pacific to be:
- Balanced portfolio of markets
- Established presence in "must-win" markets
- Multi-channel distribution, with particular strength in bancassurance
- Strength in wrap administration platforms
- Brand recognition
- Technical expertise

Asia

Business overview and strategy

Aviva has operations in eight markets in Asia, with businesses at different stages of development.

In China, through our joint venture with COFCO Limited (COFCO), we are ranked fourth in terms of total premium among 28 foreign insurers in China according to China Insurance Regulatory Commission. We currently have a presence in 10 provinces, with a total of 40 city branches. Our "new five year strategy" aims to achieve a top 10 position by 2014 in terms of life APE.

In India, we operate in partnership with the Dabur Group through an associate, Aviva Life Insurance Company India Limited. We currently rank 11th among the private life insurance companies in India based on first year premium as at 31 December 2009, according to the Insurance Regulatory and Development Authority (IRDA) and we aim to be a top 10 life insurer by leveraging our bancassurance expertise and transforming our agency sales force.

In Singapore, we rank fifth in the life long-term insurance market by annualised premium equivalent (APE) as at 30 September 2009 according to the Life Insurance Association. We are one of the leading bancassurance players in the market. We have recently extended our partnership with DBS Bank (DBS), one of the largest banks in Southeast Asia, until 2015, to provide long-term insurance, savings and health and protection insurance products. Importantly, the agreement now covers additional markets such as India, China, and Taiwan.

In Hong Kong we are ranked 21st in the long-term insurance market by APE as at 30 September 2009 according to the Office of the Commissioner of Insurance. Our strategy is to leverage our core bancassurance partnership with DBS and independent financial adviser (IFA) channels to deliver profitable growth.

In Sri Lanka, we own a 51% stake in Eagle Insurance (Eagle). Eagle is ranked the third largest life insurer and fifth largest general insurer in the country, as based on gross written premiums in 2008 according to the Insurance Board of Sri Lanka. In the third quarter 2009, we signed a distribution agreement with Lanka ORIX Leasing Company PLC, a large leasing company. In Sri Lanka, we aim to attain no.1 position by 2012 in terms of new business, in life business and to become the fourth largest general insurance player in Sri Lanka.

In July 2007, we entered the Malaysian market through the acquisition of a 49% stake in two of CIMB Group's subsidiaries, Commerce Life Assurance Berhad and Commerce Takaful Berhad who have entered into bancassurance agreements with another CIMB Group subsidiary, CIMB Bank. This has provided Aviva access to over four million potential new customers as well as introducing takaful insurance to the Aviva group. We believe there is significant growth opportunity in takaful in the next few years. We aim to become a top five life and takaful company in Malaysia by 2014 by APE.

In 2007, Aviva formed a long-term insurance joint venture, First-Aviva, with First Financial Holdings Company (FFHC) in Taiwan. First-Aviva, in which we have a 49% shareholding, started operations in early 2008 and distributes long-term insurance and savings products through a bancassurance agreement with FFHC's flagship subsidiary, First Commercial Bank, which is Taiwan's second largest bank network in terms of number of branches according to the Financial Supervisory Commission. By leveraging over five million bank customers, we aim to become the most profitable insurance company in the bancassurance channel.

In April 2008, we entered the South Korean long-term insurance market by acquiring a stake in LIG Insurance Company Ltd through a partnership formed with Woori Finance Holdings Company Ltd Woori Bank is the second largest commercial bank in South Korea by market value. We aim to be a top 10 life insurer by end 2012 by new business premiums.

Market

We believe that the fundamentals of the Asian markets remain attractive. The low insurance penetration in most countries and relatively higher GDP growth indicate that prospects for continued growth in the long-term insurance and savings industry are good. The economic forecasts from Asia Development Bank predict GDP growth for the region of 4.3% in 2009 and 6.6% in 2010 (Asian Development Outlook 2009 Update, 22 September 2009).

In our view, the strong outlook for the region is attracting a growing number of new insurers and some existing local insurers are developing wider regional ambitions, resulting in greater competitive pressure throughout the region.

Products

Our Asian businesses generally offer a range of protection, bonds and savings and pension products including universal life, participating life, unit-linked single and regular premium life insurance, other savings and pensions products and a range of accident and health insurance products.

In Singapore and Hong Kong, we offer access to a wide range of mutual funds through Navigator, a wrap administration platform which allows investors to plan, choose, manage and track their investments easily and more effectively. We are looking at opportunities to roll out our Navigator platform to other attractive markets.

Distribution

We operate a multi-distribution strategy in Asia, with particular strength in bancassurance, and aim to continue to harness the benefits of multi-distribution in all of our markets as we expect the regionally dominant agency sales force model to decline in the region over coming years as markets mature.

Aviva Singapore has a multi-channel distribution strategy building on the core bancassurance relationship with DBS Bank and an expanding network of IFAs. We believe that our UK and Australia expertise have helped grow this network.

In Hong Kong, we distribute the majority of our products through bancassurance and IFAs.

In China, India, Malaysia, Taiwan and South Korea bancassurance is the main distribution method. However, direct sales force is growing in importance for our business in India.

Australia

For details on the sale of our Australian business, which completed on 1 October 2009, see "Financial statements IFRS – Note 3 – Subsidiaries".

Aviva Australia (prior to the sale on 1 October 2009) provided investment and compulsory pensions (superannuation) products through our Navigator platform and protection insurance business.

In Australia, Aviva provided protection products including life insurance, total and permanent disability insurance, and critical illness insurance products.

We distributed protection insurance in Australia through all major channels with a focus on the IFA channel.

Aviva Investors

Business overview and strategy

Aviva Investors was set up in 2008 to combine major fund management components of the Aviva group into a single global fund management business. We have £250 billion in assets under management as at 31 December 2009 and offer a broad range of expert investment skills and experience around the world. We manage internal funds for our long-term insurance and savings, and general insurance operations as well as a range of external retail and institutional funds. We provide these services across most of our geographic operating segments, with services in 15 countries around the world, including the UK, the US, Canada, France, Poland, China and Australia.

Aviva Investors provides investment management services to a broad range of client types. Our largest client group are the long-term insurance and savings, and general insurance businesses of Aviva plc. For these clients we provide bespoke asset management services, across a broad spectrum of asset classes. We work extremely closely with these clients to develop tailored solutions to their policyholder needs.

Our distribution model to external clients is a business-to-business model, and this is consistent across all regions. We provide both bespoke segregated solutions for larger clients or offer access to a variety of fund ranges. Our target clients for the larger segregated solutions tend to be large pension schemes and large financial institutions such as insurance companies and banks.

Our strategy is to rapidly grow our external business through offering client centric solutions to our customers across an expanding global footprint. This will be achieved in conjunction with the establishment of a globally integrated organisation, supported by a high performance culture and global core processes.

Market and competition
Following the creation of Aviva Investors, we consider our competitor peer group to include large-scale global asset managers such as those owned by Blackrock, AXA and Allianz.

In addition, we continue to look at UK-based providers who have significant overseas operations, including both insurance-owned players such as Standard Life Investments and the combined asset management businesses of Prudential plc (primarily M&G), as well as independent, listed managers like Schroders and Aberdeen Asset Management.

Where appropriate, we also look at other managers with a strong presence in the UK institutional and retail markets such as F&C Asset Management, Henderson Global Investors, Jupiter Asset Management and Threadneedle. These managers also have non-UK operations, particularly in Europe.

Key identified competitive factors for Aviva Investors include:
- Investment performance
- Brand
- Our Aviva group parentage
- Client service
- Scale
- Global product breadth and distribution reach
- Capabilities to provide solutions
- Risk management expertise

Products
Our product range is broad and covers most asset classes. In Europe we have a range of SICAVs (domiciled in France, Luxembourg, Romania and Poland). These funds cover all key asset classes and normally have different share classes depending on the size and type of investor. Our normal distribution model for these funds focuses on wholesale distributors, asset allocators and smaller institutional investors.

In the UK, we supply products to the UK retail and wholesale markets. These funds are mostly "owned" by Aviva UK Life with Aviva Investors as asset manager, although we have a small number of funds registered in the Aviva Investors name. These funds are promoted to investors via IFAs, fund platforms, supermarkets, and discretionary asset managers. In addition, we have a range of pooled pension funds which are aimed at the smaller pension fund market. These funds are normally defined benefit schemes and tend to be advised by investment consultants.

We manufacture hedge funds in the UK, US and Poland. These funds are generally registered offshore and are primarily sold to the hedge funds industry, although we do also promote single strategy funds to institutional clients, family offices and wealth managers. The asset classes include fixed interest, multi asset, convertibles and equities.

We also have an expanding range of specialist property funds. These funds are targeted at specialist real estate buyers and large institutions (mostly pension funds and local authorities), and provide real estate solutions to a wide range of risk appetites, ranging from secure income generating funds to highly leveraged growth funds. These funds address the UK, European and Asian markets.

In Australia, we have a range of unit trusts that are primarily marketed to retail clients through the Navigator platform. This platform enables investors to select from a range of funds, not just those manufactured by Aviva Investors. The funds we manufacture are primarily equity related funds with an Australian and Asian focus.

We also have four Dublin domiciled money market funds addressing the sterling and Euro money market segments. These funds are sold by a specialist sales team based in London and target corporate treasury functions.

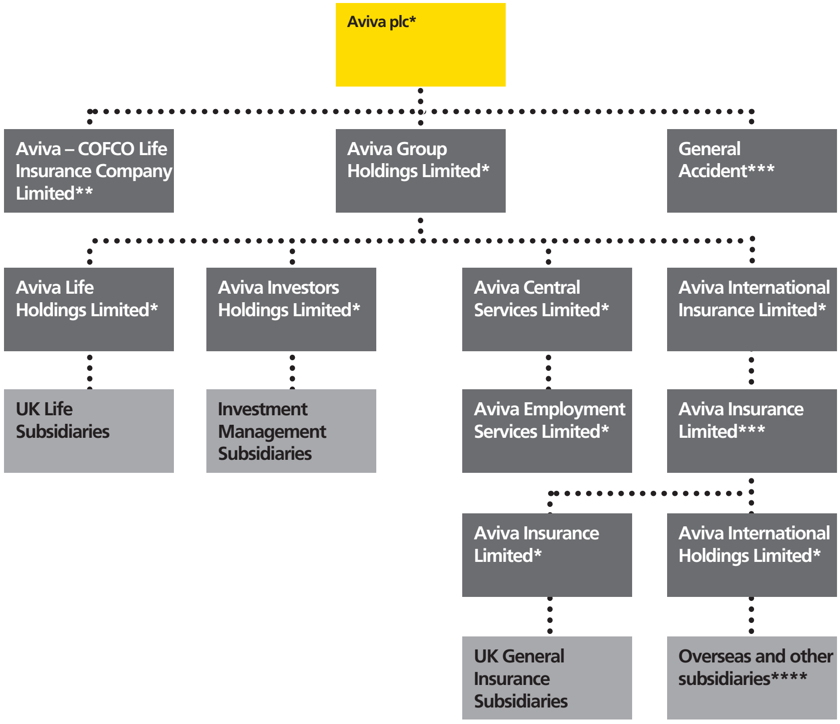
Asset classes
Aviva Investors offers a wide range of investment solutions across all asset classes and in all significant financial centres worldwide. Where we do not directly manage assets, we believe we have the skills and experience to select the right third-party asset managers to complement our own products.

Our investment capabilities, products and services comprise:
- Alternatives – We offer a range of alternative investment products from private equity fund of funds to hedge funds.
- Equities
- Fixed Income – Our Fixed Income teams cover the complete product set: UK government securities, liquidity products, corporate bonds, European and global sovereigns, index-linked bonds, emerging markets (hard and local currency debt) and high-yield instruments.
- Global Investment Solutions – Our new Global Investment Solutions team constructs client solutions across markets.
- Real Estate – We offer funds specific to property assets in the UK, Europe and Asia, in addition to a Global fund, client-specific segregated funds and a multi-manager service.

Organisational structure

Organisational structure

The following chart shows, in simplified form, the organisational structure of the group as at 31 December 2009. The Registrant, Aviva plc, is the holding company of the group:



* Incorporated in England and Wales
** Incorporated in People's Republic of China. Aviva plc has a 50% interest in the joint venture
*** Incorporated in Scotland
**** Includes other UK general insurance subsidiaries and certain investment management businesses

Subsidiaries

The principal subsidiaries of the Company are listed below by country of incorporation. All are wholly-owned, directly or indirectly, and transact insurance or reinsurance business, fund management or services in connection therewith, unless otherwise stated.

United Kingdom
Aviva Annuity UK Limited
Aviva Central Services UK Limited
Aviva Consumer Products UK Limited
Aviva Employment Services Limited
Aviva Equity Release UK Limited
Aviva Health UK Limited
Aviva Insurance Limited
Aviva Insurance Services UK Limited
Aviva Insurance UK Limited
Aviva International Insurance Limited
Aviva Investors Global Services Limited
Aviva Investors Pensions Limited
Aviva Investors UK Fund Services Limited
Aviva Investors UK Funds Limited
Aviva Life & Pensions UK Limited
Aviva Life Services UK Limited
Aviva Risk Management Solutions UK Limited
Aviva UKGI Investments Limited
CGNU Life Assurance Limited
CGU Underwriting Limited
Commercial Union Life Assurance Company Limited
Gresham Insurance Company Limited
Hamilton Insurance Company Limited
Hamilton Life Assurance Company Limited
London and Edinburgh Insurance Company Limited
Norwich Union Life (RBS) Limited
RAC Financial Services Limited
RAC Insurance Limited
RAC Motoring Services
RAC plc

Australia
Aviva Investors Australia Limited

Barbados
Victoria Reinsurance Company Ltd

Belgium
Delta Lloyd Life N.V.

Bermuda
Aviva Re Limited

Canada
Aviva Canada Inc. and its principal operating subsidiaries:
- Aviva Insurance Company of Canada
- Elite Insurance Company
- Pilot Insurance Company
- Scottish & York Insurance Co. Limited
- S&Y Insurance Company
- Traders General Insurance Company

Czech Republic
Aviva zivotni pojist'ovna, a.s.

France
Aviva Participations SA and its principal subsidiaries:
- Antarius S.A. (50.0%)
- Aviva Assurances SA
- Aviva France SA
- Aviva Investors France SA
- Aviva Vie S.A.
- Eurofil SA
- Société d'Epargne Viagére SA (83.7%)
- Union Financière de France Banque (Banking) (74.3%)

Germany
Delta Lloyd Deutschland AG and its principal subsidiary:
- Delta Lloyd Lebensversicherung AG

Hong Kong
Aviva Life Insurance Company Limited
Aviva Portfolio Investment Services Limited

Hungary
Aviva Életbiztosító Zártkörûen Mûködõ Részvénytársaság

Ireland
Aviva group Ireland plc and its principal subsidiaries:
- Ark Life Assurance Company Limited (75%)
- Aviva Health Insurance Ireland Limited (70%)
- Aviva Insurance (Europe) Plc
- Aviva Life & Pensions Ireland Limited (75%)

Aviva Investors Ireland Limited

Italy
Aviva Italia Holding S.p.A and its principal subsidiaries:
- Aviva Assicurazioni S.p.A (50.0%)
- Aviva Assicurazioni Vita S.p.A (50.0%)
- Aviva Italia S.p.A
- Aviva Life S.p.A (50.0%)
- Aviva Previdenza S.p.A (55.0%)
- Aviva Vita S.p.A (25.5%)
- Eurovita Assicurazioni S.p.A (40.5%)

Lithuania
Uždaroji akcinė gyvybės draudimo ir pensijų bendrovė "Aviva Lietuva"

Luxembourg
Aviva Investors Luxembourg

Netherlands
Delta Lloyd N.V. (54.0%) and its principal subsidiaries:
- Delta Lloyd ABN AMRO Verzekeringen Holding BV (51.0%)
- Delta Lloyd Asset Management N.V.
- Delta Lloyd Groep Particuliare Schadeverzekeringen N.V.
- Delta Lloyd Bankengroep N.V. (Banking)
- Delta Lloyd Levensverzekering N.V.
- Delta Lloyd Schadeverzekering N.V.
- OHRA Levensverzekeringen N.V.

Poland
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. (90.0%)
Aviva Towarzystwo Ubezpieczen Na Zycie SA (90.0%)
Aviva Towarzystwo Ubezpieczen Ogolnych SA (90.0%)

Romania
Aviva Asigurari de Viata SA

Russia
Closed Joint Stock Insurance Company Aviva (Zao)

Singapore
Aviva Limited
Navigator Investment Services Limited

Spain
Aseguradora Valenciana SA, de Seguros y Reaseguros (Aseval) (50.0%)
Aviva Vida y Pensiones, Sociedad Anonima de Seguros y Reaseguros
Caja Espana Vida, Compania de Seguros y Reaseguros (50.0%)
Caja Murcia Vida y Pensiones, de Seguros y Reaseguros S.A. (50.0%)
Caja Granada Vida, de Seguros y Reaseguros, S.A. (25.0%)
CxG Aviva Corporación Caixa Galicia de Seguros y Reaseguros, S.A. (50.0%)
Unicorp Vida, Compania de Seguros y Reaseguros (50.0%)

Sri Lanka
Eagle Insurance PLC (51.0%)

Turkey
Aviva Sigorta A.S. (98.6%)

United States
Aviva USA Corporation and its principal subsidiary:
- Aviva Life and Annuity Company

Aviva Investors North America, Inc.

Associates and joint ventures

The Group has ongoing interests in the following operations that are classified as associates or joint ventures. Further details of those operations that were most significant in 2009 are set out in notes 18 and 19 to the financial statements.

United Kingdom
RBS Life Investments Limited (49.99%)
RBSG Collective Investments Limited (49.99%)

The Group also has interests in several property limited partnerships. Further details are provided in note 18 to the financial statements.

China
Aviva-COFCO Life Insurance Co. Limited (50.0%)

India
Aviva Life Insurance Company India Limited (26.0%)

Malaysia
CIMB Aviva Assurance Berhad (49.0%)
CIMB Aviva Takaful Berhad (49.0%)

South Korea
Woori Aviva Life Insurance Co., Ltd (46.8%)

Taiwan
First-Aviva Life Insurance Co., Ltd (49.0%)

Turkey
AvivaSA Emeklilik ve Hayat A.S (49.8%)

Selected Consolidated Financial Data

Selected Consolidated Financial Data

The following table sets forth our selected consolidated financial data for the periods indicated. This data is derived from our consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The selected consolidated financial data for the five years ended 31 December 2009 have been derived from, and should be read in conjunction with, our audited consolidated financial statements and the related notes in these financial statements.

Income statement data

Amounts in accordance with IFRS	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Income					
Gross written premiums	**34,690**	36,206	30,991	28,735	26,299
Premiums ceded to reinsurers	**(2,576)**	(1,841)	(1,658)	(1,501)	(1,317)
Premiums written net of reinsurance	**32,114**	34,365	29,333	27,234	24,982
Net change in provision for unearned premiums	**559**	277	(21)	93	(123)
Net earned premiums	**32,673**	34,642	29,312	27,327	24,859
Fee and commission income	**1,789**	1,885	1,760	1,870	1,851
Net investment income/(expense)	**24,972**	(16,043)	9,689	15,908	23,722
Share of (loss)/profit after tax of joint ventures and associates	**(504)**	(1,128)	(304)	485	340
Profit on the disposal of subsidiaries and associates	**153**	7	49	222	153
	59,083	19,363	40,506	45,812	50,925
Expenses					
Claims and benefits paid, net of recoveries from reinsurers	**(27,549)**	(29,353)	(27,121)	(23,444)	(19,706)
Change in insurance liabilities, net of reinsurance	**(5,682)**	3,885	(3,508)	(2,594)	(10,376)
Change in investment contract provisions	**(11,185)**	10,629	(2,018)	(6,002)	(7,814)
Change in unallocated divisible surplus	**(1,547)**	4,482	2,922	(558)	(1,474)
Fee and commission expense	**(4,396)**	(4,411)	(4,244)	(5,461)	(4,330)
Other expenses	**(5,366)**	(5,416)	(3,473)	(3,557)	(3,166)
Finance costs	**(1,336)**	(1,547)	(1,217)	(856)	(609)
	(57,061)	(21,731)	(38,659)	(42,472)	(47,475)
Profit/(loss) before tax	**2,022**	(2,368)	1,847	3,340	3,450
Tax attributable to policyholders' returns	**(217)**	1,068	(15)	(346)	(922)
Profit/(loss) before tax attributable to shareholders' profits	**1,805**	(1,300)	1,832	2,994	2,528
Tax attributable to shareholders' profits	**(490)**	415	(334)	(594)	(630)
Profit/(loss) for the financial year	**1,315**	(885)	1,498	2,400	1,898

	Per share	**Per share**	**Per share**	**Per share**	**Per share**
Profit/(loss) per share attributable to equity shareholders:					
Basic	**37.8p**	(36.8)p	48.9p	88.0p	73.5p
Diluted	**37.5p**	(36.8)p	48.5p	87.0p	72.9p

	Per share	**Per share**	**Per share**	**Per share**	**Per share**
Dividends paid per share	22.5p	33.0p	33.0p	30.0p	27.3p

	Millions	**Millions**	**Millions**	**Millions**	**Millions**
Number of shares in issue at 31 December	**2,767**	2,658	2,622	2,566	2,396
Weighted average number of shares in issue for the year	**2,705**	2,643	2,588	2,469	2,340

Statement of financial position data

Amounts in accordance with IFRS	**2009 £m**	2008 £m	2007 £m	2006 £m	2005 £m
Total assets	**354,391**	354,562	321,326	294,851	263,447
Gross insurance liabilities	**171,092**	174,850	152,839	144,230	132,602
Gross liabilities for investment contracts	**110,015**	107,559	98,244	88,358	77,309
Unallocated divisible surplus	**3,866**	2,325	6,785	9,465	8,978
Core structural borrowings	**5,489**	5,525	4,311	4,195	3,645
Other liabilities	**48,843**	49,730	43,120	34,539	29,821
Total liabilities	**339,305**	339,989	305,299	280,787	252,355
Total shareholders' equity	**15,086**	14,573	16,027	14,064	11,092

Financial and operating performance

We are the fifth largest insurance group in the world, based on gross written premiums for the 2008 fiscal year. We are one of the top five providers of life and pensions products in the UK, Ireland, Netherlands, through our Delta Lloyd subsidiary, Poland and Spain and one of the top 10 providers of life and pensions products in France, Italy and Romania, as based on total sales for 2008. Our main activities are the provision of products and services in relation to long-term insurance and savings, fund management and general insurance.

Recent developments

On 5 January 2010, we announced the acquisition of River Road Asset Management, a US equity manager, to support the expansion of Aviva Investors' third-party institutional asset management business. Completion took place on 24 February 2010 for an estimated consideration of US$122 million (£79 million).

On 17 February 2010, we sold our 35% holding in Sogessur SA to that company's main shareholder, Société Générale, for a consideration of £35 million, realising a profit on disposal of £24 million.

Factors affecting results of operations

Our financial results are affected, to some degree, by a number of external factors, including demographic trends, general economic and market conditions, government policy and legislation and exchange rate fluctuations. See "Performance review – Risk management" for more information on risks associated with these and other factors. In addition, our financial results are affected by corporate action taken by the Group, including acquisitions, disposals and other actions aimed at achieving our stated strategy. We believe that all of these factors will continue to affect our results in the future.

Demographic trends

Our results are affected by the demographic make-up of the countries in which we operate. The types of products that we sell reflect the needs of our customers. For example, in regions and countries with a high proportion of older people, a larger proportion of our sales will reflect their needs for pre and post-retirement planning. Our sales levels will also be impacted by our ability to help provide useful information to such policyholders on retirement planning and to offer products that are competitive and respond to such policyholders' needs.

In our long-term insurance and savings business we make assumptions about key non-economic factors, such as the mortality rate that we expect to be experienced by our policyholders. In countries where the life expectancy is growing, this will need to be reflected in our pricing models as lower mortality rates will increase profitability of life insurance products but will reduce the returns on annuity products. We review our assumptions against our own experience and industry expectations. During 2007, 2008 and 2009, our results were not impacted by any major changes in mortality assumptions.

Economic conditions

Our results are affected by the levels of economic activity in our geographic markets and, consequently, by economic cycles in those markets. High levels of general economic activity typically result in high levels of demand for, and therefore sales of, our products and services. Economic activity in turn is affected by government monetary and fiscal policy as well as by global trading conditions and external shocks such as terrorist activity, war and oil price movements. During 2009, we saw improved economic activity across our regions and although customers continued to prefer cash deposits, we saw movement towards investment products resulting in increased investment sales, primarily across Europe and Asia.

Capital and credit market conditions

An important part of our business involves investing client money and policyholders' and shareholders' funds across a wide range of financial investments, including equities, fixed income securities and properties. Our results are sensitive to volatility in the market value of these investments, either directly, because we bear some or all of the investment risk or indirectly, because we earn management fees for investments managed on behalf of policyholders. Investment market conditions also affect the demand for a substantial portion of our life insurance products. In general, rising equity price levels have a positive effect on the demand for equity-linked products, such as unit trusts and unit-linked life insurance products and conversely a negative effect on the demand for products offering fixed or guaranteed minimum rates of return. Declining equity price levels tend to have the opposite effects.

During 2008 and the first half of 2009, the capital and credit markets experienced extraordinary and extended volatility and disruption. In the first quarter of 2009, the volatility and disruption reached levels not seen in many years, although the markets stabilised in the last quarter of 2009. The amount of investment variance improved to £75 million adverse in 2009 *(2008: £1,631 million adverse)* due to the recovery in investment markets. Positive variances on fixed interest assets in Europe and the United States, driven by the narrowing of credit spreads toward the end of the year, were offset by losses from equity derivatives in the Netherlands.

With-profits business

We write products through our with-profits funds mainly in our UK operating segment, with smaller funds in Ireland, Australia and Singapore. These funds enable policyholders to participate in a large pool of diverse investments, therefore reducing their exposure to individual securities or asset classes. The investment pool is managed by us with returns to with-profits policyholders paid through bonuses which are added to the value of their policy. In order to provide an element of stability in the returns to policyholders, bonuses are designed to reduce policyholders' exposure to the volatility of investment returns over time and to provide an equitable share of surplus earned, depending on the investment and operating performance of the fund. Shareholders also have a participating interest in the with-profit funds and any declared bonuses. Generally, policyholder and shareholder participation in with-profit funds in the UK is split 90:10.

The level of bonuses declared to policyholders is influenced by the actual returns on investments and our expectation of future rates of return. While bonuses can never be negative, a predicted sustained fall in equity markets could lead to a reduction in annual and terminal bonus rates, and so reduce both policyholder returns and shareholders' profit under IFRS. Over the early part of this decade, the combination of a decline in equity markets and the general outlook for lower interest rates led to reductions in annual bonus rates, and the corresponding shareholders' share of profits. The subsequent recovery in equity markets over 2003-2007 led to a partial reversal of this trend. During 2008 and 2009 the worsening economic conditions have impacted on UK bonus levels but the annual effect of this for both policyholders and shareholders has been offset by the benefit from the one-off special bonus mentioned below.

Shareholders' profits arising on with-profits business under IFRS depend on the total bonuses declared to policyholders on an annual basis. A special bonus distribution has been announced for policyholders of two of our UK with-profits funds, reflecting the financial strength of those funds, which has provided an uplift to IFRS profits in both 2008 and 2009 and will provide an uplift in 2010 of approximately £100 million.

General insurance and health underwriting cycle
Our general insurance and health business is comprised of our property and casualty insurance and health insurance operations. In 2009, general insurance accounted for 29% of group net premiums written from continuing operations and 35% of our group operating earnings before interest and corporate costs respectively. Demand for general insurance is usually price-sensitive because of the limited degree of product differentiation inherent in the industry. As a result, the price of insuring property and casualty risks is subject to a cycle (called an underwriting cycle). In periods when the price of risk is high, the high profitability of selling insurance attracts new entrants and hence new capital into the market. Increased competition however drives prices down. Eventually the business becomes uneconomic and some industry players, suffering from losses, exit the market while others fail, resulting in lower capital invested within the market. Decreased competition leads to increasing prices, thereby repeating the cycle. Although our various general insurance markets are not always at the same stage of the underwriting cycle, price competition has been increasing within the UK and the rest of the world across most of our general insurance business lines in recent years. We are now seeing early evidence of increased rating discipline in the UK resulting from volatile investment markets.

We expect the underwriting cycle to continue to operate in the future but to be less pronounced than in the past because of structural changes to the industry over the past decade. Capital markets are imposing financial discipline by being increasingly more demanding about performance from insurance companies before extending new capital. Such discipline, together with the increased concentration of competitors within the market, recent natural disasters and the adoption of more scientific pricing methods is expected to make the underwriting cycle less pronounced in the future.

Natural and man-made disasters
Our general insurance and health business results are affected by the amount of claims we need to pay out which, in turn, can be subject to significant volatility depending on many factors, including natural and man-made disasters. Natural disasters arise from adverse weather, earthquakes and other such natural phenomena. Man-made disasters include accidents and intentional events, such as acts of terrorism. These events are difficult to predict with a high degree of accuracy, although they generally occur infrequently at a material level. Our exposure to large disasters has been somewhat reduced through the recent strategic refocusing of our general insurance business towards personal lines business and small- to medium-sized commercial risks. Our costs in connection with natural and man-made disasters are also significantly mitigated by reinsurance arrangements with external parties such that our maximum exposure is limited to no more than approximately £400 million for a one in ten year event or £850 million for a one in hundred year event. See "Financial Statements IFRS – Note 56 – Risk Management" and "Financial Statements IFRS – Note 41 – Reinsurance Assets" for further information on our reinsurance programme.

During 2007, the UK results were adversely impacted by £475 million for claims relating to the winter storms and summer floods. In 2008, Ireland and Canada incurred some weather-related losses and in 2009 the UK, Ireland and France were all impacted.

Government policy and legislation
Changes in government policy and legislation applicable to our business in any of the markets in which we operate, particularly in the UK, may affect our results of operations. These include changes to the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and the regulation of solvency standards. Such changes may affect our existing and future business by, for example, causing customers to cancel existing policies, requiring us to change our range of products and services, forcing us to redesign our technology, requiring us to retrain our staff or increase our tax liability. In the UK, the government has recently conducted a number of reviews of the long-term insurance and savings industry with the aim of promoting long-term insurance and saving by simplifying and reducing the cost of product offerings. As a global business, we are exposed to various local political, regulatory and economic conditions, business risks and challenges which may affect the demand for our products and services, the value of our investments portfolio and the credit quality of local counterparties. Our regulated business is subject to extensive regulatory supervision both in the UK and internationally. For details please refer to the section "Shareholder Information – Regulation".

In 2006, the Financial Services Authority in the UK amended the rules regarding the valuation of non-profit life reserves. The impact on Aviva was a £167 million benefit to operating profit in 2007 and a £149 million benefit in 2006. In 2008, the ombudsman in the Netherlands investigated the level of charges paid by unit-linked policyholders across the life insurance industry. As a result of this investigation, our Delta Lloyd life business agreed to recompense their policyholders and provided £126 million for this cost.

Exchange rate fluctuations
We publish our consolidated financial statements in Pounds sterling. Due to our substantial non-UK operations, a significant portion of our operating earnings and net assets are denominated in currencies other than sterling, most notably the euro and the US dollar. As a consequence, our results are exposed to translation risk arising from fluctuations in the values of these currencies against sterling. Total foreign currency movements during 2009 resulted in a loss recognised in the income statement of £154 million, an improvement of £173 million from a £327 million loss in 2008.

We generally do not hedge foreign currency revenues, as we prefer to retain revenue locally in each business to support business growth, to meet local and regulatory market requirements, and to maintain sufficient assets in local currency to match local currency liabilities.

Movements in exchange rates may affect the value of consolidated shareholders' equity, which is expressed in sterling. Exchange differences taken to other comprehensive income arise on the translation of the net investment in foreign subsidiaries, associates and joint ventures. This aspect of foreign exchange risk is monitored centrally against limits that we have set to control the extent to which capital deployment and capital requirements are not aligned. We use currency borrowings and derivatives when necessary to keep currency exposures within these predetermined limits, and to hedge specific foreign exchange risks when appropriate; for example, in any acquisition or disposal activity. During 2009, sterling had strengthened recovering some of its loss in value against the euro and dollar in 2008 resulting in a foreign currency loss in other comprehensive income of £951 million. During 2008, we reported a foreign currency translation gain in other comprehensive income of £2,684 million as sterling weakened significantly against the euro and the dollar. During 2007, the currency translation gain was lower at £723 million.

The impact of these fluctuations is limited to a significant degree, however, by the fact that revenues, expenses, assets and liabilities within our non-UK operations are generally denominated in the same currencies.

Acquisitions and disposals

Over the last three years we have engaged in a significant amount of acquisitions and disposals, some of which have had a material impact on our results. These transactions reflect our strategic objectives of maximising value for our shareholders by building top five positions in key markets, withdrawing from lines of business or markets that do not offer the potential for market-leading positions and taking advantage of particular opportunities as they arise.

Activity in 2009

On 1 October 2009, we completed the sale of our Australian life and pension business and wealth management platform to the National Australia Bank for A$902 million (£443 million). The sale supports Aviva's strategy of focusing on the key growth markets in Asia where leading positions can be achieved.

On 3 November 2009, we completed the Initial Public Offering (IPO) of approximately 42% of Delta Lloyd N.V. raising €1.1 billion (£1 billion). The IPO enabled Aviva to monetise part of its holding in Delta Lloyd, giving Aviva greater financial flexibility, including the option to explore balance sheet restructuring and further growth opportunities. It will also enhance the value and liquidity of Aviva's retained stake in Delta Lloyd.

Delta Lloyd, at the start of the year, sold its health business for £235 million to OWM CZ Groep Zorgverkeraar UA (CZ). The sale to CZ removed the underwriting risk and administration out of Delta Lloyd whilst continuing to sell health products and also market general insurance and income protection products to CZ's customers.

Continuing with the group's strategy to exit non-core operations, we disposed of the British School of Motoring Limited for a consideration of £4 million.

Activity in 2008

During 2008, we acquired subsidiaries in Ireland, Italy and Belgium. In Belgium we acquired Swiss Life Belgium, further strengthening our position in the Belgium life insurance market. The acquisition of UBI Vita in Italy provides us with a new bancassurance distribution channel and the acquisition of Vivas Group Ltd. in Ireland has enabled us to enter the Irish health insurance market. Total consideration for these acquisitions, including costs, was £189 million.

As part of our strategy to exit non-core operations, we disposed of HPI Limited and RAC Autowindscreens Limited in the UK and our life operations in Luxembourg. In addition, we disposed of our offshore administration operations. These offshore operations will continue to provide administration services to our UK, Irish and Canadian businesses under a master services agreement with the new owners. Consideration for these disposals was £126 million, realising a net profit on disposal of £7 million.

Activity in 2007

During 2007, we acquired subsidiaries in Spain, Italy and the UK in connection with bancassurance agreements with Cajamurcia, Banco Popolare and HSBC, with the objective of further increasing our distribution channels and access to customers in these markets. In the Netherlands we acquired Erasmus Group and an 85% interest in Cyrte Investments NV, further strengthening the position of our Dutch subsidiary, Delta Lloyd, in the Dutch insurance and fund management markets. Total consideration for these acquisitions, including costs, was £397 million.

In addition to these acquisitions we entered into joint venture agreements with local banks in Turkey, Malaysia and Taiwan. Our joint ventures in Malaysia and Taiwan gave us access to these emerging markets for the first time, while our joint venture in Turkey considerably strengthens our position in the Turkish life and pensions market. Total consideration for these joint ventures was £208 million.

We disposed of a number of businesses, the most material of which was the contribution of our Turkish business, Aviva HE, to our Turkish joint venture, referred to above. This gave rise to a profit on disposal of £71 million. Other disposals of smaller operations gave rise to a loss on disposal before tax of £22 million.

Reattribution of inherited estate

The "inherited estate" refers to the assets of the long-term with-profit funds less the realistic reserves for non-profit policies, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.

The reattribution of our inherited estate completed on 1 October 2009 following the High Court's approval of the offer in September and final approval by the Aviva plc and Aviva UK Life boards. Our objective was always to create a reattribution that was fair to both shareholders and policyholders, making sure that customers had a choice of whether they wished to accept the offer, depending on their personal circumstances. As a result, over 87% of eligible policyholders voted during the election process, with 96% of these voting in favour of the offer. By the end of 2009, the majority of the £471 million reattribution payment had been distributed to those policyholders who accepted the offer.

As previously stated, from a shareholder perspective the reattribution is expected to enhance the cash flow profile of Aviva's UK life business and will bring significant financial benefits. In return for the £471 million shareholders are expected to gain access to around £650 million of additional capital over five years, to fund new, non profit business.

The reattribution resulted in an IFRS operating loss of £5 million (being the net impact of the value of the estate, project costs, tax and the 'Policyholder Incentive Payment'). In addition to this, investment earnings on reattributed assets and the surplus generated from the 'New With-Profits Sub-Fund' during the period 1 October to 31 December 2009 generated IFRS operating profits of £79 million. The after tax contribution was £51 million in 2009.

Basis of earnings by line of business

Our earnings originate from three main lines of business: our long-term insurance and savings business, which includes a range of life insurance and savings products; fund management, which manages funds on behalf of our long-term insurance and general insurance businesses, external institutions, pension funds and retail clients; and general insurance and health, which focuses on personal and commercial lines. These lines of business are present in our various operating segments to a greater or lesser extent. In the UK, we have major long-term insurance and savings businesses and general insurance businesses; in Europe we have long-term insurance and savings businesses in all countries in which we operate, large general insurance businesses in Ireland and the Netherlands, through our Delta Lloyd subsidiary, and smaller general insurance operations in several other countries; in North America we have a large long-term insurance and savings business in the US and a major general insurance business in Canada; in Asia Pacific we predominantly have long-term insurance and savings businesses. Our fund management businesses operate across all our four regions.

Long-term insurance and savings business

For most of our life insurance businesses, such as those in the UK, France and the Netherlands, operating earnings are generated principally from our in-force books of business. Our in-force books consist of business written in prior years and on which we continue to generate profits for shareholders. Nevertheless new business written in these markets, with the exception of our UK with-profits business which is discussed below, has a significant direct effect on our operating earnings. Under IFRS, certain costs incurred in acquiring new business must be expensed thereby typically giving rise to a loss in the period of acquisition, though the degree of this effect will depend on the pricing structure of product offerings. In markets where we are experiencing strong growth, such as we have experienced in Spain, Italy, the US and Asia in recent years, current year sales have a more significant effect on current year operating earnings.

UK with-profits business

With-profits products are designed to pay policyholders smoother investment returns through a combination of small annual bonuses and large terminal bonuses. Shareholders' profit emerges from this business in direct proportion to policyholder bonuses, as shareholders receive up to one-ninth of the value of each year's bonus declaration to policyholders. Accordingly, the smoothing inherent in the bonus declarations provides for relatively stable annual shareholders' profit from this business. The most significant factors that influence the determination of bonus rates are the return on the investments of the with-profits funds and expectations about future investment returns. Actual and expected investment returns are affected by, among other factors, the mix of investments supporting the with-profits fund, which in turn is influenced by the extent of the inherited estate within the with-profits fund.

The annual excess of premiums and investment return over operating expenses, benefit provisions and claims payments within our with-profits funds that is not distributed as bonuses and related shareholders' profit, is transferred from the income statement to the unallocated divisible surplus. Conversely, if a shortfall arises one year, for example because of insufficient investment return, a transfer out of the unallocated divisible surplus finances bonus declarations and related shareholders' profit.

The unallocated divisible surplus therefore consists of future (as yet undetermined) policyholder benefits, associated shareholders' profit and the orphan estate. The orphan estate serves as working capital for our with-profits funds. It affords the with-profits fund a degree of freedom to invest a substantial portion of the funds' assets in investments yielding higher returns than might otherwise be obtainable without being constrained by the need to absorb the cash-flow strain of writing large volumes of new business and the need to demonstrate solvency.

Other long-term insurance and savings business

Non-profit business falls mainly into two categories: investment type business and risk cover business. Investment type business, which accounts for most of our non-profit business, includes predominantly unit-linked life and pensions business, where the risk of investing policy assets is borne entirely by the policyholder. In addition investment type business also includes life and pensions business where the risk of investing policy assets is typically shared between policyholders and shareholders, subject to a minimum rate of investment return guaranteed to policyholders. Operating earnings arise from unit-linked business when fees charged to policyholders based on the value of the policy assets exceed costs of acquiring new business and administration costs. In respect of remaining investment type business, investment return generated from policy assets has an effect on operating earnings though this is often non-proportional. Finally in respect of all investment type business, shareholders bear the risk of investing shareholder capital in support of these operations.

Risk cover business includes term assurance, or term life insurance business. The risk of investing policy assets in this business is borne entirely by the shareholders. Operating earnings arise when premiums, and investment return earned on assets supporting insurance liabilities and shareholder capital, exceed claims costs, costs of acquiring new business and administration costs.

General insurance and health business

Operating earnings within our general insurance and health business arise when premiums, and investment return earned on assets supporting insurance liabilities and shareholder capital, exceed claims costs, costs of acquiring new business and administration costs.

Fund management

Fund management operating earnings consist of fees earned for managing policyholder funds and external retail and institutional funds on behalf of clients, net of operating expenses. Approximately 30% of our fund management operating earnings are derived from external clients. Arrangements for the management of proprietary funds are conducted on an arm's length basis between our fund management and insurance businesses. Such arrangements exist mainly in the UK, France, the Netherlands, Ireland, Australia, US and Canada. Proprietary insurance funds in other countries are externally managed.

Other business

Other business includes our operations other than insurance and fund management. These incorporate mainly our roadside recovery operation in the UK, and our banking and retail mortgage operations in the Netherlands and Belgium.

Financial highlights

The following analysis is based on our consolidated financial statements and should be read in conjunction with those statements. In order to fully explain the performance of our business, we discuss and analyse the results of our business in terms of certain financial measures which are not based on IFRS "non-GAAP measures" which we use for internal monitoring and for executive remuneration purposes. We review these in addition to GAAP measures such as profit before and after tax.

Non-GAAP measures

Sales

The total sales of the group consist of long-term insurance and savings new business sales and general insurance and health net written premiums. We classify our long-term insurance and savings new business sales into the following categories:

Long-term insurance and savings new business sales

Sales of the long-term insurance and savings business consist of:

Covered business or life, pensions and savings products:

— Insurance and participating investment business

— This includes traditional life insurance, annuity business and with profit business
  – There is an element of insurance risk borne by the group therefore, under IFRS, these are reported within net written premiums.
— Non-participating investment business
  – This includes unit-linked business and pensions business
  – The amounts received for this business are treated as deposits under IFRS and an investment management fee is earned on the funds deposited.
  – For new business reporting in the UK, companies continue to report non-participating investment business within their "covered business" sales, in line with the historic treatment under UK GAAP.

Non-covered business or investment sales:
— These include retail sales of mutual fund type products such as unit trusts and OEICs.
— There is no insurance risk borne by the group therefore under IFRS, these are treated as deposits and investment management fee income is earned on the funds deposited. This is in line with their previous treatment under UK GAAP.
— These have never been treated as "covered business" for long-term insurance and savings reporting so we show these separately as investment sales.

Sales is a non-GAAP financial measure and key performance indicator that we report to our key decision makers in the businesses in order to assess the value of new business from our customers and compare performance across the markets in which we operate. We consider sales to be a critical indicator of new business, and is the basis on which we provide analysis of our results to our shareholders and analysts. The non-GAAP measure of sales is also used internally in the determination of bonus awards as an executive performance measure.

For our general insurance and health business we report sales based on IFRS net written premiums.

For long-term insurance and savings new business, we define sales as the sum of the present value of new business premiums (PVNBP) of life, pension and savings products and investment sales.

PVNBP is equal to total single premium sales received in the year plus the discounted value of annual premiums expected to be received over the terms of newly incepted contracts and is calculated as at the date of sale. We adjust annual premiums to reflect the expected stream of business coming from this new business over future years. In the view of management this performance measure better recognises the relative economic value of regular premium contracts compared to single premium contracts. PVNBP is a European insurance industry standard measure of new business.

For our long-term insurance and savings business, we believe that sales is an important measure of underlying performance and a better measure for new business than IFRS net written premiums. We consider the use of sales over IFRS net written premiums provides:
— Consistent treatment of long-term insurance and investment contracts: IFRS net written premiums do not include deposits received on non-participating investment contracts. Long-term insurance contracts and participating investment contracts also contain a deposit component, which are included in IFRS net written premiums, in addition to an insurance risk component. Therefore, to appropriately assess the revenue generated on a consistent basis between types of contracts, we evaluate the present value of new business sales of long-term insurance and investment products on the basis of total premiums and deposits collected, including sales of mutual fund type products such as unit trusts and OEICs.
— Better reflection of the relative economic value of regular premium contracts compared to single premium contracts: Sales recognise the economic value of all expected contractual cash flows for regular premium contracts in the year of inception, whereas IFRS net written premiums only recognise premiums received in the year.
— Better reflection of current management actions in the year: IFRS net written premiums include premiums on regular premium contracts, which incepted in prior years, and therefore reflect the actions of management in prior years.

In comparison to IFRS net written premiums, sales do not include premiums received from contracts in-force at the beginning of the year, even though these are a source of IFRS revenue, as these have already been recognised as sales in the year of inception of the contract. In addition, unlike IFRS net written premiums, sales do not reflect the effect on premiums of any increase or decrease in persistency of regular premium contracts compared to what was assumed at the inception of the contract.

PVNBP is not a substitute for net written premiums as determined in accordance with IFRS. Our definition of sales may differ from similar measures used by other companies, and may change over time.

General insurance and health sales

General insurance and health sales are defined as IFRS net written premiums, being those premiums written during the year net of amounts reinsured with third parties, as set out in the segmental analysis of results in "Financial Statements IFRS – Note 3 – Segmental information". For sales reporting, we use the GAAP measure for general insurance and health business.

The table below presents our consolidated sales for the years ended 31 December 2009, 2008 and 2007, as well as the reconciliation of sales to net written premiums in IFRS.

	2009 £m	2008 £m	2007 £m
Long-term insurance and savings new business sales	**35,875**	40,240	39,705
General insurance and health sales	**9,193**	11,137	10,569
Total sales	**45,068**	51,377	50,274
Less: Effect of capitalisation factor on regular premium long-term business	**(8,612)**	(9,893)	(7,650)
Share of long-term new business sales from JVs and associates	**(1,277)**	(1,062)	(789)
Annualisation impact of regular premium long-term business	**(446)**	(731)	(560)
Deposits taken on non-participating investment contracts	**(4,181)**	(7,523)	(8,762)
Retail sales of mutual fund type products (investment sales)	**(3,872)**	(3,995)	(6,983)
Add: IFRS gross written premiums from existing long-term business	**7,164**	7,236	4,661
Less: long-term insurance and savings business premiums ceded to reinsurers	**(1,730)**	(1,044)	(858)
Total IFRS net written premiums	**32,114**	34,365	29,333
Analysed as:			
Long-term insurance and savings net written premiums	**22,921**	23,228	18,764
General insurance and health net written premiums	**9,193**	11,137	10,569
	32,114	34,365	29,333

— ***Effect of capitalisation factor on regular premium long-term business:***
PVNBP is derived from the single and regular premiums of the products sold during the financial period and is expressed at the point of sale. The PVNBP calculation is equal to total single premium sales received in the year plus the discounted value of regular premiums expected to be received over the term of the new contracts. The discounted value of regular premiums is calculated using the market consistent embedded value methodology proposed by the CFO Forum Principles, which we believe will be adopted by all European insurance businesses.

The discounted value reflects the expected income streams over the life of the contract, adjusted for expected levels of persistency, discounted back to present value. The discounted value can also be expressed as annualised regular premiums multiplied by a weighted average capitalisation factor (WACF). The WACF varies over time depending on the mix of new products sold, the average outstanding term of the new contracts and the projection assumptions.

— ***Share of long-term new business sales from joint ventures and associates:***
Total long-term new business sales include our share of sales from joint ventures and associates. Under IFRS reporting, premiums from these sales are excluded from our consolidated accounts, with only our share of profits or losses from such businesses being brought into the income statement separately.

— ***Annualisation impact of regular premium long-term business:***
As noted above, the calculation of PVNBP includes annualised regular premiums. The impact of this annualisation is removed in order to reconcile the non-GAAP new business sales to IFRS premiums and will vary depending on the volume of regular premium sales during the year.

— ***Deposits taken on non-participating investment contracts:***
Under IFRS, non-participating investment contracts are recognised on the statement of financial position by recording the cash received as a deposit and an associated liability and are not recorded as premiums received in the income statement. Only the margin earned is recognised in the income statement.

— ***Retail sales of mutual fund type products (investment sales):***
Investment sales included in the total sales number represent the cash inflows received from customers to invest in mutual fund type products such as unit trusts and OEICs. We earn fees on the investment and management of these funds which are recorded separately in the IFRS income statement as "fees and commissions received" and are not included in statutory premiums.

— ***IFRS gross written premiums from existing long-term business:***
The non-GAAP measure of long-term and savings sales focuses on new business written in the year under review while the IFRS income statement includes premiums received from all business, both new and existing.

Adjusted operating profit

We report to our chief operating decision makers in the businesses the results of our operating segments using a financial performance measure we refer to herein as "adjusted operating profit". We define our segment adjusted operating profit as profit before income taxes and minority interests in earnings, excluding the following items: investment return variances and economic assumption changes on long-term and non long-term business, impairment of goodwill, amortisation and impairment of other intangibles (excluding the acquired value of in-force business), profit or loss on the disposal of subsidiaries and associates, integration and restructuring costs and exceptional items.

While these excluded items are significant components in understanding and assessing our consolidated financial performance, we believe that the presentation of adjusted operating profit enhances the understanding and comparability of the underlying performance of our segments by highlighting net income attributable to ongoing segment operations.

Adjusted operating profit for long-term insurance and savings business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. The expected rate of return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return and asset classification. Where assets are classified as fair value through profit and loss, expected return is based on the same assumptions used under embedded value principles for fixed income securities, equities and properties. Where fixed interest securities are classified as available for sale, such as in the US, the expected return comprises interest or dividend payments and amortisation of the premium or discount at purchase. Adjusted operating profit includes the effect of variances in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, such as market value movement and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed as non-operating items.

Adjusted operating profit for non long-term insurance business is based on expected investment returns on financial investments backing shareholder funds over the period. Expected investment returns are calculated for equities and properties by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of return. This rate of return is the same as that applied for the long-term business expected returns. The longer-term return for other investments is the actual income receivable for the period. Changes due to market value movement and interest rate changes, which give rise to variances between actual and expected investment returns, are disclosed as non-operating items. The impact of changes in the discount rate applied to claims provisions is also treated outside adjusted operating profit.

Adjusted operating profit is not a substitute for profit before income taxes and minority interests in earnings or net income as determined in accordance with IFRS. Our definition of adjusted operating profit may differ from similar measures used by other companies, and may change over time.

The table below presents our consolidated adjusted operating profit for 31 December 2009, 2008 and 2007, as well as the reconciliation of adjusted operating profit to profit before tax attributable to shareholders' profits under IFRS.

	2009 £m	2008 £m	2007 £m
United Kingdom	**1,165**	1,377	1,126
Europe	**1,196**	1,141	1,197
North America	**213**	149	229
Asia Pacific	**77**	36	37
Aviva Investors	**115**	114	147
Other	**(744)**	(520)	(520)
Adjusted operating profit	**2,022**	2,297	2,216
Add back adjusting items:			
Investment return variances and economic assumption changes on long-term insurance business	**(75)**	(1,631)	15
Short-term fluctuation in return on investments on non-long-term business	**95**	(819)	(184)
Economic assumption changes on general insurance and health business	**57**	(94)	2
Impairment of goodwill	**(62)**	(66)	(10)
Amortisation and impairment of intangibles	**(144)**	(117)	(103)
Profit on the disposal of subsidiaries and associates	**153**	7	49
Integration and restructuring costs	**(286)**	(326)	(153)
Exceptional items	**45**	(551)	—
Profit/(loss) before tax attributable to shareholders' profits	**1,805**	(1,300)	1,832

Consolidated results of operations

The table below presents our consolidated sales for years ended 31 December 2009, 2008 and 2007.

	2009 £m	2008 £m	2007 £m
United Kingdom	**14,261**	18,756	20,445
Europe	**21,750**	21,806	20,488
North America	**6,345**	7,316	5,058
Asia Pacific	**2,712**	3,499	4,283
Total sales	**45,068**	51,377	50,274

The table below presents our consolidated income statement under IFRS for years ended 31 December 2009, 2008 and 2007.

	2009 £m	2008 £m	2007 £m
Income			
Gross written premiums	**34,690**	36,206	30,991
Premiums ceded to reinsurers	**(2,576)**	(1,841)	(1,658)
Premiums written net of reinsurance	**32,114**	34,365	29,333
Net change in provision for unearned premiums	**559**	277	(21)
Net earned premiums	**32,673**	34,642	29,312
Fee and commission income	**1,789**	1,885	1,760
Net investment income/(expense)	**24,972**	(16,043)	9,689
Share of loss of joint ventures and associates	**(504)**	(1,128)	(304)
Profit on the disposal of subsidiaries and associates	**153**	7	49
	59,083	19,363	40,506
Expenses			
Claims and benefits paid, net of recoveries from reinsurers	**(27,549)**	(29,353)	(27,121)
Change in insurance liabilities, net of reinsurance	**(5,682)**	3,885	(3,508)
Change in investment contract provisions	**(11,185)**	10,629	(2,018)
Change in unallocated divisible surplus	**(1,547)**	4,482	2,922
Fee and commission expense	**(4,396)**	(4,411)	(4,244)
Other expenses	**(5,366)**	(5,416)	(3,473)
Finance costs	**(1,336)**	(1,547)	(1,217)
	(57,061)	(21,731)	(38,659)
Profit/(loss) before tax	**2,022**	(2,368)	1,847
Tax attributable to policyholders' returns	**(217)**	1,068	(15)
Profit/(loss) before tax attributable to shareholders' profits	**1,805**	(1,300)	1,832

Sales

Year ended 31 December 2009

Sales in 2009 were £45,068 million, a decrease of £6,309 million, or 12%, from £51,377 million in 2008. All regions reported a decrease in sales in 2009. Long-term insurance and savings and general insurance and health sales decreased by 24% in the UK with Europe reporting an increase of 6% in long-term insurance and savings sales offset by a 26% decrease in general insurance and health sales mainly attributable to the sale of the Delta Lloyd health business on 1 January 2009. North America long-term insurance and savings sales decreased by £1,170 million, offset by a 12% increase in general insurance sales in Canada. Asia Pacific reported a decrease in sales of 22% mainly attributable to the sale of the Australian business on 1 October 2009.

Year ended 31 December 2008

Sales in 2008 were £51,377 million, an increase of £1,103 million or 2% from £50,274 million in 2007. This increase was mainly attributable to growth in Europe and North America in life and pension sales. Life and pension sales in Europe increased by 8% from £15,684 million in 2007 to £16,952 million in 2008, boosted by strength in the euro exchange rate, and in North America life and pension sales increased considerably to £5,715 million, an increase of £2,069 million or 57% from £3,646 million in 2007. General insurance and health sales were £11,137 million, an increase of 5% across the whole group from £10,569 million in 2007.

Income

Year ended 31 December 2009

Net written premiums in 2009 were £32,114 million, a decrease of £2,251 million, or 7%, from £34,365 million in 2008. Long-term insurance and savings and general insurance and health both reported decreases in net written premiums primarily in the UK with a 36% decrease in long-term insurance and savings and 22% decrease in general insurance and health net written premiums in the UK. Europe reported a 12% increase in net written premiums with both North America and Asia Pacific reporting a decrease in net written premiums of 2% and 11% respectively.

Year ended 31 December 2008

Net written premiums in 2008 were £34,365 million, an increase of £5,032 million or 17% from £29,333 million in 2007. This increase reflects a 24% increase in life and pension premiums due to strong new business sales across most of our operations and a 5% increase in general insurance and health sales predominantly driven by our operations in France, the Netherlands and Canada.

Net investment income

Year ended 31 December 2009

Net investment income for the year was £24,972 million, an increase of £41,015 million (*2008: £16,043 million loss*). During 2009, investment markets across the regions in which we operated improved significantly from the falls in property and equity markets that were experienced in 2008.

Year ended 31 December 2008

Net investment income decreased by £25,732 million to a loss of £16,043 million (*2007: £9,689 million profit*). This decrease reflects the lower market value of properties in the UK, 30% to 50% fall in equity values across the world and the impact of falling yields and widening credit spreads on fixed income securities.

Other income

Year ended 31 December 2009

Other income (which consists of fee and commission income, share of (loss)/profit after tax of joint ventures and associates, and profit/(loss) on disposal of subsidiaries and associates) increased by £674 million to £1,438 million in 2009 (*2008: £764 million*). Profit/(loss) on disposal of subsidiaries and associates includes the sale of our Dutch health business and our Australian long-term insurance and savings business resulting in a profit of £153 million. The loss after tax of joint ventures and associates was £504 million, an increase on 2008 of £624 million from increasing property values from our property partnerships.

Year ended 31 December 2008

Other income decreased by £741 million to £764 million in 2008 (*2007: £1,505 million*). The decrease was mainly due to the share of losses in joint ventures and associates in the UK, where reduced property market values led to lower property partnership results.

Expenses

Year ended 31 December 2009

Claims and benefits paid in 2009 were £27,549 million, a decrease of £1,804 million (*2008: £29,353 million*). The decrease in claims and benefits paid are a result of a fall in surrenders during the year and our Dutch healthcare business being sold as of 1 January 2009.

Changes in insurance liabilities in 2009 were a charge of £5,682 million, an increase of £9,567 million (*2008: £3,885 million credit*). The unfavourable movement is a result of new business provision and the impact of the euro against sterling.

The change in investment contract provisions of £11,185 million charge (*2008: £10,629 million credit*) is a result of improved investment markets across our regions resulting in increases in our contract liabilities the impact of the euro against sterling.

Unallocated divisible surplus charge of £1,547 million (*2008: £4,482 million credit*) reflects the narrowing of investment spread on participating assets and related liabilities. In 2008, a negative balance in Spain created a charge of £203 million of which £159 million was reversed in 2009 with the remaining balance expected to be recovered in 2010.

Fee and commission expense, other expenses and finance costs of £11,098 million decreased by £276 million or 2% from £11,374 million in 2008. Lower staff costs and impairment charges were offset by higher exceptional costs following the reattribution of the inherited estate in the UK – see "Financial Statements – Note 6 – Details of expenses".

Year ended 31 December 2008

Claims and benefits paid in 2008 were £2,232 million higher at £29,353 million (*2007: £27,121 million*). The increase occurred across all regions, with the exception of the UK, due to unfavourable foreign exchange movement.

Changes in insurance liabilities in 2008 were £7,393 million lower resulting in a £3,885 million credit (*2007: charge of £3,508 million*). The favourable movement was primarily a result of investment variances across the world and greater lapses than expected in France.

The change in investment contract provisions in 2008 was a credit of £10,629 million (*2007: charge of £2,018 million*). The variance of £12,647 million from the prior year reflects the reduction in investment contract provisions as a result of lower new business and unrealised losses on investments.
The change in the unallocated divisible surplus in 2008 was £1,560 million more than the prior year with a credit of £4,482 million (*2007: credit of £2,922 million*) mainly reflecting the impact of falling market values on participating assets and related liabilities. These were partly offset by a write-down of the negative balance in Spain which created a charge in the income statement of £203 million.

Fees and commission expense, other expenses and finance costs in 2008 were £2,440 million higher at £11,374 million (*2007: £8,934 million*). The increase was driven by corporate restructuring and brand expense across the group and £1,040 million of impairments of financial assets mainly in the Netherlands and the US.

Profit/(loss) before tax attributable to shareholders' profits

Year ended 31 December 2009

Profit attributable to shareholders in 2009 was £1,805 million against a loss of £1,300 million in 2008. The increase is primarily due to favourable investment performance in 2009 which more than offset the decrease in premiums and increase in expenses as discussed above.

Year ended 31 December 2008

Loss before tax attributable to shareholders in 2008 was £1,300 million, a reduction of £3,132 million against the previous year (*2007: £1,832 million profit*). This decrease reflected the 52% reduction in income mainly due to investment performance, which was partly offset by lower expenses, discussed above, and a policyholder tax credit of £1,068 million (*2007: tax charge of £15 million*).

Adjusting items

Year ended 31 December 2009

The long-term insurance and savings business investment variances and economic assumption changes on long-term insurance business was a charge of £75 million (*2008: £1,631 million charge*). The favourable change is driven by positive market movements across our regions and the inclusion in 2008 of a £550 million provision for credit defaults in the UK.

The short-term fluctuations and economic assumption changes on the non-life business were a £152 million credit (*2008: £913 million charge*). Favourable market movements across our regions were the primary driver for the change in the current year result.

Impairment of goodwill was £62 million in 2009 (*2008: £66 million*) driven by impairments in our UK life business and on an Italian associate.

Amortisation of intangibles increased by £27 million to £144 million in 2009 (*2008: £117 million*) on higher levels of bancassurance and other distribution agreements held within the Group.

Profit on disposal of subsidiaries and associates were £153 million. The profit comprises £31 million from the sale of our Dutch Health Insurance business and £122 million from the sale of our Australian life and pensions business.

Integration and restructuring costs for 2009 were £286 million (*2008: £326 million*). This includes £210 million for the cost savings initiatives in the UK life and general insurance businesses and Europe, which have delivered £170 million annualised cost savings in the year.

Exceptional items for 2009 amounted to £45 million favourable *(2008: £551 million adverse)*. This includes an exceptional gain resulting from the reattribution of the inherited estate offset by strengthening of reserves in respect of several specific discontinued commercial liability risks written in Canada a significant number of years ago and the migration of all remaining local brands, except Delta Lloyd and RAC, to the single global Aviva brand, which has been implemented over the two-year period 2008 to 2009.

Year ended 31 December 2008

The long-term insurance and savings business investment variances and economic assumption changes on long-term insurance business were a charge of £1,631 million in 2008 (*2007: £15 million credit*). The change is attributable to a provision for credit defaults of £550 million in the UK, with the balance primarily driven by investment losses across Europe.

The short-term fluctuations and economic assumption changes on the non-life business in 2008 were £913 million unfavourable (*2007: £182 million unfavourable*). These were due to lower investment market returns compared to our longer-term investment return assumptions and £94 million for the impact of changes in discount rates for latent claims provisions.

Impairment of goodwill was £66 million in 2008 (*2007: £10 million*). This was mainly driven by impairments in the Netherlands and on an Italian associate company.

Amortisation of intangibles increased by £14 million to £117 million in 2008 (*2007: £103 million*). This increase reflected the higher level of bancassurance and other distribution agreements held within the Group following new agreements entered into during 2007.

Profit on disposal of subsidiaries and associates was £7 million in 2008. The profit comprises £14 million from the sale of the Group's offshore operations to WNS (Holdings) Limited and £31 million from other small operations, offset by £38 million loss on the disposal of HPI Limited to Solera Holdings Inc., and RAC Autowindscreens Limited to Arques Management GmbH.

Integration and restructuring costs were £326 million in 2008 (*2007: £153 million*). This includes £287 million for the cost savings initiatives in the UK life and general insurance businesses and Europe, which have delivered £340 million annualised cost savings in the year. Also included were integration costs of £39 million which mainly relate to the work to set up our global asset management operation, Aviva Investors.

Exceptional items for 2008 were £551 million. These included £142 million for the cost of transferring the lifetime wrap platform to a third-party supplier, write-down in preparation for sale of the British School of Motoring in the UK and closure of the structured settlement business in the US. The costs also included £304 million after reinsurance for the discounted cost of strengthening our latent claims provisions, mainly in the UK, and £126 million for the settlement agreed by our Netherlands life business for its unit-linked policyholders, following an industry-wide challenge on the level of fees. The remaining balance relates to brand migration costs of £37 million offset by £58 million benefit from settlement of a disputed Australian tax liability and the consequent release of a provision for interest charges.

Adjusted operating profit

Year ended 31 December 2009

Adjusted operating profit decreased by £275 million, or 12%, to £2,022 million (*2008: £2,297 million*) for the reasons set forth above.

Year ended 31 December 2008

Adjusted operating profit before tax in 2008 increased by £81 million, or 4%, to £2,297 million (*2007: £2,216 million*) for the reasons set forth above.

Regional performance

United Kingdom

Our operations in the UK consist of long-term insurance and savings business, which provides products such as bonds and savings, pensions, protection, annuities, equity release and investment products, including both with-profits and non-profit business, and our general insurance and health business, which provides a range of general and health insurance products focused on personal and business customers, such as household, motor and liability insurance.

The table below presents sales, net written premiums, adjusted operating profit and profit/(loss) before tax attributable to shareholders' profits under IFRS from our UK long-term business for the years ended 31 December 2009, 2008 and 2007.

Long-term and savings business

	2009 £m	2008 £m	2007 £m
Protection	**965**	1,126	1,241
Pensions	**3,752**	4,753	4,156
Annuities	**1,897**	2,433	1,965
Bonds	**2,024**	3,296	4,192
Equity release	**276**	250	243
Investment sales	**1,049**	1,485	2,751
Sales	**9,963**	13,343	14,548
Net written premiums	**4,389**	7,107	5,277
Adjusted operating profit	**658**	733	713
Profit/(loss) before tax attributable to shareholders' profits	**611**	(149)	564

Year ended 31 December 2009

Sales in our UK long-term insurance and savings business decreased by £3,380 million, or 25%, to £9,963 million (*2008: £13,343 million*). Protection sales have decreased by 14% as a result of regulatory changes affecting creditor sales volumes. Pension sales decreased by 21% due to the reduced number of large schemes written in the year. Annuities decreased by 22% due to lower bulk purchase annuity volumes, bonds decreased 39% and investment sales decreased by 29%. Equity release showed an increase of 10%.

Net written premiums in our UK long-term insurance and savings business were £4,389 million, a decrease of £2,718 million, or 38%, from £7,107 million in 2008. The decrease is primarily due to lower bulk purchase annuity and bond sales.

Adjusted operating profit in our UK long-term insurance and savings business decreased by 10% to £658 million (*2008: £733 million*) reflecting lower asset values on bonuses declared in our with-profits funds and on the level of the with-profit special distribution bonus. The non-profit result increased to £495 million *(2008: £462 million)* including the benefit of the reattribution but was partly offset by lower annual management charges.

Profit before tax was £611 million for 2009 (*2008: £149 million loss*). The loss for 2008 included an additional £550 million provision for credit defaults over and above the long-term provisions, which has been retained in 2009, and £97 million for the cost of transferring the investment wrap platform to a third-party supplier, which were one off events in that year.

Year ended 31 December 2008

Sales in our UK long-term insurance and savings business decreased by £1,205 million, or 8%, to £13,343 million (*2007: £14,548 million*). The decrease was driven by sales in bonds down 21% and investment sales down 46% compared to 2007 due to investment market turbulence, with protection down 9% due to the decline in mortgage approvals. Pensions and annuities showed an increase of 17% on 2007, with equity release up by 3% on 2007.

Net written premiums in our UK long-term insurance and savings business were £7,107 million in 2008, an increase of £1,830 million, or 35%, from £5,277 million in 2007. The increase was primarily driven by bulk purchase annuity and pension sales.

Adjusted operating profit in our UK long-term insurance and savings business increased by £20 million, or 3%, to £733 million in 2008 (*2007: £713 million*). This increase was driven by the £124 million profit relating to the shareholder proportion of the special bonus distribution announced in February 2008. The prior year result included a £167 million benefit from the reduction of the reserving levels permitted under new rules in the UK. Underlying earnings were up £84 million reflecting the cumulative benefits of the recent efficiency programmes of £65 million and lower new business strain.

Loss before tax in our UK long-term insurance and savings business was £149 million in 2008, a decrease of £713 million from £564 million profit in 2007. This decrease mainly reflects the £550 million provision for credit defaults and £97 million for the cost of transferring the investment wrap platform to a third party supplier offset by the increase in adjusted operating profit explained above.

General insurance and health

The table below presents sales, net written premiums, adjusted operating profit and profit/(loss) before tax attributable to shareholders' profits under IFRS from our UK general insurance and health business for the years ended 31 December 2009, 2008 and 2007.

	2009 £m	2008 £m	2007 £m
Sales/net written premiums	**4,298**	5,413	5,897
Adjusted operating profit	**535**	656	421
Profit/(loss) before tax attributable to shareholders' profits	**434**	(391)	142

Year ended 31 December 2009

UK general insurance and health net written premiums were £4,298 million, a decrease of £1,115 million, or 21%, on 2008 *(2008: 5,413 million)*. The decrease reflects a combination of the actions taken to exit unprofitable business and difficult market conditions, most notably in creditor due to lower levels of lending, and commercial due to more business failures, fewer start-ups and reduced levels of exposure.

Adjusted operating profit in 2009 was £535 million, a decrease of £121 million, or 18% *(2008: £656 million)*. The decrease in adjusted operating profit is a result of a decline in long-term investment returns, an increase in creditor claims resulting from the recession and a reduction in savings on prior year claims development to £105 million *(2008: £285 million)*.

Profit before tax was £434 million, an increase of £825 million from a loss of £391 million in 2008. The increase predominately reflects the impact of investment variances of £397 million and an exceptional charge in 2008 of £279 million relating to the discounted cost of strengthening our latent claims.

Year ended 31 December 2008

Net written premiums in our UK general insurance and health business decreased by £484 million, or 8%, to £5,413 million in 2008 *(2007: £5,897 million)*. This decrease was across all personal and commercial lines with personal motor and creditor business showing the greatest fall against 2007. This reflected the increasingly competitive market and our strategy of writing business for profit rather than volume, as well as reflecting distributor response to the issues with payment protection insurance and the decline in lending.

Adjusted operating profit in 2008 was £656 million, an increase of £235 million on 2007 of £421 million. The principal factor in the improved profitability for the general insurance business was that weather related claims were in line with normal expectations compared with a £475 million adverse impact in 2007. This favourable impact was partly offset by a reduction in the benefit of prior year claims development to £285 million (*2007: £430 million*), the decline in net written premiums and a reduction in long-term investment returns to £585 million (*2007: £656 million*). These factors outweighed the earned benefits we have derived from our initiatives to deliver cost savings and control claims inflation.

Loss before tax in our UK general insurance and health business was £391 million in 2008, a decrease of £533 million from a £142 million profit in 2007. This decrease reflected the impact of investment variances and £279 million for strengthening of latent claims provisions.

Europe

Aviva Europe operates in 12 businesses across Europe with substantial long-term insurance and savings businesses in France, Italy, Ireland, Poland and Spain. We also have large general insurance businesses in France and Ireland as well as smaller operations in Italy, Poland and Turkey. Our Europe fund management operations are managed by Aviva Investors, except in Poland which has transferred to Aviva Investors from 1 January 2010.

Delta Lloyd operations include long-term insurance and savings, general insurance and fund management.

The table below presents sales and net written premiums from our operations in Europe for the years ended 31 December 2009, 2008 and 2007.

	2009 £m	2008 £m	2007 £m
Sales			
Long-term insurance and savings business			
France	**4,891**	3,880	3,790
Ireland	**1,072**	1,299	1,780
Italy	**3,607**	2,331	2,975
Poland (including Lithuania)	**1,161**	1,906	1,388
Spain	**2,454**	2,489	2,433
Other Europe	**1,190**	1,410	946
Aviva Europe	**14,375**	13,315	13,312
Delta Lloyd	**4,329**	4,401	3,944
Total long-term insurance and savings business	**18,704**	17,716	17,256
General insurance and health			
France	**952**	882	733
Ireland	**474**	513	474
Other Europe	**457**	417	308
Aviva Europe	**1,883**	1,812	1,515
Delta Lloyd	**1,163**	2,278	1,717
Total general insurance and health	**3,046**	4,090	3,232
Sales	**21,750**	21,806	20,488
Aviva Europe	**12,455**	9,183	8,698
Delta Lloyd	**4,341**	5,883	4,433
Net written premiums	**16,796**	15,066	13,131

The table below presents adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in Europe for the years ended 31 December 2009, 2008 and 2007.

	2009 £m	2008 £m	2007 £m
Adjusted operating profit			
Long-term insurance and savings business			
France	**272**	275	243
Ireland	**50**	61	73
Italy	**128**	48	78
Poland (including Lithuania)	**152**	162	110
Spain	**160**	155	119
Other Europe	**(1)**	(16)	(27)
Aviva Europe	**761**	685	596
Delta Lloyd	**277**	196	181
Total long-term insurance and savings business	**1,038**	881	777
General insurance and health			
France	**97**	107	70
Ireland	**57**	68	162
Other Europe	**(22)**	45	41
Aviva Europe	**132**	220	279
Delta Lloyd	**143**	177	169
Total general insurance and health	**275**	397	442
Fund management	**31**	14	27
Non-insurance	**(148)**	(151)	(49)
Total operating profit	**1,196**	1,141	1,197
Profit before tax attributable to shareholders' profits	**941**	48	1,322

Year ended 31 December 2009

Europe sales in 2009 were in line with the prior year at £21,750 million (*2008: £21,806 million*). A 6% increase in long-term insurance and savings sales to £18,704 million (*2008: £17,716 million*) offset a 26% decrease in general insurance and health net written premiums to £3,046 million (*2008: £4,090 million*).

Net written premiums in 2009 increased by £1,730 million or 12% to £16,796 million (*2008: £15,066 million*).

Adjusted operating profit in 2009 was £1,196 million, an increase of 5%, or £55 million, from £1,141 million.

Europe's profit before tax attributable to shareholders' profits was £941 million in 2009, an increase of £893 million from £48 million in 2008. The increase is mainly attributable to favourable investment returns.

As a result of the IPO, the strategic management of our investment in Delta Lloyd is now managed independently from our other operations. Accordingly, commentary on Europe's performance is presented as two separate segments for 2009.

Aviva Europe

Aviva Europe reported an increase in long-term insurance and savings sales of £1,060 million, or 8%, to £14,375 million (*2008: £13,315 million*) largely due to the strengthening of the euro against sterling. Life and pension sales contributed £668 million to the increase in long-term insurance and savings sales with £392 million from investment sales. Both France and Italy reported increases in life and pension sales of 26% and 55%, respectively, with all other markets reporting a decrease in sales. Poland sales were 41% down reflecting the impact of pension legislation changes and special promotions in 2008.

General insurance and health sales increased by 4% to £1,883 million (*2008: £1,812 million*) primarily due to increased sales in France and other European markets, offset by an 8% fall in sales in Ireland.

Net written premiums in long-term insurance and savings businesses were £10,572 million, an increase of £3,201 million, or 43% (*2008: £7,371 million*) driven by France and Italy. Sales in France have increased through AFER and Italy reported an increase in sales of profit sharing single premium products.

Aviva Europe's long-term insurance and savings business adjusted operating profit was £761 million, an increase of £76 million, or 11%, from £685 million in 2008, reflecting increased profits from existing business in France and Italy due to favourable experience in claims, lapses and surrenders.

Aviva Europe's adjusted operating profit of our general insurance and health businesses was £132 million in 2009, a decrease of £88 million, or 40%, over £220 million in 2008, primarily due to extreme weather in Ireland and France during the year.

Delta Lloyd

Delta Lloyd reported long-term and savings sales of £4,329 million, a decrease of £72 million, or 2%, on 2008 (*2008: £4,401 million*). Life and pension sales decreased by 11% to £3,665 million with investment sales reported at £664 million, an increase of 118% on 2008.

General insurance and health sales were £1,163 million (*2008: £2,278 million*), a decrease of £1,115 million, or 49%, as a result of the sale of their health business on 1 January 2009. Adjusting for the impact of the sale, Delta Lloyd general insurance sales were 13% higher on 2008 *(2008: £1,028 million)* benefiting from the strengthening of the euro and the inclusion of a full year's contribution from Swiss Life Belgium.

Delta Lloyd reported net written premiums of £4,341 million, a decrease of £1,542 million, or 26%, on 2008 (*2008: £5,883 million*) primarily due to lower group pension contracts and the sale of the health business.

Adjusted operating profit was £399 million, an increase of £89 million on £310 million in 2008. Improved profits in the long-term and savings business resulted from lower new business strain, driven by a decrease in corporate pension sales, expense savings, and strengthening of the euro.

Year ended 31 December 2008

Total Europe sales in 2008 increased by £1,356 million or 6% to £21,806 million (*2007: £20,488 million*), with increases in both long-term insurance and savings business and general insurance largely due to the strength of the euro against sterling.

Long-term insurance and savings business in 2008 increased by £498 million or 3% to £17,716 million (*2007: £17,256 million*). Within this, life and pensions sales increased to £16,952 million from £15,684 million in 2007 as a result of significant sales of the individual regular premium product launched in late 2007 and short-term endowment policies sold through Deutsche Bank in Poland.

Delta Lloyd's increased sales were due to a significant increase in corporate pension sales with five contracts contributing a total of £1,106 million, which was partly offset by lower annuity sales as a result of increased competition from the banking sector. Sales in Other Europe increased due to a one-off payment of £545 million in Romania from the introduction of compulsory pensions. These improvements were offset by decreased sales in Italy and Ireland predominantly as a result of the worsening economic environment.

Investment sales in Europe in 2008 decreased by £808 million or 51% to £764 million (*2007: £1,572 million*) due to reduced sales across all countries as a result of the volatile investment markets.

Europe's general insurance and health net written premiums were £4,090 million in 2008, an increase of £858 million, or 27%, from £3,232 million in 2007. The increase in the sales result was driven by the strengthening of the euro, as well as competitively priced health products sold through our Dutch business and strong sales in Italy through our new bancassurance agreement with Banco Popolare. The Dutch health business, which contributed sales of £1,250 million, was sold with effect from 1 January 2009.

Net written premiums in 2008 increased by £1,935 million or 15% to £15,066 million (*2007: £13,131 million*).

Net written premiums in our long-term insurance and savings businesses were £10,976 million in 2008, an increase of £1,077 million, or 11%, from £9,899 million in 2007. This increase resulted from new product launches in Poland, securing five corporate schemes in the Netherlands and the introduction of compulsory pensions in Romania.

General insurance and health net written premiums were £4,090 million in 2008, an increase of £858 million, or 27%, from £3,232 million in 2007 as explained above.

Europe adjusted operating profit in 2008 was £1,141 million, a decrease of 5% or £56 million from £1,197 million.

Europe's long-term insurance and savings business adjusted operating profit was £881 million, an increase of £104 million, or 13%, from £777 million in 2007. This result is partially attributable to the strengthening of the euro, which has had a positive impact on all our major markets. The main countries contributing to the increase were Poland, reflecting higher management fees and cost efficiencies and Spain, which earned higher profits on protection business following growth in the underlying portfolio from the acquisition of Cajamurcia in the fourth quarter of 2007.

In Europe, adjusted operating profit of our general insurance and health businesses was £397 million in 2008, a decrease of £45 million, or 10%, over £442 million in 2007, due to increased price competition across a number of countries, particularly in Ireland and the Netherlands. This was partly offset by the development of new distribution channels, product launches in the year across a number of our businesses and the strengthening of the euro.

Europe's profit before tax attributable to shareholders' profits was £48 million in 2008, a decrease of £1,274 million, or 96%, from £1,322 million in 2007. The decrease was mainly due to adverse investment returns and the cost of the unit-linked compensation in the Netherlands of £126 million.

North America

Aviva North America includes the long-term insurance and savings business in the US, which provides life insurance and annuity products, and the general insurance business in Canada.

The table below presents sales, net written premiums, adjusted operating profit and profit/(loss) before tax attributable to shareholders' profits under IFRS of Aviva North America for the years ended 31 December 2009, 2008 and 2007.

	2009 £m	2008 £m	2007 £m
Protection	**871**	623	617
Annuities	**3,674**	4,244	2,600
Other long-term business	**—**	848	429
General insurance	**1,800**	1,601	1,412
Sales	**6,345**	7,316	5,058
Net written premiums	**6,176**	6,268	4,426
Adjusted operating profit			
Long-term insurance business	**85**	16	79
General insurance	**144**	145	154
Non-insurance	**(16)**	(12)	(4)
	213	149	229
Profit/(loss) before tax attributable to shareholders' profits	**244**	(338)	(38)

Year ended 31 December 2009

Sales in Aviva North America were £6,345 million, a decrease of £971 million, or 13%, (*2008: 7,316 million*). The decrease is driven by a decrease in annuity sales resulting from management action to focus on capital efficiency and the decision not to participate in funding agreement business in 2009. Protection product sales increased by 40% on actions to create innovative products and expand product distribution. General insurance sales in Canada increased by £199 million, or 12%, to £1,800 million (*2008: £1,601 million*), with growth driven by increased sales in homeowner while personal auto premiums were maintained at a similar level to 2008.

Aviva North America's net written premiums decreased by £92 million, or 1%, to £6,176 million (*2008: £6,268 million*). The decrease is a result of lower long-term insurance and savings sales in the US offset by improved sales in Canada as stated above.

Adjusted operating profit was £213 million, an increase of £64 million, or 43%, on 2008 (*2008: £149 million*). Long-term insurance and savings adjusted operating profit increased to £85 million (*2008: £16 million*) driven by improved investment margin earned on existing equity indexed annuity business. General insurance adjusted operating profit is in line with 2008 at £144 million *(2008: £145 million)* with the benefits of increased sales volumes, higher long-term investment return, cost savings and foreign exchange movements being offset by the adverse movement in the claims experience.

Aviva North America's profit before tax attributable to shareholders' profits was £244 million, an increase of £582 million (*2008: £338 million loss*). The increase is mainly as a result of favourable investment performance during the year.

Year ended 31 December 2008

Sales in Aviva North America in 2008 increased by £2,258 million or 45% to £7,316 million (*2007: £5,058 million*). This increase reflected higher US long-term insurance and savings business sales, driven by improved annuity sales, reflecting our expanded distribution, new product launches and successful marketing programmes. General insurance sales in Canada increased by 13% to £1,601 million, with growth across all lines and sales through the acquisition of National Home Warranty in July 2008.

Aviva North America's net written premiums were £6,268 million in 2008, an increase of £1,842 million, or 42%, from £4,426 million in 2007. The increase was mainly due to increased annuity sales in the US and improved sales across all lines of business in Canada.

Adjusted operating profit in Aviva North America was £149 million in 2008, a decrease of £80 million, or 35%, from £229 million in 2007. This is driven by lower annuity margins and lower yield on variable rate investments. Annuity margins were adversely impacted by increased option costs and lower account value, driven by underperformance of the equity markets and higher lapse rates. In our Canadian general insurance business the result was impacted by favourable prior year development, which was offset by difficult market conditions in the insurance cycle, weather related costs, higher expenses and lower investment income as a result of the sale of equities undertaken in the latter half of 2007.

Aviva North America's loss before tax attributable to shareholders' profits was £338 million in 2008, an increase in loss of £300 million, from £38 million loss in 2007. The increased loss was mainly due to significantly lower investment income and the recognition of impairment losses, both driven by the downturn in the economic environment.

Asia Pacific

Aviva Asia Pacific operates in eight countries across the region, following the sale of the Australia operations on 1 October 2009, through both joint ventures and wholly-owned operations. We have businesses in markets at various stages of development, with established businesses in Singapore and Hong Kong, high potential businesses in India and China and developing businesses in South Korea, Taiwan, Malaysia and Sri Lanka.

The table below presents the sales, net written premiums, adjusted operating profit and profit/(loss) before tax attributable to shareholders' profits under IFRS of Aviva Asia Pacific for the years ended 31 December 2009, 2008 and 2007.

	2009 £m	2008 £m	2007 £m
Asia	**1,529**	1,719	1,868
Australia	**1,183**	1,780	2,415
Sales	**2,712**	3,499	4,283
Net written premiums	**455**	511	602
Adjusted operating profit			
Asia long-term insurance and savings business	**52**	2	(6)
Australia long-term insurance and savings business	**40**	44	37
General insurance and health	**6**	—	4
Fund management and non-insurance	**(21)**	(10)	2
	77	36	37
Profit/(loss) before tax attributable to shareholders' profits	**146**	(68)	35

Year ended 31 December 2009

Sales in Asia Pacific decreased by £787 million, or 22%, to £2,712 million (*2008: £3,499 million*). In Australia, sales decreased by 34%, impacted by the sale of the Australian business on 1 October 2009. Sales in Asia decreased 11% as a result of the uncertain economic environment, leading to investor caution across Singapore, Hong Kong, India and our other Asian markets, together with the impact of the strategic decision to scale back the sale of capital intensive products in several Asian markets.

Net written premiums decreased to £455 million, a decrease of £56 million, or 11%, on 2008 (*2008: £511 million*). The decrease was mainly due to the impact of the uncertain economic environment in the region as highlighted above and the disposal of the Australian business.

Increase in adjusted operating profit of £41 million to £77 million (*2008: £36 million*) was mainly due to the benefit from a one-off release of reserves of £68 million following an actuarial review of assumptions in Singapore, partly offset by the impact of the Australian disposal.

Profit before tax of £146 million (*2008: £68 million loss*) reflects the favourable movements in the market across the Asia Pacific region.

Year ended 31 December 2008

Sales in Aviva Asia Pacific were £3,499 million in 2008, a decrease of £784 million, or 18%, from £4,283 million in 2007. The decrease was driven by significantly lower investment sales through Navigator (our wrap administration platform) of £1,746 million, which were £914 million lower than sales of £2,660 million in 2007. The lower investment sales were partially offset by higher long-term insurance and savings business sales of £1,720 million compared to £1,595 million in 2007.

Overall sales in Asia declined in 2008 as a result of volatile investment markets, particularly in Hong Kong and Singapore. This was partly offset by growth in long-term insurance and savings business sales in China, due to the expansion of the distribution network, and first time contributions from new ventures in South Korea and Taiwan.

Sales in Australia also decreased largely due to the benefit in 2007 of a one-off transfer of a group pension scheme and the favourable change in superannuation legislation, which impacted both long-term insurance and savings sales and investment sales.

Aviva Asia Pacific's net written premiums were £511 million in 2008, a decrease of £91 million, or 15%, from £602 million in 2007. The decrease was mainly due to the volatile investment markets impacting sales in Hong Kong, where the products are mainly investment-related.

Adjusted operating profit was £36 million in 2008, a decrease of £1 million, or 3%, from £37 million in 2007. This reflects increased regional costs including one-off costs associated with recruitment, offset by an increase in the long-term insurance and savings business due to lower new business strain from sales and business mix.

Aviva Asia Pacific's loss before tax attributable to shareholders' profit was £68 million in 2008, compared to a profit of £35 million in 2007. The loss in 2008 reflects the impact of adverse economic variances mainly in the long-term insurance and savings businesses.

Aviva Investors

Aviva Investors, our fund management business, operates across all four regions providing fund management services to third-party investors and supporting our long-term insurance and savings and general insurance operations.

The table below presents the adjusted operating profit, profit before tax attributable to shareholders' profits under IFRS and funds under management of Aviva Investors for the years ended 31 December 2009, 2008 and 2007.

	2009 £m	2008 £m	2007 £m
Adjusted operating profit	**115**	114	147
Profit before tax attributable to shareholders' profits	**91**	72	129
Funds under management	**249,630**	236,178	235,309

Year ended 31 December 2009

Aviva Investors' adjusted operating profit in 2009 was £115 million, in line with 2008. Higher performance fees were earned in 2009, offset by lower average market levels through the year.

Profit before tax attributable to shareholders' profits was £91 million, an increase of £19 million, or 25%, on 2008 (*2008: £72 million*). Profit in 2009 benefited from lower integration and restructuring costs on the set-up of Aviva Investors.

Aviva Investor's funds under management were £250 billion, an increase of £14 billion, or 6%, on 2008. The increase is a result of investment performance and product sales together with capital appreciation in some fixed income markets, offset by the impact of sterling's appreciation against the euro and US dollar.

Year ended 31 December 2008

Aviva Investors' adjusted operating profit was £114 million in 2008, a decrease of £33 million, or 22%, from £147 million in 2007. The decrease was mainly due to the investment market volatility in the year, with all geographical areas experiencing downward pressure on fee income.

Aviva Investor's profit before tax attributable to shareholders' profits was £72 million in 2008, a decrease of £57 million, or 44%, from £129 million in 2007. The decrease was mainly due to the decline in investment markets and the integration and restructuring costs of setting up Aviva Investors. Aviva Investors' funds under management were £236 billion in 2008, an increase of £1 billion, or less than 1%, from £235 billion in 2007. The increase was mainly due to exchange gains as sterling declined against other major currencies towards the end of the year, increasing the value of our non-sterling investments, offset by market factors where the fall in equity and property capital values and outflows from some open-ended property funds.

Corporate centre and group debt costs and other interest

	2009 £m	2008 £m	2007 £m
Corporate centre	**(108)**	(141)	(157)
Group debt costs and other interest	**(636)**	(379)	(363)

Year ended 31 December 2009

Corporate centre costs were £108 million, a decrease of £33 million, or 23%, on £141 million in 2008. The decrease reflects lower central spend. Staff incentive costs were in line with 2008 and projects spending decreased by £23 million reflecting lower costs following the completion of the brand migration, financial controls and MCEV projects initiated in 2008.

The group debt costs and other interest increased to £636 million, an increase of £257 million on 2008 of £379 million. External interest costs increased to £335 million (*2008: £286 million*) reflecting higher interest on subordinated debt, due to hybrid debt being issued in 2008 and 2009, which was offset by lower commercial paper interest as proceeds from the issue were used to repay some commercial paper. Internal interest costs increased to £227 million (*2008: £197 million*) driven by changes to our internal loan balances.

The net pension charge of £74 million (*2008: £104 million income*) represents the difference between the expected return on pension scheme assets and the interest charged on pension scheme liabilities. The increase is primarily due to lower rates of return on asset values offset by higher discount rates on liabilities.

Year ended 31 December 2008

The corporate centre costs for 2008 decreased to £141 million (*2007: £157 million*) due to lower central spend and staff incentive costs. Within this total are project spend costs totalling £34 million *(2007: £26 million)*. The increase in project spend was driven by the corporate centre's share of the ongoing implementation of the global finance strategy. The decrease in corporate centre spend is partly explained by increased costs being borne by the operating segments, as certain corporate centre activities and costs have either been transferred or recharged to regional offices.

In 2008 group debt costs and other interest totalled £379 million *(2007: £363 million)*. External interest costs increased to £286 million *(2007: £259 million)* reflecting higher interest in subordinated debt, due to our hybrid debt issues in May and August 2008, offset by lower commercial paper interest as proceeds from the issue were used to repay some commercial paper. Internal interest costs increased to £197 million *(2007: £179 million)* driven by changes to our internal loan balances. Net pension income increased to £104 million *(2007: £75 million)* reflecting higher expected rates of return on assets offset by higher discount rates on liabilities.

Analysis of investments

Analysis of investments

We invest our policyholders' funds and our own funds in order to generate a return for both policyholders and shareholders. The financial strength of our group and both our current and future operating results and financial performance are, therefore, in part dependent on the quality and performance of our investment portfolios in our UK, continental European, North America and Asia Pacific operations.

For additional information on our financial investments, please see "Financial statements IFRS – Note 24 – Financial investments". For a quantitative analysis of funds under management by Aviva and third-party fund managers, see 'Financial statements IFRS – Note 58 – Assets under management'.

Investment strategy

Our investment portfolio supports a range of businesses operating in a number of geographical locations. Our aim is to match the investments held to support a line of business to the nature of the underlying liabilities, while at the same time considering local regulatory requirements, the level of risk inherent within different investments, and the desire to generate superior investment returns, where compatible with this stated strategy and risk appetite.

Long-term insurance and savings business

As stated above, we aim to optimise investment returns while ensuring that sufficient assets are held to meet future liabilities and regulatory requirements. As different types of life insurance business vary in their cash flows and in the expectations placed upon them by policyholders, we need to hold different types of investment to meet these different cash flows and expectations.

The UK with-profits business is comprised largely of long-term contracts with some guaranteed payments. We are therefore able to invest a significant proportion of the funds supporting this business in equities and real estate. This is because the long-term nature of these contracts allows us to take advantage of the long-term growth potential within these classes of assets, while the level of guaranteed payments is managed to mitigate the level of risk that we bear in relation to the volatility of these classes of assets.

Annuities and non-participating contracts, on the other hand, have a high level of guaranteed future payments. We endeavour to match the investments held against these types of business to future cash flows. We therefore have a policy of generally holding fixed income securities and mortgage loans with appropriate maturity dates.

With unit-linked business, the primary objective is to maximise investment returns, subject to following an investment policy consistent with the representations that we have made to our unit-linked product policyholders.

General insurance and health business

The general insurance and health business is comprised of shorter-term liabilities than the long-term insurance business. Furthermore, all the risk attaching to the investments is borne by our shareholders. As a result, the investment portfolio held to cover general insurance liabilities contains a higher proportion of fixed-income securities than the portfolio held to cover life insurance liabilities.

Property partnerships

As part of their investment strategy, the UK and certain European policyholder funds have invested in a number of property limited partnerships (PLPs), either directly or via property unit trusts (PUTs), through a mix of capital and loans. The nature of our involvement in property partnerships is set out in the second and third paragraphs of the Investment vehicles section of "Financial Statements IFRS – Accounting policies – (C) Consolidation principles". Property partnerships are accounted for as subsidiaries, joint ventures or financial investments depending on our participation and the terms of each partnership agreement. For each property partnership accounted for as a subsidiary, joint venture or financial investment, we are exposed to falls in the value of the underlying properties which are reflected as unrealised gains/losses on investment properties, our share of joint venture results and unrealised gains/losses on financial investments, respectively. However, these are all in policyholder funds (*rather than shareholder funds*) so such losses are offset by changes in the amounts due to policyholders or unitholders, or in the Unallocated Divisible Surplus (UDS).

Analysis of financial investments

We distinguish between policyholder, participating fund and shareholder investments, which are terms used to reflect the differing exposure to investment gains and losses. Policyholder assets are connected to our unit-linked business, where the policyholder bears the investment risk on the assets in the unit-linked funds. Our exposure to loss on policyholder assets is limited to the extent that income arising from asset management charges is based on the value of assets in the funds. Participating fund assets related to some of our insurance and investment contracts which contain a discretionary participating feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. Our exposure to investment losses on participating funds is generally limited to our participation in the fund. Shareholder assets are other assets held within our long-term businesses that are not backing unit-linked liabilities or participating funds. Investments held at 31 December 2009, 31 December 2008 and 31 December 2007 are analysed below:

2009	Policyholder assets £m	Participating fund assets £m	Shareholder assets £m	Total assets analysed £m	Less assets of operations classified as held for sale £m	Balance sheet total £m
Investment property	**3,941**	**6,338**	**2,151**	**12,430**	**(8)**	**12,422**
Loans	**1,468**	**7,543**	**32,068**	**41,079**	**—**	**41,079**
Financial investments						
Debt securities	**17,596**	**86,464**	**56,450**	**160,510**	**—**	**160,510**
Equity securities	**28,638**	**9,678**	**5,027**	**43,343**	**—**	**43,343**
Other investments	**24,867**	**7,222**	**2,760**	**34,849**	**(23)**	**34,826**
Total	**76,510**	**117,245**	**98,456**	**292,211**	**(31)**	**292,180**
Total %	**26.2%**	**40.1%**	**33.7%**			
2008	72,205	119,083	96,031	287,319	(396)	286,923
2008 %	25.1%	41.5%	33.4%			
2007	76,025	112,136	80,579	268,740	(316)	268,424
2007 %	28.3%	41.7%	30.0%			

As the table indicates, 34% of total investments can be directly attributed to shareholders. The apportionment of our shareholder assets is predominantly weighted towards debt securities and loans. In comparison, policyholder and participating funds contain a greater proportion of investment property, equities, and other investments (eg, unit trusts), reflecting the underlying investment mandates.

Financial investment balances included in the remainder of this disclosure include financial investments of operations classified as held for sale.

Measurement basis

We carry investments on our statement of financial position at either fair value or amortised cost. As shown in the table below, at 31 December 2009, 93% of the group's total investments were carried at fair value on the statement of financial position.

	2009			2008			2007		
	Fair value £m	**Amortised cost £m**	**Total £m**	Fair value £m	Amortised cost £m	Total £m	Fair value £m	Amortised cost £m	Total £m
Investment property	**12,430**	**—**	**12,430**	14,426	—	14,426	15,391	—	15,391
Loans	**20,890**	**20,189**	**41,079**	21,468	20,769	42,237	18,540	17,653	36,193
Financial investments									
Debt securities	**160,510**	**—**	**160,510**	150,734	—	150,734	121,591	—	121,591
Equity securities	**43,343**	**—**	**43,343**	43,411	—	43,411	59,065	—	59,065
Other investments	**34,849**	**—**	**34,849**	36,511	—	36,511	36,500	—	36,500
Total	**272,022**	**20,189**	**292,211**	266,550	20,769	287,319	251,087	17,653	268,740
Total %	**93.1%**	**6.9%**		92.8%	7.2%		93.4%	6.6%	

For more information about financial investments analysed according to their accounting classification and valuation approach, as well as the cost, unrealised gains and losses, impairments, fair value and other information concerning financial investments, see the "Financial Statements IFRS – Note 24 – Financial investments".

Debt securities

We grade debt securities according to current external credit ratings issued. The credit rating used for each individual security is the second highest of the available ratings from Standard & Poor's, Moody's and Fitch. If a credit rating is available from only one of these three rating agencies then this rating is used. If an individual security has not been given a credit rating by any of these three rating agencies, the security is classified as "non-rated".

For the tables below we have used the standard Standard & Poor's rating classifications. Investment grade debt securities are classified within the range of AAA (extremely strong) to BBB (good) ratings, with AAA being the highest possible rating. Debt securities which fall outside this range are classified as speculative grade. Where we use a rating provided by Moody's or Fitch, we have expressed it as the Standard & Poor's equivalent rating. For example, we consider Standard & Poor's rating of AA (very strong) to be equivalent to Moody's rating of AA (excellent) and Fitch's rating of AA (very strong).

Despite the increase in market downgrade activity during 2008 and 2009, debt securities with a credit rating of A or above at 31 December 2009 still represented 81.6% of total holdings (*2008: 86.3%).* Approximately 43% of total debt security holdings were in government bonds and 34% of total debt security holdings were in corporate bonds with a credit rating of A or above, as of 31 December 2009.

"Wrapped credit" is credit exposure that has been insured with monoline insurers to achieve a better credit rating. The monoline insurers suffered downgrades during 2008 and 2009 and this is reflected in the analysis that follows. The exposure is diversified across several monolines and the underlying bonds are diversified across many different counterparties. In general, we are a long-term holder of this debt, although we continue to review our holdings with reference to the underlying quality and prospects.

The majority of the residential mortgage-backed securities (RMBS) are US investments and over 65% of the total exposure is backed by the US Government-sponsored entities (GSEs) Fannie Mae and Freddie Mac. Under the conservatorship arrangements with the US Government implemented in September 2008, these securities have an implicit guarantee, although they are not expressly backed by the full faith and credit of the US Government. The majority of the remaining US RMBS are backed by fixed-rate loans that originated in 2005 or before.

At 31 December 2009, our exposure to sub-prime debt securities was limited to £2 million (*2008: £39 million*), and our exposure to collaterised debt obligations (CDO) and collaterised loan obligations (CLO) was limited to £176 million. Investments in structured assets (excluding agency RMBS that are backed by GSEs) were £7,341 million, representing less than 5% of total debt securities.

The vast majority of the corporate bonds that are not rated represent private placements and corporate bond investments made via unit trusts, where a "look-through" to the underlying securities has been performed. The private placements are US investments which are not rated by the major rating agencies but are rated an average equivalent of A- by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC), a US association of state insurance regulators.

Excluding the private placements that are rated an average A– by the NAIC, the exposure that is not rated by a major rating agency is less than 3% of total debt securities.

Of the debt securities rated less than BBB, 77% are rated BB, while only 5%, amounting to £181 million, are rated below B.

Debt securities analysed by credit rating and sector

Total debt securities analysed by credit rating and product type are set out in the table below. Government and corporate debt securities are further analysed by type of issuer.

Debt securities – Total

2009	Ratings AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
Government							
UK government	**20,069**	**1,354**	**—**	**—**	**—**	**—**	**21,423**
UK local authorities	**—**	**16**	**—**	**—**	**—**	**—**	**16**
Non-UK government	**25,189**	**11,787**	**7,566**	**1,814**	**410**	**710**	**47,476**
	45,258	**13,157**	**7,566**	**1,814**	**410**	**710**	**68,915**
Corporate							
Public Utilities	**696**	**721**	**3,680**	**1,215**	**246**	**72**	**6,630**
Convertibles and bonds with warrants	**—**	**26**	**362**	**95**	**50**	**53**	**586**
Other corporate bonds	**10,440**	**11,973**	**26,201**	**15,029**	**2,682**	**3,018**	**69,343**
	11,136	**12,720**	**30,243**	**16,339**	**2,978**	**3,143**	**76,559**
Certificates of deposits	**—**	**890**	**580**	**1,330**	**—**	**10**	**2,810**
Structured							
RMBS non-agency sub-prime	**2**	**—**	**—**	**—**	**—**	**—**	**2**
RMBS non-agency ALT A	**18**	**100**	**16**	**22**	**81**	**—**	**237**
RMBS non-agency prime	**943**	**8**	**47**	**60**	**6**	**5**	**1,069**
RMBS agency	**2,534**	**—**	**—**	**—**	**—**	**1**	**2,535**
	3,497	**108**	**63**	**82**	**87**	**6**	**3,843**
CMBS[1]	**1,350**	**266**	**245**	**91**	**84**	**4**	**2,040**
ABS[2]	**1,256**	**282**	**372**	**164**	**37**	**276**	**2,387**
CDO (including CLO)	**69**	**18**	**17**	**10**	**71**	**56**	**241**
ABCP[3]	**—**	**836**	**—**	**—**	**—**	**—**	**836**
ABFRN[4]	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	2,675	**1,402**	**634**	**265**	**192**	**336**	**5,504**
Wrapped credit	**157**	**93**	**121**	**129**	**40**	**54**	**594**
Other	**22**	**213**	**413**	**34**	**16**	**1,587**	**2,285**
Total	**62,745**	**28,583**	**39,476**	**20,137**	**3,723**	**5,846**	**160,510**
Total %	**39.1%**	**17.8%**	**24.6%**	**12.6%**	**2.3%**	**3.6%**	
2008	66,298	24,452	39,308	12,750	2,197	5,729	150,734
2008 %	44.0%	16.2%	26.1%	8.4%	1.5%	3.8%	

1. CMBS – Commercial Mortgage Backed Security
2. ABS – Asset Backed Security
3. ABCP – Asset backed commercial paper
4. ABFRN – Asset backed floating rate notes

Debt securities, for which policyholders carry the exposure to investment losses, analysed by credit rating and product type are set out in the table below. Government and corporate debt securities are further analysed by type of issuer.

Debt securities – policyholder assets

2009	Ratings AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
Government							
UK government	**5,085**	**257**	**—**	**—**	**—**	**—**	**5,342**
UK local authorities	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Non-UK government	**1,425**	**589**	**978**	**226**	**6**	**40**	**3,264**
	6,510	**846**	**978**	**226**	**6**	**40**	**8,606**
Corporate							
Public Utilities	**19**	**159**	**935**	**99**	**3**	**3**	**1,218**
Convertibles and bonds with warrants	**—**	**—**	**—**	**2**	**5**	**—**	**7**
Other corporate bonds	**1,274**	**1,291**	**3,234**	**570**	**34**	**267**	**6,670**
	1,293	**1,450**	**4,169**	**671**	**42**	**270**	**7,895**
Certificates of deposits	**—**	**19**	**22**	**196**	**—**	**2**	**239**
Structured							
RMBS non-agency sub-prime	**—**	**—**	**—**	**—**	**—**	**—**	**—**
RMBS non-agency ALT A	**—**	**3**	**—**	**—**	**—**	**—**	**3**
RMBS non-agency prime	**8**	**1**	**6**	**2**	**—**	**1**	**18**
RMBS agency	**32**	**—**	**—**	**—**	**—**	**—**	**32**
	40	**4**	**6**	**2**	**—**	**1**	**53**
CMBS	**8**	**6**	**—**	**5**	**—**	**—**	**19**
ABS	**21**	**5**	**29**	**6**	**—**	**1**	**62**
CDO (including CLO)	**2**	**—**	**2**	**—**	**—**	**—**	**4**
ABCP	**—**	**156**	**—**	**—**	**—**	**—**	**156**
ABFRN	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	31	**167**	**31**	**11**	**—**	**1**	**241**
Wrapped credit	**—**	**1**	**2**	**3**	**4**	**4**	**14**
Other	**—**	**—**	**—**	**4**	**—**	**544**	**548**
Total	**7,874**	**2,487**	**5,208**	**1,113**	**52**	**862**	**17,596**
Total %	**44.8%**	**14.1%**	**29.6%**	**6.3%**	**0.3%**	**4.9%**	
2008	8,534	3,235	5,898	904	26	999	19,596
2008 %	43.6%	16.5%	30.1%	4.6%	0.1%	5.1%	

Analysis of investments continued

Debt securities, for which participating funds carry the exposure to investment losses, analysed by credit rating and product type are set out in the table below. Government and corporate debt securities are further analysed by type of issuer.

Debt securities – participating fund assets

	Ratings						
2009	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
Government							
UK government	**12,318**	**1,097**	**—**	**—**	**—**	**—**	**13,415**
UK local authorities	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Non-UK government	**15,734**	**9,004**	**4,167**	**728**	**279**	**59**	**29,971**
	28,052	**10,101**	**4,167**	**728**	**279**	**59**	**43,386**
Corporate							
Public Utilities	**639**	**419**	**2,035**	**721**	**234**	**8**	**4,056**
Convertibles and bonds with warrants	**—**	**26**	**259**	**—**	**18**	**20**	**323**
Other corporate bonds	**6,332**	**6,781**	**12,673**	**5,783**	**1,387**	**1,095**	**34,051**
	6,971	**7,226**	**14,967**	**6,504**	**1,639**	**1,123**	**38,430**
Certificates of deposits	**—**	**374**	**60**	**1,131**	**—**	**—**	**1,565**
Structured							
RMBS non-agency sub-prime	**—**	**—**	**—**	**—**	**—**	**—**	**—**
RMBS non-agency ALT A	**—**	**—**	**—**	**2**	**2**	**—**	**4**
RMBS non-agency prime	**239**	**—**	**—**	**—**	**—**	**—**	**239**
RMBS agency	**248**	**—**	**—**	**—**	**—**	**—**	**248**
	487	**—**	**—**	**2**	**2**	**—**	**491**
CMBS	**142**	**53**	**18**	**2**	**4**	**—**	**219**
ABS	**241**	**74**	**114**	**66**	**21**	**1**	**517**
CDO (including CLO)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
ABCP	**—**	**660**	**—**	**—**	**—**	**—**	**660**
ABFRN	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	383	**787**	**132**	**68**	**25**	**1**	**1,396**
Wrapped credit	**15**	**43**	**13**	**34**	**7**	**11**	**123**
Other	**4**	**176**	**147**	**29**	**8**	**709**	**1,073**
Total	**35,912**	**18,707**	**19,486**	**8,496**	**1,960**	**1,903**	**86,464**
Total %	**41.6%**	**21.6%**	**22.5%**	**9.8%**	**2.3%**	**2.2%**	
2008	38,658	13,766	19,794	5,310	986	1,052	79,566
2008 %	48.6%	17.3%	24.9%	6.7%	1.2%	1.3%	

Debt securities, for which shareholders carry the exposure to investment losses, analysed by credit rating and product type are set out in the table below. Government and corporate debt securities are further analysed by type of issuer.

Debt securities – shareholder assets

2009	Ratings AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
Government							
UK government	**2,666**	**—**	**—**	**—**	**—**	**—**	**2,666**
UK local authorities	**—**	**16**	**—**	**—**	**—**	**—**	**16**
Non-UK government	**8,030**	**2,194**	**2,277**	**1,004**	**125**	**611**	**14,241**
	10,696	**2,210**	**2,277**	**1,004**	**125**	**611**	**16,923**
Corporate							
Public Utilities	**38**	**143**	**710**	**395**	**9**	**61**	**1,356**
Convertibles and bonds with warrants	**—**	**—**	**103**	**93**	**27**	**33**	**256**
Other corporate bonds	**2,834**	**3,901**	**10,294**	**8,676**	**1,261**	**1,656**	**28,622**
	2,872	**4,044**	**11,107**	**9,164**	**1,297**	**1,750**	**30,234**
Certificates of deposits	**—**	**497**	**498**	**3**	**—**	**8**	**1,006**
Structured							
RMBS non-agency sub-prime	**2**	**—**	**—**	**—**	**—**	**—**	**2**
RMBS non-agency ALT A	**18**	**97**	**16**	**20**	**79**	**—**	**230**
RMBS non-agency prime	**696**	**7**	**41**	**58**	**6**	**4**	**812**
RMBS agency	**2,254**	**—**	**—**	**—**	**—**	**1**	**2,255**
	2,970	**104**	**57**	**78**	**85**	**5**	**3,299**
CMBS	**1,200**	**207**	**227**	**84**	**80**	**4**	**1,802**
ABS	**994**	**203**	**229**	**92**	**16**	**274**	**1,808**
CDO (including CLO)	**67**	**18**	**15**	**10**	**71**	**56**	**237**
ABCP	**—**	**20**	**—**	**—**	**—**	**—**	**20**
ABFRN	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	2,261	**448**	**471**	**186**	**167**	**334**	**3,867**
Wrapped credit	**142**	**49**	**106**	**92**	**29**	**39**	**457**
Other	**18**	**37**	**266**	**1**	**8**	**334**	**664**
Total	**18,959**	**7,389**	**14,782**	**10,528**	**1,711**	**3,081**	**56,450**
Total %	**33.6%**	**13.1%**	**26.1%**	**18.7%**	**3.0%**	**5.5%**	
2008	19,106	7,451	13,616	6,536	1,185	3,678	51,572
2008 %	37.0%	14.4%	26.5%	12.7%	2.3%	7.1%	

In respect of the wrapped credit investments, the table below shows the credit rating of the underlying securities, ie without the guarantee. As rating agencies do not provide credit ratings for individual wrapped credit securities without consideration of the insurance guarantee, the credit ratings disclosed in the table below for wrapped credit without the benefit of the insurance guarantee is based on the long-term issuer credit ratings for unsecured corporate debt of the issuer, where this information is available.

Total assets

	Rating with insurance guarantee Fair value £m	% of total	Rating without insurance guarantee Fair value £m	% of total
Wrapped Credit				
AAA	**157**	**26.4%**	**—**	**—**
AA	**93**	**15.7%**	**35**	**5.9%**
A	**121**	**20.4%**	**111**	**18.7%**
BBB	**129**	**21.7%**	**141**	**23.8%**
Less than BBB	**40**	**6.7%**	**20**	**3.3%**
Non-rated	**54**	**9.1%**	**54**	**9.1%**
Not available without insurance guarantee	**—**	**—**	**233**	**39.2%**
	594	**100.0%**	**594**	**100.0%**
RMBS Agency				
AAA	**2,535**	**100.0%**	**2,535**	**100.0%**
	2,535	**100.0%**	**2,535**	**100.0%**

Property and Risk management

Equity securities

The table below analyses our investments in equity securities by sector.

2009	Policyholder £m	Participating £m	Shareholder £m	Total £m
Public Utilities	**2,355**	**1,299**	**26**	**3,680**
Banks, trusts and insurance companies	**3,747**	**1,797**	**1,745**	**7,289**
Industrial miscellaneous and all other	**22,526**	**6,560**	**3,046**	**32,132**
Non-redeemable preferred shares	**10**	**22**	**210**	**242**
Total	**28,638**	**9,678**	**5,027**	**43,343**
Total %	**66.1%**	**22.3%**	**11.6%**	
2008	**23,840**	**13,817**	**5,754**	**43,411**
2008 %	**54.9%**	**31.8%**	**13.3%**	

At 31 December 2009, shareholder investment in equity securities amounted to £5,027 million, of which 77% related to our business in the Netherlands, 17% our Italian business and 6% other businesses. The Italian equity holdings are held both directly by our Italian subsidiaries and by group holding companies.

Of our £7,289 million exposure to equity investments in banks, trusts and insurance companies, £1,745 million relates to shareholder investments, which includes £766 million equities held by our business in the Netherlands and a strategic holding in UniCredit and other Italian banks of £927 million (£757 million net of minority interest share).

The remaining shareholder exposure to equity securities, other than banks, trusts and insurance companies, arises principally in our Netherlands business, amounting to 95% of the total exposure of £3,282 million.

Other investments

The table below analyses other investments by type.

2009	Policyholder £m	Participating £m	Shareholder £m	Total £m
Unit trusts and other investment vehicles	**23,914**	**5,415**	**615**	**29,944**
Derivative financial instruments	**146**	**621**	**1,311**	**2,078**
Deposits and credit institutions	**307**	**29**	**633**	**969**
Minority holdings in property management undertakings	**10**	**605**	**52**	**667**
Other	**490**	**552**	**149**	**1,191**
Total	**24,867**	**7,222**	**2,760**	**34,849**
Total %	**71.4%**	**20.7%**	**7.9%**	
2008	23,632	9,443	3,436	36,511
2008 %	64.7%	25.9%	9.4%	

Property

Our global headquarters are located in St. Helen's, 1 Undershaft, London, England. We also have the following regional headquarters:
— UK – UK Life: York, England
— UK – UK General Insurance: Norwich, England
— Europe – London, England
— North America – Chicago, Illinois, USA
— Asia Pacific – Singapore
— Aviva Investors – London, England

In addition to the above, our regions have major offices in the following locations:
— North America: Des Moines, Iowa, USA and Scarborough, Ontario, Canada
— Europe: Paris, France; Amsterdam, the Netherlands; Dublin, Ireland; Madrid, Spain; and Milan, Italy

We own or lease space in 27 countries around the world. As of 31 December 2009, we owned and occupied land and buildings for our own use with a total book value of £416 million *(2008: £568 million)*. We believe that these facilities are adequate for our present needs in all material respects. We also hold other properties, both directly and indirectly, for investment purposes, valued at £10,756 million at 31 December 2009.

Risk management

As a global company we face a diverse range of risks, each of which has the potential to impact financial performance or hinder the achievement of business objectives. If we do not manage these risks effectively we could also miss potential opportunities to further develop and expand our business.

At Aviva, sound risk management is a key component of our business and is an integral part of maintaining financial stability for our customers, shareholders and other stakeholders. We group the type of risks we face into three categories: financial, strategic, and operational.
— Financial risks cover market and credit risk, insurance risk, liquidity and capital management.

— Strategic risks include issues such as customer, brand, products and markets as well as any risks to our business model arising from changes in our market and risks arising from mergers and acquisitions.
— Operational risks arise from inadequate or failed internal processes, or from people and systems or from external events. This includes business protection, information technology, people, legal and regulatory compliance risks.

We operate within a three lines of defence model. Primary responsibility for risk identification and management lies with business management (the 1st line of defence). Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions (the 2nd line of defence). Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided by group internal audit (the 3rd line of defence).

We employ effective processes to identify, assess, mitigate, manage and monitor the risks to which we are exposed. We make appropriate decisions to limit and control the impact the risks may have on our strategic objectives.

We set limits to manage our material risks to ensure we stay within our risk appetite (the amount of risk we are willing to accept). To work out how "material" a risk is to our business we assess its size and scale based on how likely it is to occur and what potential impact it would have on our business and our stakeholders if it were to occur. Most importantly, when risks are outside of appetite, we agree what actions need to be taken to manage the risks.

What risk management activity happens in Aviva?
To ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place, our risk management activity needs to operate through clearly defined and agreed structures and processes.

At Aviva, we support and coordinate all group-wide risk management activities through a central risk team, led by the group chief risk officer. In each of our regions, regional chief risk officers ensure that the regional risk profiles remain within the limits set centrally.

The regional chief risk officers work with business management to ensure that our risk management framework is being used consistently across all our businesses. They also work with the group chief risk officer to coordinate and communicate decisions that are taken at a group level.

As well as working with the regions, the central risk team is also responsible for managing group risk governance and oversight.

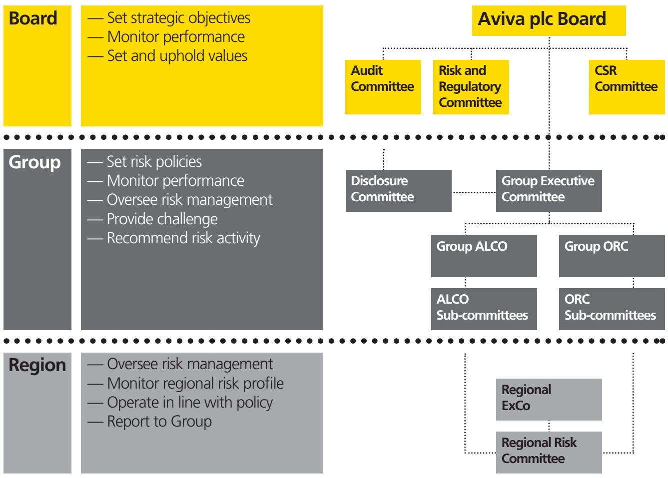
Risk management framework

At group centre, the Risk Management Framework enables us to understand all the material risks that we currently face and to identify early emerging risks. This knowledge helps the risk teams to provide effective challenge and support to the regions and its businesses.

The central risk team monitors these risk exposures on a regular basis with a specific focus on financial risks via regular reporting to the Group Executive Committee and, as part of the performance management process, senior management review risk management information to ensure the successful delivery of our business objectives.

As well as the ongoing monitoring activities the central risk team produces a formal quarterly risk report for the Risk and Regulatory Committee of the board and the various risk oversight committees.

Corporate governance and oversight
Our Risk Governance Framework allocates responsibility for the oversight of risk management to a number of committees at group centre with the Group Asset Liability Committee (ALCO) and the Group Operational Risk Committee (ORC) providing a key focus on financial and operational risk. The group centre committees are in turn supported by similar governance structures in the regions. These relationships are summarised in the diagram below.



These committees monitor the aggregate risk profile, provide challenge and recommend risk management activity and ensure that our ris0k policies are used to manage risk to agreed standards.

Board oversight is maintained on a regular basis through its Risk and Regulatory Committee (RRC). The group chief risk officer is a member of the Group Executive Committee and has a reporting line to the group chief executive and to the RRC with access to the RRC chairman, assuring independence of the function.

Policies and procedures
We have formal risk policies that ensure a consistent approach to the management of all our risks across all the businesses and locations in which we operate. These risk policies define our risk appetite and set out risk management and control standards for the group's worldwide operations. The risk policies also set out the roles and responsibilities of businesses, regions, policy owners, and the risk oversight committees.

As our business needs to change and respond to market conditions and customer needs, we regularly monitor the appropriateness of our risk policies and risk appetite to ensure they remain up-to-date. This helps to provide assurance to the various risk oversight committees that there are appropriate controls in place for all our core business activities, and that the processes for managing risk are understood and followed consistently across our global businesses.

Risk and economic capital
We already use economic capital models within our decision-making and were early adopters of stress and scenario analysis across the risks we face, making us well placed for the forthcoming Solvency 2 regulatory regime. However, the use of models is balanced with sound business judgement.

The Financial Services Authority (FSA) requires Aviva to assess its economic capital requirements to ensure that it adequately reflects business and control risks. In turn this analysis supports our strategic planning and decision-making processes.

Risk factors

This table sets out the definitions of each key risk type; the key risk drivers for each category; sensitivities to economic and operating experience on the group's performance; and a summary of the related risk mitigation processes that operate within the Risk Management Framework.

Risk type	Key drivers
Market Risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices and foreign currency exchange rates	— Fluctuation in the value of our investments in loans, debt and equity securities as well as our holdings of investment properties — Impact of market conditions on sales of investment products and our fund management business — Products sold by the group that carry investment return and surrender value guarantees — Premium income, dividends from overseas businesses and transactions from currencies other than sterling — Assets held in the staff pension scheme
Credit Risk of financial loss as a result of the default or failure of third parties to meet their payment obligations	— Exposures to debt investments, structured asset investments, and counterparties in our derivatives, mortgage loans and reinsurance placements — Default and spread risks are considered, as both impact the value and risks of assets — Concentrations of exposures to individual credits/counterparties or sectors/geographies
Liquidity Risk of not maintaining sufficient financial resources to meet our business obligations as they fall due	— Insufficient capital generated from the receipt of premiums, fees and investment income, along with planned asset sales and maturities to pay claims and expenses — Instances where additional cash requirements arise in excess of that available within operating businesses — Mismatches in the timing of cash flows relating to assets, liabilities and off balance sheet instruments
General insurance The inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes fluctuations in the timing, frequency, and severity of claims and settlements, inadequate reinsurance protection and inadequate reserves.	— Our largest general insurance risk is claims incurred from catastrophic events, such as flooding and windstorm — Financial impact of worsening claims ratios and inadequate reserves — Reinsurance may not be available, affordable or adequate to protect the group against losses — Inappropriate risk selection and related pricing
Life insurance The inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This includes exposure to mortality and morbidity insurance and exposure to worse than anticipated operating experience on factors such as persistency levels and management and administrative expenses	— Adverse longevity experience (the risk that people will live longer than we have assumed) — Adverse mortality experience (the death of a policy holder) and morbidity (ill health) — Expense experience compared with assumptions at the start of the insurance policy — Poorly designed or inadequately priced products — Persistency risk arising from customers lapsing their policies earlier than has been assumed
Strategic Risks to our business model arising from changes in external events, our markets and customer behaviour as well as risks arising from mergers and acquisitions	— Focus on our strategy of delivering 'One Aviva, Twice the Value' — Our strategic response to changes in external environment including competitive landscape, customer behaviour, distributor regulatory changes, merger and acquisition opportunities and emerging trends
Brand and reputation Our dependence on the strength of our brands, the brands of our partners, and our reputation with customers and distributors in the sale of our products and services	— We are vulnerable to press speculation, negative publicity, adverse market and customer perception — Products or services recommended by us do not perform as expected — We operate in an industry where integrity, customer trust and confidence are paramount
Operational The risks of direct or indirect loss resulting from inadequately or failed internal processes, or from people and systems, or from external events	— Processing large number of complex transactions across numerous and diverse products — We are highly dependent on the proper functioning of information technology and communication systems to serve our customers — We are partially reliant on the operational processing performance of our outsourced partners including certain servicing and IT functions

For further details refer to the "Financial statements IFRS – Note 56 – Risk management".

Sensitivities[1]	Risk mitigation
— A 1% increase in interest rates would decrease total shareholder funds by £1.3 billion net of tax on an IFRS basis and by £0.6 billion net of tax on an MCEV basis — A 10% decrease in equity prices would decrease total shareholders' funds by £0.7 billion net of tax on an IFRS basis and by £1.0 billion net of tax on an MCEV basis — We expect that a 40% fall in equity prices (at 31 December 2009) would reduce IGD by £0.7 billion.	— Regular reviews by group asset liability committee relative to risk appetite — Active management of exposure through hedging against unfavourable market movements and changes in asset mix — Regular monitoring of impact from changes in market risks (interest rates, equity prices, property values) through value at risk analysis, stress tests and scenario analysis — Use of currency borrowings and derivatives to manage currency exposures within centrally set limits — Investment strategy and long-term objectives agreed with scheme trustees
— A 50 bps increase in credit spreads would increase shareholder funds by £0.3 billion net of tax on an IFRS basis and would decrease embedded value by £0.8 billion on a net of tax MCEV basis.	— Adherence to credit policy and limits frameworks by all businesses — Regular monitoring and reviews by credit approvals committee of exposures and management against limits — Maintaining a diversified portfolio and review concentrations of exposure by types, sector, geography and credit ratings — Utilisation of risk reduction techniques such as hedging and collateral posting requirements
— The Liquidity stress tests performed and the size of the liquidity buffer held to cover unforeseen circumstances	— Asset liability matching methodology develops optimal asset portfolio maturity structures in our businesses to ensure cash flows are sufficient to meet liabilities — Regular monitoring through liquidity stress and scenario testing — Sale of assets from investment portfolios, issuing commercial paper — Maintain committed borrowing facilities (£2.1 billion) from highly rated banks
— Our total potential loss from our most concentrated exposure (northern Europe windstorm) is approximately £335 million for a one in ten year annual loss scenario, compared to approximately £620 million for a one in hundred year annual loss scenario — A 5% increase in gross loss ratios for our general insurance and health business reduces shareholders funds by £345 million on a pre-tax IFRS basis	— Regular reviews by group general insurance committee — Use of reinsurance to help reduce the financial impact of a catastrophe and manage earnings volatility — Extensive use of data, financial models and analysis to improve pricing and risk selection — Underwriting and claims management disciplines — Digital mapping to better manage property flood risk
— Mortality/ morbidity – a 5% worsening in assurance mortality/morbidity experience would reduce shareholder funds by £45 million before tax on an IFRS basis and decrease embedded value by £195 million net of tax on an MCEV basis. — Longevity – should our assumptions in respect of annuitant mortality worsen by 5% then shareholder funds would reduce by £320 million before tax on an IFRS basis and decrease embedded value by £365 million net of tax on an MCEV basis.	— Regular reviews by Life insurance committee — Monitor longevity statistics compared with emerging industry trends and use of reinsurance solutions — Use of reinsurance solutions to mitigate mortality and morbidity risks — Guidelines to support businesses through complete cycle of product design, development and pricing — Regular monitoring of expense assumptions — Guidelines on persistency management apply best practice across the group
— Progress in building our Aviva global brand and transforming our business — How responsive we are to changes in the external environment that may provide opportunities or cause strategic risks — Impact of the challenging economic environment and volatile financial markets	— Strategic review and planning process — Developments assessed during our performance management process — Maintaining a diverse distribution model and review of concentrations by channel, product, country or customer group — Challenging developments that could be damaging to our business and the industry as a whole
— Maintaining integrity and confidence in our brands and products — Building long-term relationships with our customers and attracting new customers to Aviva — New product and distribution developments that suit our customers' changing needs	— Regular reviews by the group corporate reputation committee — Building our brand prominence and regularly monitoring brand metrics — Delivering a truly exceptional experience to our customers and treating customers fairly in line with the FSA principles — Monitor metrics including customer advocacy, retention and complaints
— Increasing our efficiency and reducing complexity — Levels of investment and operating performance — Capabilities across our organisation	— Framework of corporate responsibility, policies and business ethics code — Procedures to record properly and verify a large number of events — Significant resources devoted to maintaining efficient and effective operations

1. IFRS sensitivities are shown gross of minority interest.

Contractual obligations

Contractual obligations

Contractual obligations with specified payment dates at 31 December 2009 included the following:

	Less than one year £m	Between one and three years £m	Between three and five years £m	After five years £m	Total
Insurance and investment contracts					
Long term business					
— Insurance contracts – non-linked[1]	**10,554**	**9,609**	**33,980**	**135,004**	**189,147**
— Investment contracts – non-linked[2]	**59,504**	**—**	**—**	**—**	**59,504**
— Linked business[2]	**80,206**	**—**	**—**	**—**	**80,206**
General insurance[3]	**7,215**	**4,549**	**2,467**	**4,111**	**18,342**
	157,479	**14,158**	**36,447**	**139,115**	**347,199**
Other contractual obligations[4]					
Borrowings	**1,336**	**1,244**	**1,751**	**23,613**	**27,944**
Operating lease obligations	**145**	**408**	**55**	**834**	**1,442**
Capital commitments	**133**	**93**	**47**	**52**	**325**
Payables and other financial liabilities[5]	**20,095**	**357**	**93**	**441**	**20,986**
Net asset value attributable to unitholders	**9,894**	**—**	**—**	**—**	**9,894**
Total	**189,082**	**16,260**	**38,393**		

Reconciliation to the statement of financial position	**£m**
Total contractual obligations above	**407,790**
Effect of discounting contractual cash flows for insurance contracts	**(66,092)**
Contractual undiscounted interest payments[6]	**(12,169)**
Difference between carrying value of borrowings and undiscounted cash flows of principle	**(775)**
Contractual cash flows under operating leases and capital commitments	**(1,767)**
Difference between derivative liabilities contractual cash flows and carrying value	**(444)**
Liabilities of operations classified as held for sale	**33**
Non-contractual / short-term obligations	
— Unallocated divisible surplus[7]	**3,866**
— Provisions[8]	**3,980**
— Current and deferred tax liabilities	**1,230**
— Other liabilities	**3,653**
Total liabilities per statement of financial position	**339,305**

1. Amounts shown in respect of long-term insurance contracts represent estimated undiscounted cash flows for the Group's life assurance contracts. In determining the projected payments, account has been taken of the contract features, in particular that the amount and timing of the contractual payments reflect either surrender, death or contract maturity. In addition, the undiscounted amounts shown include the expected payments based on assumed future investment returns on assets backing insurance and investment contract liabilities. The projected cash flows exclude the unallocated surplus of with-profits funds (see below).
2. All linked contracts and almost all non-linked investment contracts may be surrendered or transferred on demand. For such contracts the earliest contractual maturity is therefore at the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. Although we expect surrenders, transfers and maturities to occur over many years, the total liability for non-linked investment contracts is shown in the Within 1 year column above.
3. Amounts shown in respect of general insurance contracts are based on undiscounted estimates of future claim payments, including for those classes of business for which discounted provisions are held, see "Financial Statements IFRS – Note 38 – Insurance liabilities". The timing of cash flows reflects a best estimate of when claims will be settled.
4. The Group has no material finance leases for property and equipment.
5. Includes obligations under stock lending and repurchase agreements.
6. When subordinated debt is undated or loan notes perpetual, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £75 million. Contractual undiscounted interest payments are calculated using fixed interest rates or prevailing market floating rates as applicable.
7. The unallocated surplus represents the excess of assets over liabilities, including policyholder ''asset share'' liabilities, which reflect the amount payable under the realistic Peak 2 reporting regime of the FSA. Although accounted for as a liability, as permitted by IFRS 4, there is currently no expected payment date for the unallocated surplus.
8. Provisions include pension obligations, which have been excluded from the contractual obligations table above, due to the uncertainty of the amount and timing of future cash flows. The Group operates both funded defined benefit and funded defined contribution pension schemes around the world, full details of which are provided in "Financial Statements IFRS – Note 47 – Pension obligations". We have a contractual obligation to fund these schemes. However, the amount and timing of the Group's cash contributions to these schemes is uncertain and will be affected by factors such as future investment returns and demographic changes. Our cash funding of defined contribution schemes is based on percentages of salary. Our cash contribution to defined benefit schemes is agreed in advance with scheme trustees for the short term, typically a period of up to five years. However, these contributions are revisited annually in light of changes in expectations of investment returns and other assumptions. The scheme liabilities have an average duration of 22 years in the UK schemes and between 12 and 18 years in the non-UK schemes.

Capital management

Capital management

Capital management objectives

Aviva's capital management philosophy is focused on capital efficiency and effective risk management to support the dividend policy and earnings per share growth. Overall capital risk appetite is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. In managing capital we seek to:

- maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of our regulators and other stakeholders thus giving both our customers and shareholders assurance of our financial strength:
- optimise our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;
- retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit facilities and access to a range of capital markets;
- allocate capital rigorously across the group, to drive value adding growth in accordance with risk appetite; and
- declare dividends on a basis judged prudent, while retaining capital to support future business growth, using dividend cover on an IFRS operating earnings after tax basis in the 1.5 to 2.0 times range as a guide.

Targets are established in relation to regulatory solvency, ratings, liquidity and dividend capacity and are a key tool in managing capital in accordance with our risk appetite and the requirements of our various stakeholders.

Strategic capital allocation initiatives

A number of key strategic initiatives have been delivered in the last quarter of 2009 which have significantly enhanced the Group's capital position and financial flexibility.

On 1 October 2009 Aviva announced the completion of the sale of its Australian life business and wealth management platform. The total proceeds of the Australian sale were £0.4 billion (A$0.9 billion). The sale of the business benefited group IGD by £0.4 billion.

On 3 November 2009 Aviva announced the completion of the Delta Lloyd initial public offering (IPO) and the shares commenced trading on the Euronext Amsterdam. The IPO raised gross proceeds of £1.00 billion (€1.09 billion), including the 10% over-allotment option, and generated an IGD benefit of £0.5 billion.

Following High Court and FSA approval in September, the deal to complete the reattribution of our inherited estate was concluded on 1 October with 87% of policyholders voting and 96% of these voting in favour of the offer. The total value of the inherited estate for the reattribution was £1.25 billion, with £0.5 billion paid from shareholder funds to policyholders. The impact of the policyholder incentive payment reduced Group IGD by £0.5 billion.

Accounting basis and capital employed by segment

The table below shows how our capital, on an MCEV basis, is deployed by segment and how that capital is funded.

	2009 £m	Restated 2008 £m
Long-term savings	**20,693**	19,440
General insurance and health	**4,562**	5,516
Fund management	**269**	340
Other business	**(246)**	(199)
Corporate[1]	**(34)**	(30)
Total capital employed	**25,244**	25,067
Financed by:		
Equity shareholders' funds	**13,035**	13,162
Minority interest	**4,237**	3,080
Direct capital instruments	**990**	990
Preference shares	**200**	200
Subordinated debt	**4,637**	4,606
External debt	**852**	919
Net internal debt[2]	**1,293**	2,110
	25,244	25,067

1. The "corporate" net liabilities represent the element of the pension scheme deficit held centrally.
2. In addition to our external funding sources, we have certain internal borrowing arrangements in place which allow some of the assets that support technical liabilities to be invested in a pool of central assets for use across the group. These internal debt balances allow for the capital allocated to business operations to exceed the externally sourced capital resources of the group. Net internal debt represents the balance of the amounts due from corporate and holding entities, less the tangible net assets held by these entities. Although intra-group in nature, they are included as part of the capital base for the purpose of capital management. These arrangements arise in relation to the following:
   – Certain subsidiaries, subject to continuing to satisfy stand alone capital and liquidity requirements, loan funds to corporate and holding entities. These loans satisfy arm's length criteria and all interest payments are made when due.
   – Aviva International Insurance (AII) Ltd acts as both a UK general insurer and as the primary holding company for our foreign subsidiaries. Internal capital management mechanisms in place allocate a portion of the total capital of the company to the UK general insurance operations. These mechanisms also allow for some of the assets backing technical liabilities to be made available for use across the group. Balances in respect of these arrangements are also treated as internal debt for capital management purposes.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings (including internal borrowings as described in footnote 2 above).

At 31 December 2009 we had £25.2 billion (*31 December 2008: £25.1 billion*) of total capital employed in our trading operations, measured on an MCEV basis. Over the period the benefit of operating profits and investment gains have been offset by foreign exchange losses and actuarial losses on staff pension schemes.

In April 2009 we issued a private placement of £245 million equivalent of Lower Tier 2 hybrid in a dual tranche transaction (£200 million on 1 April 2009 and a further €50 million on 30 April 2009). These transactions had a positive impact on group IGD solvency and economic capital measures.

Financial leverage, the ratio of external senior and subordinated debt to MCEV capital and reserves, was 31.8% (*31 December 2008: 34.0%*). Fixed charge cover, which measures the extent to which external interest costs, including subordinated debt interest and preference dividends, are covered by MCEV operating profit was 8.5 times (*31 December 2008: 9.2 times*).

Financial flexibility

The group's borrowings are comprised primarily of long dated hybrid instruments with maturities spread over many years, minimising refinancing risk. In addition to central liquid asset holdings of £2.2 billion, the group also has access to unutilised committed credit facilities of £2.1 billion provided by a range of leading international banks.

Regulatory bases

Individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the Financial Services Authority (FSA). These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an aggregate group level, where we have a regulatory obligation to have a positive position at all times. This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the UK and Ireland with-profit life funds. The minimum solvency requirement for our European businesses is based on the Solvency 1 Directive. In broad terms, for EU operations, this is set at 4% and 1% of non-linked and unit-linked life reserves respectively and for our general insurance portfolio of business is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For our major non-European businesses (the US, and Canada) a risk charge on assets and liabilities approach is used.

Regulatory bases – group
European Insurance Groups Directive

	UK Life funds £bn	Other business £bn	2009 £bn	2008 £bn
Insurance Groups Directive (IGD) capital resources	**4.9**	**10.8**	**15.7**	15.5
Less: capital resource requirement	**(4.9)**	**(6.3)**	**(11.2)**	(13.5)
Insurance Groups Directive (IGD) excess solvency	**—**	**4.5**	**4.5**	2.0
Cover of EU minimum (calculated excluding UK Life funds)			**1.7 times**	1.3 times

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has increased by £2.5 billion since 31 December 2008 to £4.5 billion. This increase reflects a combination of operating and market performance as well as the benefit of a number of strategic initiatives. Following individual guidance from the FSA in 2008 we now recognise surpluses in the non-profit funds of our UK life and pensions business which is available for transfer to shareholders of £0.2 billion (*31 December 2008 £0.4 billion*). The IGD is a pure aggregation test with no credit given for the considerable diversification benefits of Aviva.

As outlined above, a number of strategic initiatives impacting the IGD solvency position were completed during the year. The Delta Lloyd IPO and Australian Life disposal benefited solvency by £0.5 billion and £0.4 billion respectively, while the policyholder incentive payment paid as part of the inherited estate reattribution reduced solvency by £0.5 billion. Other material initiatives included a £0.4 billion benefit from central and Delta Lloyd hybrid issues and £0.1 billion from the disposal of the Dutch healthcare business. The IGD position also benefited from the change in value of non-regulated entities, which includes the recognition of intellectual property rights and movements in the value of distribution companies. The reintroduction of the scrip scheme, allowing investors the option of receiving dividends in the form of new Aviva shares, also delivered a capital benefit of £0.3 billion over the year.

Regulatory basis – Long-term businesses

For our non-participating worldwide life assurance businesses, our capital requirements, expressed as a percentage of the EU minimum, are set for each business unit as the higher of:
- The level of capital at which the local regulator is empowered to take action.
- The capital requirement of the business unit under the group's economic capital requirements; and,
- The target capital level of the business unit.

The required capital across our life businesses varies between 100% and 325% of EU minimum or equivalent. The weighted average level of required capital for our non-participating life business, expressed as a percentage of the EU minimum (or equivalent) solvency margin has decreased to 130% (*31 December 2008: 142%*).

These levels of required capital are used in the calculation of the group's embedded value to evaluate the cost of locked in capital. At 31 December 2009 the aggregate regulatory requirements based on the EU minimum test amounted to £6.1 billion *(31 December 2008: £6.0 billion)*. At this date, the actual net worth held in our long-term business was £9.8 billion (*31 December 2008: £9.5 billion*) which represents 159% (*31 December 2008: 157%)* of these minimum requirements.

Regulatory basis – UK Life with-profit funds

The available capital of the with-profit funds is represented by the realistic inherited estate. The estate represents the assets of the long-term with-profit funds less the realistic liabilities for non-profit policies within the funds, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs, guarantees and promises. Realistic balance sheet information is shown below for the three main UK with-profit funds: Old With-Profit Sub-Fund (OWPSF), New With-Profit Sub-Fund (NWPSF) and UK Life and Pensions (UKLAP). These realistic liabilities have been included within the long-term business provision and the liability for insurance and investment contracts on the consolidated IFRS balance sheet at 31 December 2009 and 31 December 2008.

	Estimated realistic assets £bn	Estimate realistic liabilities[1] £bn	Estimated realistic inherited estate[2] £bn	Support arrangement[5] £bn	Estimated risk capital margin[3] £bn	Estimated excess £bn	2008 Estimated excess £bn
CGNU Life	—	—	—	—	—	—	0.3
CULAC	—	—	—	—	—	—	0.3
OWPSF	**3.0**	**(2.8)**	**0.2**	**—**	**(0.1)**	**0.1**	—
NWPSF	**21.2**	**(21.2)**	**—**	**1.1**	**(0.5)**	**0.6**	—
UKLAP[4]	**20.3**	**(18.7)**	**1.6**	**—**	**(0.2)**	**1.4**	0.5
Aggregate	**44.5**	**(42.7)**	**1.8**	**1.1**	**(0.8)**	**2.1**	1.1

1. These realistic liabilities include the shareholders' share of future bonuses of £0.6 billion *(31 December 2008: £0.8 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £42.1 billion *(31 December 2008: £43.2 billion)*. These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £0.3 billion, £2.2 billion and £3.1 billion for OWPSF, NWPSF and UKLAP respectively *(31 December 2008: £1.4 billion, £1.5 billion and £4.1 billion)*.
2. Estimated realistic inherited estate at 31 December 2008 was £0.7 billion, £0.7 billion and £1.2 billion for CGNU Life, CULAC and UKLAP respectively.
3. The risk capital margin (RCM) is 3.6 times covered by the inherited estate and support arrangement *(31 December 2008: 1.8 times)*.
4. The UKLAP fund includes the Provident Mutual (PM) fund which has realistic assets and liabilities of £1.7 billion, and therefore does not impact the realistic inherited estate.
5. This represents the reattributed estate of £1.1 billion at 31 December 2009 held within the non-profit fund with UKLAP included within other UK life operations.

Investment mix

The aggregate investment mix of the assets in the three main with-profit funds at 31 December 2009 was:

	2009 £m	2008 £m
Equity	**21%**	24%
Property	**12%**	12%
Fixed interest	**59%**	56%
Other	**8%**	8%
	100%	100%

The equity backing ratios, including property, supporting with-profit asset shares are 58%% in OWPSF and NWPSF, and 54% in UKLAP.

Rating agency capital

Credit ratings are an important indicator of financial strength and support access to debt markets as well as providing assurance to business partners and policyholders over our ability to service contractual obligations. In recognition of this we have solicited relationships with a number of rating agencies. The agencies generally assign ratings based on an assessment of a range of financial factors (eg capital strength, gearing, liquidity and fixed charge cover ratios) and non financial factors (eg strategy, competitive position, and quality of management).

Certain rating agencies have proprietary capital models which they use to assess available capital resources against capital requirements as a component in their overall criteria for assigning ratings. Managing our capital and liquidity position in accordance with our target rating levels is a core consideration in all material capital management and capital allocation decisions.

The group's overall financial strength is reflected in our credit ratings. The group's rating from Standard and Poor's is AA- (very strong) with a Negative outlook; Aa3 (excellent) with a Negative outlook from Moody's; and A ("excellent") with a Stable outlook from A M Best . These ratings continue to reflect our strong competitive position, positive strategic management, strong and diversified underlying earnings profile and robust liquidity position.

Economic capital

We use a risk-based capital model to assess economic capital requirements and to aid in risk and capital management across the group. The model is based on a framework for identifying the risks to which business units, and the group as a whole, are exposed. A mixture of scenario based approaches and stochastic models are used to capture market risk, credit risk, insurance risk and operational risk. Scenarios are specified centrally to provide consistency across businesses and to achieve a minimum standard. Where appropriate, businesses also supplement these with additional risk models and stressed scenarios specific to their own risk profile. When aggregating capital requirements at business unit and group level, we allow for diversification benefits between risks and between businesses, with restrictions to allow for non-fungibility of capital when appropriate. This means that the aggregate capital requirement is less than the sum of capital required to cover all of the individual risks.

This model is used to support our Individual Capital Assessments (ICA) which are reported to the FSA for all our UK regulated insurance businesses. The FSA uses the results of our ICA process when setting target levels of capital for our UK regulated insurance businesses. In line with FSA requirements, the ICA estimates the capital required to mitigate the risk of insolvency to a 99.5% confidence level over a one-year time horizon (equivalent to events occurring in 1 out of 200 years) against financial and non-financial tests.

The financial modelling techniques employed in economic capital enhance our practice of risk and capital management. They enable understanding of the impact of the interaction of different risks allowing us to direct risk management activities appropriately. These same techniques are employed to enhance product pricing and capital allocation processes. Unlike more traditional regulatory capital measures, economic capital also recognises the value of longer-term profits emerging from in-force and new business, allowing for consideration of longer-term value emergence as well as shorter-term net worth volatility in our risk and capital management processes. We continue to develop our economic capital modelling capability for all our businesses as part of our development programme to increase the focus on economic capital management. In addition we have initiated work on meeting the emerging requirements of the Solvency II framework and external agencies.

Solvency II

2009 has represented a significant step for Solvency II and the insurance industry. Since the approval of the Solvency II Directive in May 2009, the focus has been on the development of the Level 2 implementing measures advice published by the CEIOPS which fill in the detail under Level 1 and focused on technical issues. Aviva has been actively participating in the process by providing responses to the CEIOPS as well as participating in the key European industry working groups who provide the voice of industry in on-going negotiation in Brussels.

The formal CEIOPS consultation process has already closed and the European Commission are now considering the wording on the implementing measures that will be finalised by the end of 2010. Full implementation of Solvency II will be required in October 2012.

Basis of preparation

Basis of preparation

This review complies with the recommendations of the European Union (EU) Modernisation Directive, the Companies Act 2006 (Contents of Directors' report: Business review) and is in line with current best practice. It is addressed to, and written for, the members of Aviva plc with the aim of providing a fair review of our business development, performance and position at the current time. In producing this review, we aim to present a view that is balanced and comprehensive and that is consistent with the size and complexity of our business. The review is written in the context of the risks and uncertainties facing our business. We anticipate that the format and content of the review will evolve over time, along with developments in our business and the external environment.

Key performance indicators

The Companies Act requires that a fair review of the business contains financial and, where applicable, non-financial key performance indicators (KPIs). We consider that our financial KPIs are those that communicate to the members the financial performance and strength of the group as a whole.

These KPIs comprise:

— Earnings per share (International Financial Reporting Standards basis)
— Proposed ordinary dividend per share and dividend cover
— Operating profit (Market Consistent Embedded Value basis)
— Operating profit (IFRS basis)
— Worldwide sales
— Return on equity shareholders' funds

Management also use a variety of other performance indicators (OPIs) in both running and assessing the performance of individual business segments and units, rather than the group as a whole. OPIs include measures such as new business margins, combined operating ratio and underwriting profit.

In addition to reporting on our financial performance, it is important that as a forward thinking company we are aware of our wider responsibilities and report on the non-financial aspects of our performance. We consider that our employees and customers are fundamental to the success of our business; as such, they form the basis for our non-financial measures, and include:

— Leadership and employee engagement
— Customer advocacy

Accounting basis of preparation

In addition to presenting our results and financial position on an International Financial Reporting Standards basis, we also use Market Consistent Embedded Value (MCEV) as an alternative performance measure. Details of the accounting basis of preparation are set out on the following page.

Forward-looking statements

This business review contains "forward-looking statements" about:

— Our future plans
— Our current goals
— Our expectations of our future financial condition, performance and results

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events that are beyond our control. For example, certain insurance risk disclosures are dependent on our choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that we have estimated. Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements include, but are not limited to:

— Global economic business conditions
— Monetary and interest rate policies
— Foreign currency exchange rates
— Equity and property prices
— The impact of competition, inflation and deflation
— Changes to regulations, taxes and legislation
— The timing and impact of acquisitions and business combinations in relevant industries
— Natural and other disasters
— Changes to consumer saving and spending habits
— Our success in managing the above factors

Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. We undertake no obligation to update the forward-looking statements contained in this review or any other forward-looking statements we make.

Accounting basis of preparation

International Financial Reporting Standards (IFRS)

Our consolidated financial statements are prepared under IFRS, using standards issued by the International Accounting Standards Board (IASB) and endorsed by the EU. In addition to fulfilling this legal obligation, the group has also complied with IFRS as issued by the IASB and applicable at 31 December 2009.

The financial data contained in the report and accounts has been prepared using the group's accounting policies set out on pages 130 to 142. Where applicable, the financial statements have also been prepared in accordance with the Statement of Recommended Practice (SORP) on accounting for insurance business issued by the Association of British Insurers (ABI), the most recent version of which was issued in December 2005 and amended in December 2006.

Following a review of our accounting policy for cash and cash equivalents, we have restated the 2007 and 2008 comparative figures to avoid any ambiguity over the maturity dates of these financial instruments. We have also corrected some errors made in previous years in reporting pension obligations in our Dutch subsidiary. Details are given in "Financial statements IFRS – Note 2 – Presentation changes".

Market Consistent Embedded Value (MCEV) basis of reporting

We present the results and financial position of our life and related businesses on an MCEV basis, in addition to the IFRS basis. MCEV methodology represents a more meaningful basis of reporting the value of the group's life and related businesses and the drivers of performance than IFRS methodology. This basis values cashflow from assets consistently with market prices and is consistent with the way pricing is assessed and the business is managed.

The MCEV methodology adopted is in accordance with the MCEV Principles published by the CFO Forum in June 2008, with the exception of the use of an adjusted risk-free yield due to current market conditions for immediate annuities in the UK and Netherlands and for all US contracts. Under the MCEV methodology, the total profit recognised over the full lifetime of an insurance policy is the same as under the IFRS basis of reporting. However, the MCEV basis gives a fairer indication of the profitability of business on inception. Additionally, shareholders' funds on an MCEV basis incorporate internally generated additional value of in-force business (AVIF), which is excluded for IFRS reporting. Our incentive schemes and internal management reporting are focused broadly evenly between IFRS and MCEV performance. These financial statements include supplementary information on MCEV reporting in the "Alternative method of reporting long-term business" section.

Longer-term investment return

The long-term nature of most of our operations means that short-term realised and unrealised gains and losses are shown as an adjustment to operating profit. We focus instead on operating profit incorporating a longer-term investment return (LTIR). Our rates of return that we use for equity and property in our LTIR methodology are aligned with the rates that we use under MCEV principles. For fixed interest securities, we include the amortisation of premiums or discounts arising on purchase, thereby producing an LTIR that is equivalent to the gross redemption yield.

Critical accounting policies and estimates

The preparation of financial statements requires the group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the financial statements. These are set out on pages 130 to 142.

Critical accounting policies

The major areas of judgement on policy application are considered to be over whether group entities should be consolidated (set out in policy D), on product classification (set out in policy F) and in the classification of financial investments (set out in policy S).

Use of estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly. The table below sets out those items that we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Insurance and participating investment contract liabilities	F & K
Goodwill, AVIF and other intangible assets	N
Fair values of financial investments	S
Impairment of financial investments	S
Fair value of derivative financial instruments	T
Deferred acquisition costs and other assets	W
Provisions and contingent liabilities	Z
Pension obligations	AA
Deferred income taxes	AB

Future accounting developments

We continue to take an active role in the development of new accounting standards, via industry forums and working parties, and reviewing and providing comment on proposals from the IASB. Phase II of the IASB's project on insurance contracts continues to be the most significant area of development for us, and we continue actively to engage in the debate. We fully support the timely development of a global standard for insurance accounting that reflects the economics of our business, and are working directly and through the CFO Forum of leading European insurers, to achieve this. While this standard is under development, we will continue to focus on MCEV as the best measure of value for our long-term business. We continue to monitor other major IASB projects, including financial statement presentation, liabilities, revenue recognition, pensions accounting and fair value measurement.

Corporate responsibility

In this section

Corporate responsibility

At Aviva we believe that corporate responsibility (CR) means taking positive action, treating our colleagues, customers and suppliers with respect, applying consistently high standards in everything we do and having a constructive role in the communities in which we operate. As well as running our business responsibly we also work to influence sustainable behaviour among our customers, suppliers and the companies in which we invest. Last but not least, CR is about taking a proactive approach towards the shared global challenge of climate change.

The report that follows contains a summary of the progress and performance of our CR programme in 2009. A detailed review is available online at www.aviva.com/corporate-responsibility/reports

Highlights from 2009 include:

- Executive directors' remuneration based on financial outcomes and targets related to customer advocacy and employee leadership and engagement
- Extended our reporting of key performance indicators using Accounting for Sustainability's connected reporting framework
- Established long-term carbon reduction target
- Launched 'Street to School' global community programme
- Included in some of the world's leading indices and benchmarks

Strategy and governance

'By acting responsibly for the long term in how we do business we will meet our ambition to provide prosperity and peace of mind to our customers.'

This is our core purpose applied irrespective of whether economic conditions are favourable or challenging. Our global business strategy has stood Aviva in good stead to manage the risks and uncertainties experienced through the downturn in the world's economy while preparing for recovery and long-term growth. Our people strategy and our CR strategy play an important part in this, in maintaining our reputation as a preferred employer and responsible corporate citizen, in managing our resources and in reducing costs.

Directing our approach is our Board CR Committee. Established in 2006, the Committee is chaired by Carole Piwnica and comprises our Chairman, our CEO and three non-executive directors. It meets four times a year to review Group CR strategy and policy and assess regional performance against consistently applied Group key performance indicators (KPIs). It also reviews Group functions within Aviva that contribute to our global CR programme. In 2009 our global procurement activities were presented to the Committee and in 2010 it will receive an update on our customer programme. Executive directors remuneration is based on a combination of financial outcomes along with targets related to customers, employees and personal objectives. The Committee's report can be found on page 98.

Our CR Advisory Group supports and advises on the management and implementation of the global CR programme. Reporting to the Executive Committee through the Group HR Director, it includes Group CR specialists, regional CR directors and HR directors who work together to adopt and refine CR strategies, assess progress, identify actions that need to be taken and embed our programmes in different parts of the business. In addition, the Aviva plc Board receives an annual update on CR strategy, activities and progress. Our CR programme is also featured regularly on the agenda at executive management committees and regional performance against Group KPIs is reviewed quarterly.

We also report our performance using the HRH Prince of Wales' Accounting for Sustainability (A4S) connected reporting framework (see page 74), a methodology that integrates financial and non-financial data to provide a comprehensive picture of our performance.

We were one of the first companies to help develop the framework and have incorporated it in our Annual Report and Accounts since 2007. By reporting the links between sustainability, financial performance and strategic direction more explicitly the framework increases our understanding and the visibility of sustainability issues. We have found that it has helped our finance and sustainability teams to work together more effectively, identifying cost savings as well as providing clear disclosure to investors. This year we have extended the use of the framework further by adding customer and community investment indicators.

Bringing CR into the Boardroom

Aviva Investors has taken a leading position in encouraging global companies to enhance their governance and transparency in CR reporting. In 2008, Alain Dromer, Chief Executive of Aviva Investors, called on all stock market listing authorities to make it a requirement that companies:

- consider how responsible and sustainable their business model is, and
- put a forward looking sustainability strategy to the vote at their AGM

In November 2009 Aviva announced plans to put our CR Report to a separate shareholder vote at the 2010 AGM. We are the first company in the UK and the first financial institution in the world to take this proactive step. We hope that this will encourage other companies to bring CR issues to the heart of the boardroom and engage openly and transparently with stakeholders on sustainability issues.

Business ethics

We aspire to the highest standards of conduct and set out our principles in our business ethics code. This stipulates fairness, honesty and transparency in all we do. Everyone at Aviva has a part to play in upholding our standards and we raise awareness of these responsibilities through our induction programmes and acceptance and sign-off of the code by all staff.

Financial crime

Our financial crime policy reinforces our zero tolerance approach and ensures that risks relating to fraud, money laundering, market abuse and bribery and corruption are adequately controlled. We provide mandatory computer-based training as part of our procedures for combating market abuse and insider trading, money laundering and fraud. In 2009 we enhanced our bribery and corruption controls and rolled out a worldwide training programme for employees.

We encourage our employees to raise any concerns they might have through 'Right Call' – an Aviva-wide malpractice reporting service. This enables all employees to report any suspicions or concerns in a confidential manner for independent investigation. In 2009, 67 incidents were recorded across the group. All cases were referred for independent investigation with 51 reaching conclusion and 16 cases currently remaining under investigation.

Our people

Delivering on our strategic plans and commitments requires strong leadership and the energy, dedication and belief of all our employees. Over the past three years we have built a strong global human resources function to lead our cultural transformation. We have a clear purpose – to drive a talent leadership and culture-led transformation to deliver exceptional business performance. We have approached this by implementing strategies designed to:

- Encourage talented people to join Aviva and stay
- Match the right people to the right roles and take action where there are gaps
- Empower people to be the best they can be
- Build pride in Aviva

We will do this by focusing globally on:

- Developing leaders capable of winning for Aviva in our chosen markets
- Embedding the 'One Aviva, Twice the Value' culture
- Building engagement and commitment by living the employee promise
- Strengthening our CR performance by engaging employees and influencing our communities and stakeholders
- Making it easier to work by simplifying and de-cluttering HR tools and processes
- Building strong global HR and CR functions.

Locally, the use of global tools and 'One Aviva' processes supports the delivery of our business strategies.

Our employee promise

We want every employee to be able to say 'At Aviva I am recognised for who I am and my contribution matters'. This is the cornerstone of our employee promise, developed after extensive research and consultation with our people on what matters most to them at work.

By implementing 'One Aviva' we are well on the way to becoming a global brand recognised wherever we operate. For example, in 2009 we reached a key milestone in the UK when Norwich Union completed the name change to Aviva. It is vital that we take our employees with us by inviting them to question, discuss and co-create the future. To support our line managers in leading their people on the brand journey, we organised a series of 'This Is Our Story' cinema events, featuring the experiences of employees in different parts of Aviva's business. Managers were equipped with practical tools to help them to be effective in bringing to life the behaviours asked of all of us.

We want to create an employment brand that attracts and retains the best talent and differentiates Aviva as an employer of choice. Over the last 18 months we have introduced new management and leadership programmes to nurture talent and create proactive dialogue with leaders and their teams. New this year is the 'Learn Your Strengths' interactive tool, taken up by more than 7,000 employees. We also enhanced our induction programme and created recognition schemes, including Spotlight and Aviva Achievers, which give employees credit for exceptional performance.

We are changing the way in which services are delivered to employees and a wide range of supporting tools and materials are now available to all on our global intranet, Aviva World, which is fast becoming our first port of call for information. Aviva World includes news features and forum sites, it gives employees worldwide the opportunity to learn more about different businesses, discuss issues and get to know each other.

Listening to our employees

We rebranded our annual employee survey in 2009 and included new questions to reflect the areas our people said were important. An extensive communication programme was implemented in the lead-up to the launch of the Employee Promise survey and our overall participation rate increased to 76% *(2008: 74%)* with eight business units achieving 100% participation. Senior management pay continues to be linked to the survey results through clear benchmarked targets on leadership and engagement.

Visibility of our survey results has increased with most team managers receiving their own localised team results. Senior leaders are also engaged, taking the time to speak to employees about the survey results, sharing their personal reflections and taking direct questions on the survey outcomes. For every survey completed we gave a donation to our new 'Street to School' charity programme raising £37,000 for Save the Children in India.

We invested in an online planning tool to help teams record and monitor action plans arising from the survey results. We will share progress on these plans at several stages before the next survey. In 2010 we will produce a global results booklet providing our employees with a clear picture of what we have done well, where we can improve and the steps we will be taking to address their concerns.

Strengthening our leadership capability

During 2009 we continued our twin-track approach to developing leadership capability. We ran collective, regionally based summits for our top 500 leaders focused on our 'One Aviva, Twice the Value' vision. A continuation of the culture change started in 2008, these events have helped to increase the resilience of our senior leaders, improve understanding of the internal and external brand and create a global identity. We have designed a new approach to individual development that seeks to strengthen leadership capability by focusing specifically on career transition points. Associations with global partners including The Centre for Creative Leadership, INSEAD and FranklinCovey are providing innovative methods that enhance the quality and variety of development opportunities available. For 2010 we have already committed to bring the senior leaders together under the banner of Vision into Performance to strengthen the day-to-day actions being taken to achieve our vision.

Talent management

Our Talking Talent programme has been running for two years and Aviva now has a consistent method for assessing individuals' performance and long-term potential. The process is used at all levels and is providing excellent visibility of the talent within our business.

Recruiting and retaining the best people in an increasingly competitive market is a strategic priority for Aviva and we have launched a new website (www.aviva.com/careers) to showcase career options across our worldwide markets. The site describes what it is like to work at Aviva, with video profiles of employees, information on our culture and values, career management insights and an overview of our hands-on approach to CR.

Diversity, equality and human rights

Aviva's diversity programme promotes a fair and respectful culture in which differences are valued. Our policy and practices are aligned with United Nations Universal Declaration of Human Rights and International Labour Organisation's core labour standards. Gaining a detailed understanding of diversity issues is crucial in bringing our employee promise to life. To this end we have refreshed our training, beginning with a virtual conference in which external speakers and our HR specialists and CR team gave their insights. We will continue to focus on key diversity challenges in 2010.

Within our senior management group, representation of female colleagues was maintained at 22% in 2009. We were recognised in The Times/Aurora Where Women Want to Work

Top 50 list in 2009 and featured in Cranfield University's study of women in the boardroom. Our chief marketing officer, Amanda Mackenzie, was named in The Female FTSE Report as one of 100 Women to Watch in 2009. Our employee groups, including the Aviva Women's Network and Pride Aviva, are firmly established. They have evolved from small beginnings to become thriving networks, hosting events and contributing support for local community projects. This year, we significantly improved our position in Stonewall's Workplace Equality Index, achieving 54th position, compared to 78th in 2008. We are the only insurer to be included by Stonewall in the top 100 employers in the UK, and Pride Aviva also received special recognition as a 'star performing employee network group'.

Community investment

As a responsible business, we are committed to helping address challenges facing people and society. Globally, we invested over £8.0 million in 2009 (*2008: £9.6 million*), in line with our strategic focus to support community and charitable initiatives in education, life trauma and financial literacy. We encourage employee volunteering in support of these areas as part of personal development and our people can apply for up to three paid volunteering days per year. Nearly 9,000 staff took up the opportunity in 2009, resulting in a total of 79,900 volunteering hours, an increase of 18% on 2008 (67,700 hours). We report the impacts of our activities against the London Benchmarking Group model and have developed tools to help our businesses around the world capture information on the impact of their investments in the communities they serve as well as employee time and cash donations.

We continue to support humanitarian aid through our Oxfam 365 partnership, which helps to equip Oxfam with the resources and materials to respond to emergencies as soon as they happen. Our employee groups also link up with Oxfam to raise awareness of key issues and in March our Women's Network match-funded donations made by employees to Oxfam's 'Yes We Can' campaign. This was in support of Oxfam's work to change attitudes towards women in Nepal and South Asia and create a fairer society.

In 2009 we launched 'Street to School', our five-year global charitable initiative, which aims to get children and young people off the street and into education. Working with leading charities and experts, and supported by our employees and customers, together we will champion the needs of street children in the communities in which we live and work. 'Street to School' has already been launched in the UK, Turkey and India, and will gradually be adopted in every country in which we operate, eventually accounting for 50% of our charitable donations.

Here are just a few of the community activities we supported this year:

'Street to School' in India

Aviva India has partnered with CRY (Child Rights and You) and Save the Children in India to help over 50,000 street children get access to education and training by 2012. To date, 70% of staff have volunteered to donate a day's salary to CRY, and in November, 30 staff members took part in the Airtel Delhi Half Marathon to raise funds for the charity. In partnership with the *Hindustan Times*, Aviva India also held a five-day book donation drive which resulted in 125,000 books donated by employees, schools and members of the public. Save the Children will use the books to help give 38,000 under- privileged children access to education.

Economic citizenship education for teenagers

'Paying for It' (www.payingforit.org.uk) launched by Aviva in 2007, continued to take economic citizenship teaching into schools up and down the country with the help of over 100 specially trained Aviva volunteers. Using specially tailored resources available online for all schools to access, classes address issues of financial and social importance, such as housing, the environment and health.

The 'Chance to be Chancellor' competition was run in conjunction with *The Times* as part of the 'Paying for It' programme. It offers engaging activities to help young people find out more about the current economic challenges facing the country and act out the role of the Chancellor in delivering their vision for the economy.

Aviva Canada's Community Fund

The Aviva Community Fund gives members of the public the opportunity to turn great ideas into action to benefit their local communities. Launched in October, a unique website, www.avivacommunityfund.org enables Canadians to register their ideas with accompanying photos or video. Special outreach efforts were made to raise awareness of the new fund to charities and not-for-profit organisations and approximately 8,000 schools, colleges and universities were contacted across the country. Through various forms of communication including social media sites, the people who submitted the ideas encouraged as many people as possible to vote for their idea. More than 2,000 ideas were registered and an impartial panel of judges awarded a total of $500,000 to eight winning entries, announced in January 2010. From coast to coast, ideas ranged from building playgrounds for children, driving awareness of environmental programmes and providing services for at-risk youth.

Taiwan typhoon

Typhoon Morakot, which hit Taiwan in August, resulted in over 400 deaths in the country. Aviva in Taiwan raised funds through employee donations to World Vision and employees were given up to two days leave to help those affected by the typhoon. A dedicated helpline was established to speed up claims and affected customers were offered a three-month deferral on their premiums.

Podari Zhizn

Our people in Russia volunteered their time and money to support Podari Zhizn, a charity that helps children suffering from terminal illnesses. By funding the charity, instead of subscribing to the tradition of buying gifts for clients during holiday periods, the funds raised to date have provided a new ventilating system of benefit to the children. Aviva Russia has also donated computers to the foundation.

Environment

Today's actions will affect future generations, and nowhere is this more evident than in our approach to climate change and the environment. Our established and proven strategy focuses on controlling our own impacts and resources, including gas, water, electricity and waste – and by pursuing this long-term policy we have reduced our carbon emissions by a further 5.2% this year. As an investor, we use our influence to encourage others to make responsible choices and we promote good environmental practice among our colleagues, customers and suppliers.

On a like-for-like basis, in 2009, our total carbon emissions fell by 5.2% across our global business, compared to a 6.6% reduction in 2008. Overall, we achieved a group-wide reduction in carbon emissions of 15% (*2008: 3.3%).* This figure includes energy consumption data from our business in Australia before its sale in October 2009. The data excludes Auto Windscreens and Aviva Global Services (AGS) which were sold at the end of 2008.

We also set global annual targets in other key areas, summarised below:

2009 Targets	Performance – accounting for divestments
Reduce CO_2 emissions by 5%*	**(5.2)%**
Reduce water use by 4%	**(8.8)%**
Reduce waste by 4%	**+9.6 %**
Increase percentage of recycled waste by 2% (until 80% recycled rate is achieved).	**(15.0)%**

* We also offset 105% of our remaining emissions by investing in sustainable projects such as renewable energy generation and small-scale run-of-river hydro electricity systems.
All performance data is calculated on a like-for like basis taking into account new acquisitions and divestments in 2009.

We continue to pursue our goal to incrementally reduce our carbon footprint on an annual basis. We have also set out a long-term carbon reduction target to help focus our businesses' environmental strategies. By 2020 we aim to reduce our carbon emissions by 30% from our 2006 baseline.

The role of insurers in climate change

The insurance industry has a fundamental part to play in society's responses to climate change. As a major insurer Aviva has first-hand understanding of the impact of extreme weather events on our customers. On their behalf, we are committed to help mitigate the threat of climate change and support everyone in society to adapt to changes caused by man-made emissions already in the atmosphere. Our industry can also draw on its knowledge of historical weather data to identify patterns of change, applying our understanding of risk to map future temperature scenarios and determine likely impacts. Finally, we can offer the financial tools to help manage the burden of climate change, for example the pooling and transfer of risk.

We believe that climate change must be tackled now. As extreme weather events become more frequent and more severe, they become more challenging to insure. It is in everyone's interest that insurance remains affordable and available so that people affected from severe weather events can recover quickly from unavoidable impacts.

Our actions and commitments

Proactive participation in leading global forums and associations is a key part of our climate change strategy. This year we were involved in the lead-up to the Copenhagen Summit in December 2009 through our membership of working groups of the UNEP Finance Initiative and as signatories to the following:

- The Geneva Association Kyoto Statement
- The UNEP FI Investor Statement on a Global Agreement on Climate Change
- The ClimateWise Statement for Copenhagen
- The Corporate Leaders Group Copenhagen Communiqué

Our senior executives also take the opportunity to engage personally and as widely as possible on climate change and other environmental issues. In September, a senior delegation including Carole Piwnica, chair of our Board CR Committee, Euleen Goh (Aviva Group Board member) and Simon Machell (CEO Aviva Asia Pacific) led a roundtable discussion in Hong Kong with NGOs, corporates, academics and students from Hong Kong University. The event included strong debate on the climate change agenda and Aviva's role in making a difference, providing valuable perspectives that are being shared within the organisation. The group also visited the Aviva Junk, a 'green' Chinese sailing vessel, developed in collaboration with Hong Kong University. Launched in March 2009, the Aviva Junk incorporates a number of renewable energy efficient technologies and is being used to host educational tours as part of our environmental awareness programme in Asia Pacific.

Raising our employees' levels of engagement and participation in environmental projects is an important part of our efforts to encourage good practices, both at work and at home. Many of the employee volunteering activities that took place around the world in June as part of our celebrations to become 'One Aviva' focused on the environment, including a recyclathon and a series of tree planting events. We publish regular articles and updates on environmental matters on our global intranet site and, in November, teamed up with our environmental partner ClimateWise with an interactive, web-based project to give employees the chance to have their say on risks and opportunities associated with climate change and the insurance industry.

As part of controlling and reducing impacts within Aviva, telepresence video conferencing has proved to be a significant asset. By implementing this technology and reducing domestic and international air travel we have made cost savings, promoted work-life balance and reduced our carbon footprint from air travel by 5% in 2009. In 2010 we plan to increase the number of facilities available to make telepresence a regular part of business and extend our capacity by using some of our suppliers' conference facilities. In the UK our proactive work on climate change was recognised when we gained accreditation to the Carbon Trust Standard. The standard is a key milestone for Aviva as it is an early action metric that will count towards the UK government's new Carbon Reduction Commitment regulation.

We are both a signatory and responding company to the Carbon Disclosure Project (CDP), and this year were ranked eighth in the Carbon Disclosure Leadership Index for the FTSE350, third in the financial services sector and 38th overall in the FSTEGlobal 500. Our Chairman, Lord Sharman, spoke at the CDP London launch event and called on industry to provide more consistency and transparency in reporting and move from disclosure to mitigation.

Our environmental planning is now being extended to our partners, and, in a first move for Aviva, we signed a 'green' service level agreement with Hewlett Packard (HP) for the provision and running of two data centres. As a key part of the contract, HP is charged with using 'eco friendly' or renewable power sources to run the centres, develop an environmental management system, conduct audits and hold an annual review with Aviva to assess progress, set targets and investigate new technologies and processes.

Customers

With customers' confidence in financial institutions shaken by the global economic downturn, it was as important as ever before to remain true to our purpose of providing prosperity and peace of mind. We continued to work to understand perceptions and needs in our markets and once again conducted our wide-ranging annual survey on worldwide consumer attitudes to savings, using the results to inform ongoing product and service developments across the Group.

The Net Promoter Score ®[1] (NPS) is our leading, Group-wide measure of customer advocacy, comprising a globally consistent relationship and benchmarking survey which is regularly conducted. We continued to extend this across our global operations and next year will develop the metric further

1 Net Promoter, NPS, and Net Promoter Score are trademarks of Satmetrix Systems, Inc., Bain & Company, and Fred Reichheld.

to learn more about how customers interact with Aviva and gain a better understanding of their preferences. NPS performance targets form part of our executive directors' annual remuneration.

Products and services
Through our product portfolio customers can make informed choices about their insurance and financial needs that can at the same time provide wider socioeconomic and environmental benefits:
— Our affordable microfinance and insurance products for low-income earners have reached around 1.4 million rural lives in India to date, in many cases offering financial protection for as little as two dollars a year.
— Car insurance customers in some of our general insurance markets can opt for lower premiums if they drive vehicles with low CO_2 emissions.
— With research showing that half of new parents do not have adequate insurance, we launched Parent Life Cover in the UK which includes free protection until the child's first birthday.
— Recognising low levels of confidence among consumers, Lisseo was launched in France to offer customers the opportunity to invest gradually in the equity markets without the need to commit a lump sum on one day.

Extreme weather events are an increasingly common occurrence and 2009 was no exception. Aviva in Ireland launched an advance payment mechanism in response to the extensive flooding in November to help householders and businesses who were most seriously affected. In a co-ordinated campaign, the team also worked with local and national media and local councillors to keep customers informed about the steps to take if they were affected.

In the UK, by activating our major incident plan in a timely manner ahead of predicted floods and storms at the year end, we were well prepared to respond. In Cockermouth, Cumbria, particularly hard hit by severe flooding, Aviva claims staff were immediately stationed at the evacuation centre and stayed until the last evacuee had left, providing advice and support to anyone who needed it, irrespective of who their insurer was.

Our drive to increase customer satisfaction and loyalty gained extra momentum this year with the launch of the first Aviva Customer Cup. This is our new global tournament designed to help our employees identify and remove barriers to customer loyalty, stimulate innovative ideas and enable teams around the world to be recognised for delivering the 'One Aviva' brand promise. Projects from more than 340 teams were evaluated by judges in three tournament stages with 10 teams making it through to the grand final in October. The winning group was the 'Ears of RAC' with a web-based project to capture comments and opinions from customers, spot trends and respond to them quickly. The focus is now on sharing the best practices of the top 10 projects in other parts of Aviva's business and embedding these before launching the next tournament in 2010.

Supply chain
Our challenge is to support our suppliers in meeting the highest social, environmental and ethical standards in the delivery of goods and services. For 2009 we agreed a global approach and targets for our regional procurement teams focusing on our approach to:
— Sourcing ethical suppliers in the context of Aviva's annual third-party spend of around £6 billion
— Ensuring an ethical relationship between our suppliers and Aviva employees
— Encouraging our suppliers to further develop CR within their own businesses and supply chains.

We made progress in sourcing with the development of a set of industry-leading questions in collaboration with the UK-based Financial Services CR forum. These take account of CR issues for different categories of spend, helping Aviva to make informed choices about potential new suppliers. A CR weighting is included in our sourcing decisions.

To support and maintain ethical relationships with suppliers we are implementing processes and tools that identify hospitality offered by suppliers to ensure that this does not conflict with our internal rules and is not offered during commercial negotiations. Similarly, we have implemented a register of interests to ensure complete transparency of any interest that our employees might have in an existing supplier.

Finally, in relation to encouraging our suppliers to adopt sustainable practices, we are reviewing Aviva's suppliers to assess them against a 'CR maturity curve' and develop relevant improvement plans. Aviva's suppliers are asked to sign our code of conduct, which provides an obligation to comply with relevant standards relating to the environment, ethical business conduct and respect for human rights. All regions are making good progress in embedding these activities into business processes, but we acknowledge that this needs to remain a focus area in 2010.

External benchmarking and recognition
Our achievements in 2009 were recognised by our inclusion in some of the world's leading external benchmarks:
— Dow Jones Sustainability World and STOXX Indices
— SAM sustainability year book
— FTSE4GOOD Index Series
— FTSE KLD Europe, Asia Pacific and Global Sustainability indices (excluding the US Index)
— ECPI Ethical Index Euro and Ethical Index Global indices
— Building Public Trust award for clear and transparent reporting of our executive remuneration policy
— Gold status in Business in the Community's (BITC) Corporate Responsibility Index (2008) and Most Improved Company in our sector
— Carbon Disclosure Project Leadership Index – score of 80 out of 100
— Carbon Trust Standard – first insurer to receive the standard for our year-on-year efforts to reduce our carbon footprint
— Stonewall Workplace Equality Index – ranked 54th in the top 100 employers in the UK
— Ranked in The Times/Aurora top 50 companies – Where Women Want to Work.

Affiliations and engagements
We work closely with leading organisations to share good practice, identify emerging issues and improve our performance. Here are just a few of the organisations we collaborated with in 2009:
— CBI Climate Change Board
— HRH Prince of Wales Accounting for Sustainability
— ClimateWise
— UNEP Finance Initiative
— UN Global Compact (UNGC) and represented on UN Principles for Responsible Investment and Caring for Climate working groups
— Business in the Community

Key indicators

Met/exceeded 2009 target ✓ Missed 2009 target ×

CR Indicator	2007	2008	2009	2009 target	Change over year		2010 target
Business ethics % of employees signing of receipt, understanding and acceptance of our Business Ethics Code annually	—	—	90%	100% of employees	n/a	×	100% of employees
Customers % of businesses that met/exceeded performance against local market average	—	67%	67%	Continue to embed customer metrics across Aviva. UK life and general insurance and Canadian business to adopt NPS metrics in 2009	0%	✓	Develop and test Transactional NPS guidelines. Pilot Distributor NPS metric
% of employees who rate us favourably on customer index	—	—	67%	Meet/exceed GFS benchmark (2009: 69%)	New KPI	×	Increase the percentage of favourable ratings from employees in customer index
Environment % of remaining CO_2 emissions offset annually	100%	100%	100%	Offset remaining emissions CO_2 at group level	0%	✓	Offset remaining CO_2 emissions at group level
CO_2 emissions (tonnes) – actual	127,002	122,791	104,351		(15)%	✓	
CO_2 emissions (tonnes) – based on 2009 ownership	n/a	110,051	104,351	Reduce CO_2 emissions by 5%	(5)%	✓	Reduce CO_2 emissions by 5%
Water consumption (m^3) – absolute	851,070*	843,750*	751,750	Reduce water use by 4%	(11)%	✓	Reduce water use by 4%
Waste generated (tonnes) – absolute	18,877	19,311	14,592	Reduce waste generated by 4%	(24)%	✓	Reduce waste generated by 4%
Proportion of recycled waste	88%	84%	69%	80% or above	(15)%	×	80% or above
People % of women in senior management	22%	22%	22%	Increase percentage of women in senior management group	0%	×	Increase percentage of women in senior management group
Suppliers Number of business unit suppliers, with material spend, signing Aviva's Supplier Code of Conduct	—	233 adjusted from 983	438	1,750 adjusted from 2,500	+205	×	1,000
Number of detailed CR assessments of Aviva's major suppliers	—	30 in the UK	138 globally	100 globally	+108	✓	200 globally
Number of business units that have implemented and embedded use of 'Supplier Hospitality register' and 'Register of Interests'	—	5	11	10	+6	✓	18
Community Amount of community investment	£6.8m	£9.6m	£8.0m	Establish and report in line with group community strategy	(17)%	✓	Total community investment at/above previous year
% of employees participating in volunteering	—	—	16%		New KPI	n/a	Increase the % of employee participation in volunteering
Number of employee hours spent volunteering	—	67,700	79,900	Increase the % of employee participation in volunteering	+18%	✓	Increase the % of employee participation in volunteering
% of investment in Aviva 'Street to School'	—	—	—		New KPI		50%

Notes on KPIs

— Business ethics: This KPI covers 98% of our employees.
— Customers: Using our NPS methodology, 67% of businesses met or exceed performance last year against a local market average (2008: 67%). However, within that percentage, 24 markets are participating in NPS compared to 12 in 2008 and 58% are exceeding the benchmark, compared to 33% in 2008.
— Last year we reported the percentage of businesses that met/exceeded performance against local market average where no local benchmark was available (2009: 75%). Businesses that were covered by this metric are now all rated against a local market average. This metric has therefore been removed. Also in 2009, we replaced an employee survey question relating to the percentage of employees who consider that their business is customer focused with a new customer index KPI. This gives an average favourable employee response against five customer indicators.
— Environment: We want to show clearly that we have reduced our emissions as a result of energy management and behavioural change and not merely due to divestments. The KPI for 'Actual emissions' are absolute emissions for total Aviva operations in each year stated while the KPI with 'emissions based on 2009 ownership' show our emissions over the last two years based on operations that we have in 2009 allowing for a like-for-like comparison. Water has been restated following an independent review of Aviva Canada's water consumption between 2006 and 2008. This has increased the overall Group consumption figures.
— People: Current and historical data for women in senior management excludes Delta Lloyd group. We also report KPIs relating to employee engagement. These can be found in our online CR report: www.aviva.com/corporate-responsibility/reports
— Suppliers: We adjusted our 2009 target and 2008 return for the number of business unit suppliers signing Aviva's Supplier Code of Conduct due to a statement of compliance from our business in North America which could not be validated by Group Procurement.
— Community: These KPIs cover all Aviva employees and Aviva joint venture employees.

Accounting for Sustainability

We also report our performance using Accounting for Sustainability's connected reporting framework, which integrates financial and non-financial data to provide a comprehensive picture of our impacts. We were one of the first companies to help develop the framework and have used this approach for environmental reporting in our Annual Report and Accounts since 2007. This year we have extended the use of the framework further by adding customer and community investment indicators.

We have reported the following indicators:
(i) Greenhouse gas emissions
(ii) Waste
(iii)Resource usage
(iv)Customer advocacy
(v) Investing in communities

i) Greenhouse gas emissions

Direct company impacts

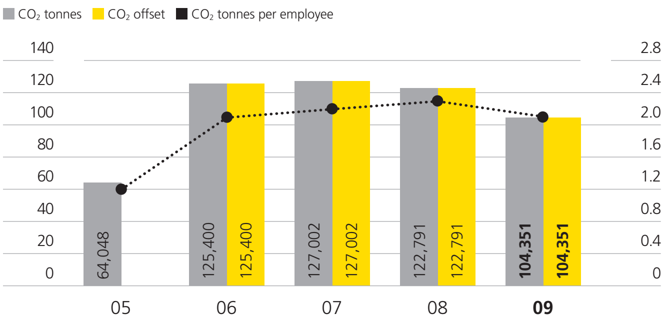
Cashflow performance

CO_2 emissions: Total cost of offsetting 105% of our global CO_2 emissions – 104,351 tonnes in 2009 – was in the region of £620,000. These CO_2 emissions offset on a retrospective basis compensate for the carbon output of our consumption of non-renewable sourced electricity, fugitive emissions from air-conditioning system gases, gas and oil from buildings and business travel.

We incur up to a 2% premium when purchasing renewable electricity in countries where the benefit of the related zero or reduced emissions are granted to the purchasing company. At the end of our current main UK electricity contract in July 2010 we will no longer pay a premium for zero emission electricity in the UK. Currently 64% (*2008: 65%*) of our electricity worldwide is purchased from zero emission sources.

Other significant emissions: Our operations do not generate material quantities of any other significant greenhouse gases; however we are beginning to measure and report on our fugitive emissions in line with the Defra Voluntary Reporting Guidelines on GHG for Companies.

Aviva's CO_2 emissions 000 tonnes



Aviva plc – operational carbon footprint covering 100% of employees

GHG Emissions data from 1 Jan 2009 to 31 Dec 2009

Tonnes CO_2e	2009	2008	Baseline year 2006
Scope 1	**42,224**	61,886	52,847
Scope 2*	**81,994**	88,712	90,591
Scope 3	**30,508**	26,409	21,952
Gross CO_2 emissions*	**154,726**	177,077	165,390
absolute CO_2 footprint	**104,351**	122,791	125,400
Carbon offsetting	**(109,568)**		(132,000)
Total net emissions	**(5,217)**	(6,139)	(6,600)

* Data according to Defra guidelines ie UK electricity rated as grid average but renewable recognised in other countries
Scope 1 – operational emissions from owned sources eg gas, vehicle fleet as part of product/service.
Scope 2 – operational emission from non-owned sources eg electricity.
Scope 3 – business activity emissions from non-owned sources – eg business travel

Performance, strategy and targets

In 2009, our total CO_2 emissions decreased with 26 of our 28 businesses reporting consistently on their footprint and applying practices to reduce their emissions. These have been achieved by using technologies to dematerialise the carbon in the way we work, changing behaviours, and by purchasing zero emission and renewable electricity. Through our divestment in AutoWindscreens, AGS and Aviva Australia, our footprint reduced by 12,740 tonnes.

Our telepresence facilities were used for 1,030 meetings in 2009, a total of 4,927 meeting hours. Over the same period our air kilometres (km) reduced by 20% from 105 million km to 84 million km. Our telepresence sites are reaching optimal utilisation so we have begun to investigate other desktop video communication technologies to meet the everyday demands of the business. For the first time we ran a virtual HR and CR conference using webex facilities, replacing the traditional 'venue' format and reducing costs and emissions associated with air travel. Held over five weeks, a total of 1,650 attendees joined sessions during the 50-hour conference, using 2,475 webex hours. The conference enabled us to reach the entire global HR and CR community at a significant reduction in cost on previous events and this format is now being considered by other functions in Aviva.

The energy-related consumption of our UK data centres was included in the outsourcing contract. We put what we think is the first green service level agreement into place with an onus on our outsourcing partners to report performance in terms of energy efficiency, target setting, and standards of equipment used must sign up to the EU Code of Conduct for Data Centres. Our focus on IT, being an enabler to carbon reduction, and the more efficient use of energy in the ICT area will continue this year as well as use of new technologies with a longer return on investment to help us continue to meet our annual and long-term carbon reduction targets.

In August 2009, we became the first insurance company to gain accreditation to the Carbon Trust Standard. This provides further independent assurance that we have reduced our emissions and, along with installation of Automated Meter Readers, it means that our operations have met the early action metrics in respect of the UK government's Carbon Reduction Commitment Energy Efficiency Scheme.

The fuel consumption of the RAC fleet has reduced from 10.3 million litres to 9.1 million litres, a reduction of 11.6%. This is due in part to the economic downturn, the use of more accurate satellite navigation systems in the vehicles and more technical staff in the call centres to talk customers through simple repairs. This means they can continue their journey sooner and breakdown assistance mileage is reduced. We are also making use of our local knowledge of reliable garages to reduce towing mileage and achieve a comprehensive repair quickly. These changes in our processes, together with speed limiters and minimising our carrying load, have all reduced the carbon intensity of our roadside breakdown service whilst still providing the highest level of customer satisfaction.

Indirect impacts

We are conscious of the potential impacts that climate change has on our business. We constantly update our understanding of the effect of these impacts through catastrophe modelling tools – using computer-assisted calculations to estimate the losses that could be sustained as a result of an extreme weather event such as a windstorm or storm surge. In 2009 Aviva was represented on the latest ABI Climate Change Research steering group which sought to combine catastrophe models with climate change models to explore the variation in risk based on different temperature scenarios. We consider the financial risk climate change poses for Aviva and accordingly build this into our levels of capital reserves and risk management processes. Further detail on this can be found on page 56.

We have completed a carbon footprinting exercise for the properties we own through our Property Fund managed by Aviva Investors for 2008. Under the new UK Government Carbon Reduction Commitment scheme, electricity, gas and oil used in the properties will be subject to an additional cost of £12 per tonne. Aviva Investors' European Renewable Energy and Infrastructure Fund, launched in November 2008, is open for investment. The target initial gross assets are set at €500 million.

Industry benchmark information

- Carbon Disclosure Project Leadership Index Score 80 out of 100 in FTSE Global 500 and FTSE350
- BREEAM[2] minimum ranking 'Good' for new build and refurbishment

ii) Waste

Direct company impacts

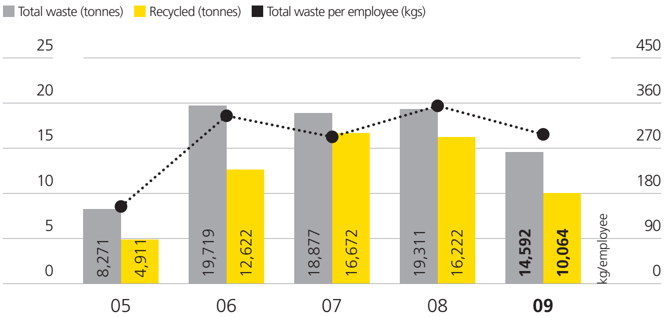
Hazardous and non-hazardous waste

Total disposal cost for hazardous and non-hazardous waste in the UK was £748,000 (*2008: £629,000*), which includes UK landfill tax.

Conservation investment

Total capital expenditure for storage and recycling in the UK was zero (*2008: £minimal*).

Aviva's waste 000 tonnes



2 Building research establishment environmental assessment methodology

Performance, strategy and targets

In 2009, the headline figure for the total volume of waste generated globally by Aviva shows a reduction of 24%. However, this includes a figure of some 6,000 tonnes, the result of divestment of businesses such as Aviva in Australia, AGS and AutoWindscreens. When we take divestments into account, the actual waste shows a net increase of 9.6%, and this has also affected our recycling waste figure which at 69% is short of our target of 80%. Our global rebranding to Aviva generated rebranding waste; however, we monitored it in the run up to the day to ensure it was kept as low as possible. The UK business recycled 161 tonnes of obsolete media and 26 tonnes of other branded products. Aviva in the USA took the opportunity to remove office clutter with a two-day recyclathon, which generated 18.5 tonnes of recyclable material – the equivalent of 101 m^3 of landfill space. In 2007 the UK business set a zero to landfill target for 2012. This has been delayed due to the situation in the Chinese recyclate market and the UK's economic position. We now have this target set for 2015. To achieve this we have made some significant changes to our waste management model. Where local facilities exist, our remaining waste, following segregation in the office, is processed via material recycling facilities which provides a further 85% recycling rate on our waste in these locations. This process will continue to be rolled out in 2010 but it has already lifted our recycling rate in the UK from 61% to 74%.

Indirect impacts

Products/suppliers/investors

We are rolling out a 'repair over replacement' process in our UK accident repair centre network to reduce the proportion of new parts used in repairs to customers' vehicles.

In Canada, Aviva's Premiere Auto Network became the first National Insurance Direct Repair programme to have all of their network repairers waterborne compliant. The new waterborne products will reduce volatile organic compounds (VOCs) by 40% by 2034. VOCs release fine particulates and ozone into the atmosphere. By working with water rather than solvent-based products, the reduction will lower the health risk for the paint sprayers and other repair shop technicians from contracting lung cancer and heart disease. Other procurement initiatives include providing alternative recycled-part solutions and paying for the disposal of hazardous waste.

Industry benchmark information

- 200kg of waste per employee per year
- Recycling rate of 60–70% (BRE Office toolkit)

iii) Resource usage

Direct company impacts

Water

The operating cost of water usage was £1.3 million in 2009 (*2008: £944,000*).

Energy Intensity

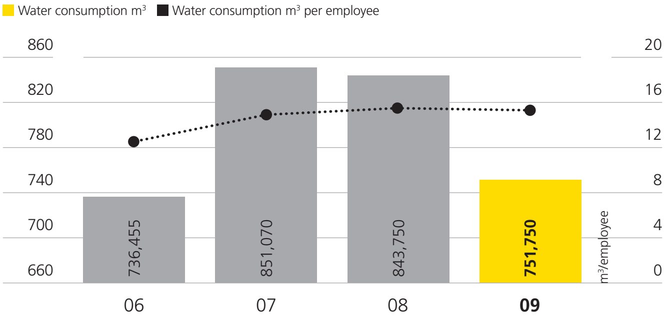
Total cost of buildings-related energy in 2009 was £17.7 million (*2008: £18.2 million*).

Paper usage

We currently do not track the cost of paper on a global basis.

Environmental Incidents
During 2009 there were no environmental incidents as a result of our operations (*2008: none*).

Aviva's water consumption 000 m³



Performance, strategy and targets
Water consumption reduced by 8.8% in 2009, exceeding our target of 4%. Whilst the businesses in the UK continued to see savings from the water saving devices installed towards the end of 2008, Aviva France installed water filters on the bathroom taps of Montaigne Head Office in 2009. The filters reduce the flow of water by approximately 50% and achieve a reduction of around 5% in the total water consumption. This will now be rolled out to the regional offices in France.

Following the very successful use of double sided printing in the Group head office, the introduction of duplex printing as standard across the UK has resulted in a 20% reduction in paper purchased and a 5% volume reduction in the amount of office printing.

Aviva France is currently studying the possibility of using paper with a reduced weight at the Montaigne head office in order to reduce paper consumption. If this study is successful, Aviva will implement this solution throughout its entire network in France and will encourage its other subsidiaries to follow.

When buildings have reached their end of lease or are being refurbished, the environmental implications are considered. Some businesses like Aviva UK are turning to 'space hopping' (hot desk) solutions. Other Aviva businesses are consolidating their property space and as a result are able to manage their environmental impact more comprehensively. Aviva USA's purpose-built head office, to be opened in June 2010, has been rated 'excellent' by LEED (Leadership in Energy and Environmental Design) and combines four existing offices into one.

Indirect impacts
Products/suppliers/investors
The economic situation has meant that companies are considering the added value of relationships. Recently we engaged with some of our IT providers to see how we can make further energy savings and, through conversations with our IT supplier Cisco, we learned that we are able to power down our desktop phones and other networked IT equipment remotely.

Continuing with our work around the impact of marketing materials, and building on our initiatives to make information available electronically and using degradable polywrap for literature sent through the post, we will be looking at our mailings and working with our distribution partners to ensure that our environmental impact in this area is kept to a minimum.

Aviva Canada's 'Save Waste, Eliminate Paper' programme is supporting our efforts to reduce our carbon footprint. It focuses on eliminating printed policy documents for brokers, saving paper, ink, energy and time costs. So far 246 out of 1,855 brokers have signed up to this programme.

In France, Aviva's agents and advisers are able to use laptops when with clients to carry out transactions online. This has increased the use of the online intranet portal and client email database, lowered levels of correspondence by paper mail and fax, and has resulted in a reduction in waste and increased efficiency for client-company exchanges.

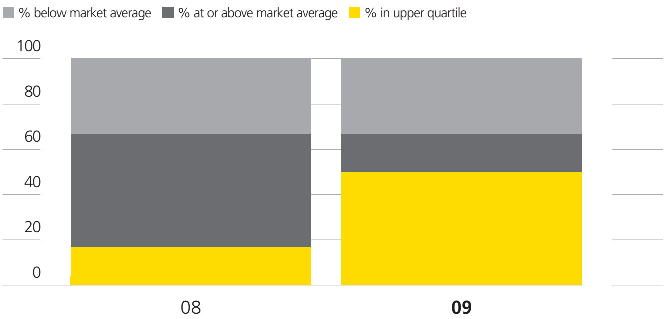
In Italy, our distributors can use Web-Bancassurance and WebAgenti IT support tools which provide online access to our legacy system containing the lifecycle of policies from issuance to liquidation. These tools have been extended to all intermediaries connected with the main banks and also to agents.

Industry benchmark information
— Water: 7.7m³ per employee per year (National Water Demand Management Centre)
— Office Paper: good practice 4,000-5,000 sheets per employee per annum (Gartner Research)

iv) Customer advocacy
Direct company impacts
At Aviva, the Net Promoter Score® is our key customer metric. This measure is widely regarded as a predictor of future growth, with strong correlations to persistency and retention, repeat purchase and willingness to recommend. Results to date show that advocates are more likely to stay with us and to be more profitable over time, suggesting that using this metric to build advocacy will have a positive impact on business performance.

Non financial indicator
Businesses' performance vs local benchmark

Performance v market average – Net Promoter Score©



Our performance, strategy and targets
In 2009, we successfully moved to a single global provider of our annual relationship and benchmark NPS survey which has helped ensure a globally consistent approach to NPS across Aviva. Through the Group Remuneration Committee, each market is now set improvement targets relative to their local benchmark and 10% of our executive directors' compensation is linked to these targets.

Compared to 2008, we have seen a modest improvement in the overall scores, which, given the tough economic climate, may be considered a success.

However, the Net Promoter discipline is about much more than simply measuring performance; what counts is how we use the data to improve the experience for all our customers and this is where we are encouraging businesses to place their attention.

Through 2010 there will be a number of projects across Aviva to further embed the NPS discipline into the way we do business. These include using the NPS discipline to capture the voice of our distributors as well as Transactional NPS, which surveys our customers after they 'touch' the business to understand and fix immediate operational issues.

Many of our businesses have already integrated Net Promoter into the rhythm of how they do business day-to-day. By conducting 'closed loop' follow-up calls with 'detractor' customers, our UK health business was able to better understand why their customers were unhappy and take action, for example, one follow-up call prevented a formal complaint and another, by reducing the customer's premium, retained someone who may otherwise have lapsed.

In 2009 our Aviva India business began working with their 'promoter' customers to generate sales leads. The sales teams followed up with these potential customers to discern their needs and offer an appropriate product.

Indirect impacts

Our measures to understand the key facets of customer advocacy feed into a broader need in society to establish a more customer focused approach to insurance. This is a key part of the recommendations from the Insurance Industry Working Group (IIWG) which was co-chaired by Aviva's CEO, Andrew Moss, and Alistair Darling, Chancellor of the Exchequer. The IIWG's report – 'Vision for 2020'[3] – was published in July 2009 and set out recommendations for its members to increase consumer confidence and trust in UK insurance and create more awareness of consumers' personal financial responsibility. In turn this would encourage the flow of capital into the UK insurance industry and ensure its competitive position in the global marketplace.

Consumer attitudes to saving

Aviva's global survey of consumer attitudes to savings has run for six years, building up a powerful and valuable body of data on a range of topic areas such as attitudes to risk, debt, trust, financial services providers and pensions. It has been used in product development, PR, strategy and lobbying:

- Malaysia: won significant media attention with the release of selected data revealing that a significant majority of Malaysians worry about being under-prepared for their financial future.
- France: taking the insight that French customers are increasingly risk averse, we developed a product that would allow them to invest gradually in equity markets to smooth the risk.
- Singapore: held successful meetings with the Prime Minister's Office and received acknowledgement for their plans to organise a workshop aimed at encouraging and educating on wellness and shrinking the gap on long-term care.

Employee advocacy

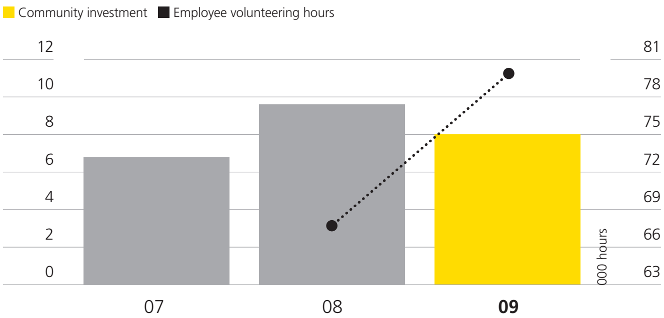
During 2010 we will be conducting work to understand and improve employee advocacy (ie the willingness of our own employees to recommend our products) as this will be a key driver of customer advocacy. We will report on our findings next year in the 2010 Annual Report and Accounts.

v) Investing in communities

Direct company impacts

Our global investment in charitable and community projects in 2009 was over £8.0 million (*2008: £9.6 million*). This includes cash, time and in-kind donations as well as management costs calculated using the London Benchmarking Group (LBG) model[4].

Community investment £m



Our performance, strategy and targets

Our global community investment (CI) strategy, focusing on financial literacy, education and life trauma, aligns to our corporate vision and channels financial support and the expertise of our employees into projects where we can see positive societal impacts. Our total community investment was £1.6 million lower than in 2008. A number of factors contributed, including budget constraints across our businesses and the sale of Aviva Australia. We also made exceptional cases of higher levels of investment in 2008, including our support for the victims of the earthquake in Sichaun province in China. Despite challenging conditions, employee volunteering is on the increase. 16% of employees participated in volunteering programmes in 2009, resulting in 79,900 hours of paid employee volunteering. Our target for 2010 is to further increase the numbers of employees taking up this opportunity. Employee attitudes are measured and benchmarked through our annual survey, which this year showed that 62% of employees believe that we do a good job of supporting the communities where we live and work.

3 A copy of the IIWG report can be found at: http://www.hm-treasury.gov.uk/fin_insurance_index.htm

4 See www.lbg-online.net for more information

Last year we launched 'Street to School', our five-year initiative to get young people off the streets and into education and training. The programme is in operation in the UK, Turkey and India and has so far involved various employee fundraising activities – including over 70% of employees in both India and Turkey participating in a salary donation drive. In India, Aviva invited all citizens of Delhi on National Education Day in November to join them in building a giant wall made entirely of books. The books from the wall will be used to educate thousands of underprivileged children supported by Save the Children India. Over 125,000 books were donated in five days. We aim to roll out 'Street to School' in all of our markets from 2010; a challenge for our businesses is to find viable third sector partnerships in both developed and developing markets that we operate in. By the end of 2010, our target is to invest 50% of our global community investment spend on these projects and we are now developing a set of impact targets, addressing the numbers of young people that have been positively affected by the 'Street to School' programme. We will publish these in our 2010 report. Also in development are linked cause-related marketing (CRM) initiatives which will enable our customers to engage in the programme in a number of ways, eg donate a percentage of their premiums towards the programme.

Indirect impacts

'Street to School' is still in its infancy but is already generating interest and support from stakeholders including prospective charitable partners, media, governments and customers. It has also generated unprecedented support from employees who are motivating their friends and families to get involved with local projects. In 2010, we will continue to raise awareness of the issue, and provide more education, funding and practical help for children living on the margins of society.

Governance

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Board of directors

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1. Lord Sharman of Redlynch OBE
Chairman (Age 67)
Appointed to the Board in January 2005 and became Chairman in January 2006. Currently an independent non-executive director of BG Group plc (utility) and Reed Elsevier plc (publishing). Former chairman of Aegis Group plc (media services) and KPMG International (auditors), former deputy chairman of Group 4 Securicor plc (security services), former member of the supervisory board of ABN AMRO N.V. (banking) and a former independent non-executive director of Young & Co.'s Brewery plc (hospitality) and AEA Technology plc (commercial/technology). Chairman of the Board and nomination committee and member of the corporate responsibility committee.

2. Andrew Moss
Group chief executive (Age 52)
Appointed to the Board in May 2004. Joined as Group Finance Director and became Group Chief Executive in July 2007. Previously director – finance, risk management and operations at Lloyd's of London (insurance) and formerly held a number of senior management positions at HSBC plc (banking). Member of the corporate responsibility and nomination committees.

3. Patrick Regan
Chief financial officer (Age 44)
Appointed to the Board in February 2010 as Chief Financial Officer. Previously group chief financial officer and group chief operating officer at Willis Group Holdings Limited (insurance broking). Formerly group financial controller for RSA plc (insurance) and finance and claims director, UK general insurance for Axa Insurance (insurance). He also held a number of senior management positions at GE Capital (financial services) and specialised in corporate finance and investigations at Grant Thornton (professional services).

4. Mark Hodges
Executive director (Age 44)
Appointed to the Board in June 2008. Joined Norwich Union in January 1991 and held a number of senior roles within the finance function before becoming finance director of Norwich Union Insurance in 1998, managing director of Norwich Union General Insurance in 2005 and chief executive of Norwich Union Life, the Group's long-term savings business in the UK, in 2006. Appointed chief executive of Aviva UK, comprising Aviva UK Life (formerly Norwich Union Life), and Aviva UK General Insurance (formerly Norwich Union Insurance), the Group's insurance and motoring services business in the UK, in January 2010.

5. Andrea Moneta
Executive director (Age 44)
Appointed to the Board in September 2009. Joined as chief executive of Aviva Europe in July 2008, and currently chief executive officer, Aviva Europe, Middle East and Africa. Previously managing director of Dubai Financial Group (financial services) and formerly held a number of senior executive positions with UniCredit (banking), the European Central Bank (banking), and Accenture (consulting).

6. Mary Francis CBE
Independent non-executive director (Age 61)
Appointed to the Board in October 2005. Currently senior independent director of Centrica plc (utilities), a non-executive director of Cable & Wireless plc (telecoms) and a director of Almeida Theatre Company Limited. A senior adviser to Chatham House and Governor of the Pensions Policy Institute. Formerly Director General of the Association of British Insurers, non-executive director of the Bank of England, Alliance & Leicester plc (banking), Fund Distribution Limited, St Modwen Properties plc (property development) and a senior civil servant. Chairman of the risk and regulatory committee and a member of the audit, nomination and remuneration committees.

7. Richard Karl Goeltz
Senior independent non-executive director (Age 67)
Appointed to the Board in May 2004. Currently a non-executive director of the Warnaco Group Inc (clothing), the New Germany Fund (investment trust), the Central Europe and Russia Fund (investment trust), the European Equity Fund (investment trust) and a governor of The London School of Economics and Political Science. Former vice chairman and chief financial officer of American Express Company (financial services) and director and chief financial officer of NatWest Group plc (banking). Former non-executive director of Delta Air Lines, Inc (transport) and Federal Home Loan Mortgage Corporation (Freddie Mac) (financial services) and a former member of the Accounting Standards Board (UK). Member of the audit and nomination committees.

8. Euleen Goh
Independent non-executive director (Age 54)
Appointed to the Board in January 2009. Currently a non-executive director of Singapore Airlines Limited (transport), DBS Bank Limited and DBS Group Holdings Ltd (banking) and the Singapore Exchange Limited. Former chief executive officer of Standard Chartered Bank in Singapore (banking). Member of the audit and corporate responsibility committees.

9. Michael Hawker
Independent non-executive director (Age 50)
Appointed to the Board in January 2010. Currently an advisory board director at General Enterprise Management Services International Limited (GEMS), the Hong Kong-based private equity firm and a non-executive director of Australian Rugby Union. Formerly chief executive and managing director of Insurance Australia Group Limited (insurance), the largest general insurance company in Australia. Member of the risk and regulatory committee.

10. Carole Piwnica
Independent non-executive director (Age 52)
Appointed to the Board in May 2003. A member of the New York and Paris Bars. Currently a director of Naxos UK (private equity) and a non-executive director of Toepfer International GmbH (trading), Dairy Crest Group plc (dairy products) and a member of the biotech advisory board of Monsanto (biotechnology). Former chairman of Amylum Group (agricultural/industrial). Former non-executive director and vice- chairman of governmental affairs for Tate & Lyle plc (agricultural/industrial) and a non-executive director of S A Spadel N.V. (food and beverages). Chairman of the corporate responsibility committee and member of the remuneration committee.

11. Leslie Van de Walle
Independent non-executive director (Age 53)
Appointed to the Board in May 2009. Formerly chief executive officer of Rexam plc (packaging), executive vice president of retail for oil products and head of oil products, a division of Shell Europe Royal Dutch Shell plc and non-executive director of Aegis Group plc (media services). Formerly held a number of senior management positions with Cadbury Schweppes plc (consumer goods) and United Biscuits Limited (consumer goods). Member of the remuneration and risk and regulatory committees.

12. Russell Walls
Independent non-executive director (Age 66)
Appointed to the Board in May 2004. Currently non-executive director of Signet Jewelers Limited (retail) and treasurer and trustee of The British Red Cross. Former group finance director of BAA plc (transport), Wellcome plc (pharmaceuticals) and Coats Viyella plc (textiles). Former non-executive director of Delphic Diagnostics Limited (medical), senior independent non-executive director of Stagecoach Group plc (transport) and Hilton Group plc (leisure) and a former non-executive director of the Mersey Docks and Harbour Company (transport). Chairman of the audit committee and a member of the nomination and the risk and regulatory committees.

13. Scott Wheway
Independent non-executive director (Age 43)
Appointed to the Board in December 2007. Currently chief executive of Best Buy Europe (retail services). Former director of The Boots Company plc (pharmacy) and managing director of Boots the Chemist at Alliance Boots plc. Formerly held a number of senior management positions at Tesco plc (retail services). Chairman of the remuneration committee and member of the corporate responsibility committee.

Executive management

Andrew Moss
Group chief executive (Age 52)
See page 80

Patrick Regan
Chief financial officer (Age 44)
See page 81

Mark Hodges
Chief executive, Aviva UK (Age 44)
See page 81

Andrea Moneta
Chief executive, Aviva Europe, Middle East and Africa (Age 44)
See page 81

John Ainley
Group human resources director (Age 53)
Joined the Group in 1999. Formerly held senior HR positions with WH Smith plc, ICL plc, Priory Hospitals Group and General Electric plc. Previously Group HR Director for Norwich Union plc and HR Director for Norwich Union Insurance and Norwich Union Life. Holds a Law degree and is a companion of the Chartered Institute of Personnel Development.

Alain Dromer
Chief executive, Aviva Investors (Age 55)
Joined the Group in September 2007. Formerly global head of group investment businesses at HSBC, senior executive vice president and head of asset management and insurance at Credit Commercial de France and director of capital markets at La Compagnie Financiére Edmond de Rothschild. Formerly at the French Treasury in the Ministry of Finance and the French Institute for Statistics and Economic Studies. Educated at l'École Polytechnique, Paris and l'École Nationale de la Statistique l'Administration Économique, Paris.

Simon Machell
Chief executive, Aviva Asia Pacific (Age 46)
Joined the Group in 1994. Formerly chief executive of Norwich Union Insurance and managing director of RAC plc. Previously held positions with Ernst & Young LLP and Legal & General. Holds a BA Honours in Economics from the University of Durham and is a Fellow of the Institute of Chartered Accountants of England and Wales.

Amanda Mackenzie
Chief marketing officer (Age 46)
Joined the Group in 2008. Previously commercial and marketing director for British Gas plc and has more than 20 years of experience in the marketing and advertising profession. Holds a Bachelor of Science degree in Psychology from the University of London and is a graduate of the INSEAD advanced management programme. She is a fellow of the Royal Society of Arts, a member of the Government Strategic Marketing Advisory Board, a fellow of the Marketing Society and a governor of the National Youth Orchestra.

Igal Mayer
Chief executive, Aviva North America (Age 48)
Joined the Group in 1989. Formerly chief executive of Aviva UK General Insurance (formerly Norwich Union Insurance), chief executive officer of Aviva Canada, chief financial officer and executive vice-president. Previously finance director for Norwich Union Insurance and managing director for CGU Insurance in London. Holds a BA Honours in Commerce and Economics from the University of Toronto, is a chartered accountant and has received an honorary Chartered Insurance Professional designation from the Insurance Institute of Canada.

Robin Spencer
Chief risk officer (Age 40)
Joined the Group in 1995. Formerly chief executive officer of Aviva Canada, chief financial officer of Aviva Canada and held various senior management positions in the finance function, including finance director for London & Edinburgh Insurance Company Limited. Previously spent five years with Procter & Gamble Limited. Holds an MA in Economics from Aberdeen University and is a chartered management accountant. Former chairman of Canada's Property and Casualty Insurance Compensation Corporation.

Directors' report

The directors submit their annual report and accounts for Aviva plc, together with the consolidated financial statements of the Aviva Group of companies, for the year ended 31 December 2009.

The Companies Act 2006 requires the directors to present a "business review" in this Directors' Report. The information that fulfils this requirement can be found in the Performance Review on pages 9 to 66, which includes a review of the Group's operations, current position and future prospects, a description of the principal activities of the Group, and principal risks and uncertainties. This Performance Review, the Corporate Governance Report and the Directors' Remuneration Report are incorporated by reference into this Directors' Report. Details of material acquisitions and disposals made by the Group during the year are contained in note 3 to the consolidated financial statements.

Results

The Group results for the year are shown in the consolidated income statement on page 143.

Dividends

The directors are recommending a final dividend of 15.00 pence per ordinary share (2008: 19.91 pence), which, together with the interim dividend of 9.00 pence per ordinary share paid on
17 November 2009 (2008: 13.09 pence), produces a total dividend for the year of 24.00 pence per ordinary share (2008: 33.00 pence). The total cost of ordinary dividends paid in 2009, was £775 million (2008: £902 million). Subject to shareholder approval at the 2010 Annual General Meeting, the final dividend for 2009 will be paid on 17 May 2010 to all holders of ordinary shares on the Register of Members at the close of business on 26 March 2010 (and approximately five business days later for holders of American Depositary Receipts).

Share capital and control

The issued ordinary share capital of the Company was increased by 108,909,750 ordinary shares during the year. 951,455 shares were allotted under the Group's employee share and incentive plans and 107,958,295 shares were allotted under the Aviva Scrip Dividend Scheme for the May 2009 and November 2009 dividends. At 31 December 2009 the issued ordinary share capital totalled 2,766,611,374 shares of 25 pence each and the issued preference share capital totalled 200 million shares of £1 each. Accordingly, the issued ordinary share capital constituted 78% of the Company's total issued share capital and the issued preference share capital constituted 22% of the Company's total issued share capital at 31 December 2009. All the Company's shares are fully paid up and quoted on the Main Market of the London Stock Exchange. The Company is listed on the New York Stock Exchange (NYSE) in the form of American Depositary Shares, referenced to ordinary shares, under a depositary agreement with Citibank. Details of the Company's share capital and shares under option at 31 December 2009 and shares issued during the year are given in notes 28 to 31 to the consolidated financial statements.

The rights and obligations attaching to the Company's ordinary shares and preference shares as well as the powers of the Company's directors, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House and the Company's website,www.aviva.com, or by writing to the Company Secretary.

With the exception of restrictions on transfer of ordinary shares under the Company's employee share incentive plans while the shares are subject to the rules of the plan, there are no restrictions on the voting rights attaching to the Company's ordinary shares or the transfer of securities in the Company.

Where, under an employee share plan operated by the Company, participants are the beneficial owners of shares, but not the registered owners, the voting rights are normally exercised at the discretion of the participants. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights. Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may only be amended by special resolution of the Company's shareholders in general meeting. At the 2010 Annual General Meeting shareholders will be asked to adopt new Articles of Association and further details can be found in the Notice of Meeting accompanying this annual report and accounts. There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts and joint venture agreements. None is considered to be significant in terms of their potential impact on the business of the Group as a whole. All of the Company's employee share and incentive plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions and pro rata reduction as may be applicable under the rules of the employee share incentive plans.

At the forthcoming Annual General Meeting, shareholders will be asked to renew the directors' authority to allot shares. Details are contained in the Notice of Meeting.

Authority to purchase own shares

At the Company's Annual General Meeting held on 29 April 2009, shareholders renewed the Company's authorities to make market purchases of up to 265 million ordinary shares, up to 100 million $8^3/_4$% preference shares and up to 100 million $8^3/_8$% preference shares. These authorities were not used during the year. With effect from 1 October 2009, section 725 of the Companies Act 2006 was repealed with the effect that the Company is no longer subject to a limit of 10% of its total issued share capital in respect of the number of its own shares that the Company may buy back and hold in treasury. The regulation repealing section 725 also extended the validity period of the authority given to a company to purchase its own shares, from a maximum of 18 months to a maximum of five years. The Company will continue to follow guidelines which recommend the annual renewal of this authority as a matter of best practice for listed companies, unless such guidelines change. At the forthcoming Annual General Meeting, shareholders will be asked to renew this authority for another year and the resolution will also retain the 10% maximum aggregate number of ordinary shares which the Company can purchase. Details are contained in the Notice of Meeting. The Company held no treasury shares during the year.

Substantial shareholdings

As at 3 March 2010, in accordance with the provisions of the Disclosure and Transparency Rules of the Financial Services Authority, the Company had received the following notifications relating to the holding percentage of the total voting rights attaching to the issued ordinary share capital of the Company; Legal & General Group plc held 4.24%; Axa S.A held 3.86% and BlackRock, Inc. held 5.09%. The Company also received a notification from Barclays plc that following the sale of its Barclays Global Investors subsidiary it ceased to hold any ordinary shares in the Company.

Directors

The following persons served as directors of the Company during the year:

Nikesh Arora (resigned 5 August 2009)
Wim Dik (retired 29 April 2009)
Mary Francis
Richard Karl Goeltz
Euleen Goh (appointed 1 January 2009)
Mark Hodges
Andrea Moneta (appointed 29 September 2009)
Andrew Moss
Carole Piwnica
Philip Scott (retired 26 January 2010)
Lord Sharman of Redlynch
Leslie Van de Walle (appointed 6 May 2009)
Russell Walls
Scott Wheway

The biographical details of the persons currently serving as directors appear on pages 80 to 81.

The Company's Articles of Association require one-third of the directors to retire by rotation each year and also require each director to retire at intervals of not more than three years. At the forthcoming Annual General Meeting, Lord Sharman, the Chairman, and Scott Wheway, a non-executive director, will retire and, being eligible, will offer themselves for re-election. Andrew Moss, the Group Chief Executive will also retire and offer himself for re-election. Leslie Van de Walle, Andrea Moneta, Michael Hawker and Patrick Regan will offer themselves for election by shareholders at this year's Annual General Meeting being the first such meeting after their appointment to the Board. Leslie Van de Walle and Michael Hawker are non-executive directors and were appointed to the Board on 6 May 2009 and 1 January 2010 respectively. Andrea Moneta and Patrick Regan are executive directors and have service contracts with a Group company, details of which can be found in the Directors' Remuneration Report. Wim Dik retired from the Board at last year's Annual General Meeting in line with the Board's plans to renew and refresh its composition, while Philip Scott retired from the board on 26 January 2010 following a 36 year career with the Group, which began with Norwich Union.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than an indemnity provision between each director and the Company and service contracts between each executive director and a Group company. The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The directors also have the benefit of the indemnity provision contained in the Company's Articles of Association. The Company has executed deeds of indemnity for the benefit of each director of the Company, and each person who was a director of the Company during the year, in respect of liabilities that may attach to them in their capacity as directors of the Company or of associated companies. These indemnities were granted at different times according to the law in place at the time and where relevant are qualifying third-party indemnity provisions as defined by section 234 of the Companies Act 2006. These indemnities were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts and interests in the shares of the Company are set out in the Directors' Remuneration Report.

Financial instruments

Aviva Group companies use financial instruments to manage certain types of risks including those relating to credit, foreign currency exchange, cash flow, liquidity, interest rates, and equity and property prices. Details of the objectives and management of these instruments are contained in the Performance Review on pages 9 to 66 and an indication of the exposure of the Group companies to such risks is contained in note 56 to the consolidated financial statements.

Health and safety

The health and safety of the Group's employees is a priority and is reviewed at regular intervals. Each business within the Group has an appointed health and safety representative, whose role is to bring to the attention of senior management any areas of concern that should be addressed within the health and safety programme. Information on health and safety matters is communicated to staff through the normal communication channels. Under the Group's Health and Safety Policy the Group Chief Executive is accountable for health and safety.

Charitable donations

The Company has continued to support community initiatives and charitable causes worldwide in line with our strategy which focuses on education, financial literacy and life trauma. The total Group commitment, including cash support and employee time during the year was £8.0 million *(2008: £9.6 million)*.

In 2009, the Group's community investment in the UK totalled £4.4 million *(2008: £5.6 million)* of which over £1.3 million *(2008: £2.2 million)* was given in the form of donations and time to charitable organisations. In late 2009 the Company launched a new global five-year community initiative – Street to School. Aviva's Street to School programmes will focus on partnerships that enable and encourage street children back into education and training programmes. The vision for this new global commitment is summarised in the Company's mission statement for this project initiative: "We recognise that every child living or working on the street has a right to fulfil their potential. Together, we will champion the needs of street children in the communities in which we live and work." The Company also continues its global partnership with the Oxfam 365 Alliance which ensures that Oxfam can maintain a state of constant preparedness, enabling them to respond immediately to emergencies wherever they occur in the world. The Company promotes a strong volunteering policy and employees are entitled to up to three days annually to support volunteering activities. The Company allocates a part of its budget to matching contributions to charitable causes raised by staff and for providing financial support to charities and communities where members of staff give a personal commitment in terms of their time.

See page 68 for details of how our businesses are supporting their local communities in line with the Company's strategy.

Political donations

At the Annual General Meeting held in 2009, shareholders passed a resolution, on a precautionary basis, to authorise the Company to make political donations and/or incur political expenditure (as such terms are defined in sections 362 to 379 of the Companies Act 2006) in amounts not exceeding £100,000 in aggregate.

The definitions used in the Companies Act 2006 are broad in nature and this authority was sought to ensure that any activities undertaken throughout the Group's businesses which could otherwise be construed to fall within these provisions could be undertaken without inadvertently infringing them. During the year, the Company's American subsidiary, Aviva USA, through its employee-funded Political Action Committee, made contributions to two different industry bodies, which could be construed to fall within the political donations provisions. The first contribution was the sum of $2,000 in July 2009, to the Federation of Iowa Insurers Political Action Committee and the second contribution was the sum of $4,000 to the American Council of Life Insurers Political Action Committee in October 2009. The donations are used to support candidates for nomination and/or election to public office. It is not the policy of the Company to make donations to EU political organisations or to incur other political expenditure.

As the authority granted at the 2009 Annual General Meeting will expire on 28 April 2010, renewal of this authority is being sought at this year's Annual General Meeting. Further details are available in the Notice of Meeting.

Group employees

The Group's statement on its employees is set out in the Performance Review.

In summary, the Group's commitment to communication and dialogue with employees continues. The introduction of a truly group-wide intranet has enabled, for the first time, engagement and communication with employees throughout the Group on a single platform. It also helps management to share information, ideas and opportunities much faster across the entire business. A strong emphasis is placed on the provision of news and information through a range of media. Employees have opportunities to voice their opinions and ask questions through intranet sites, Question and Answer sessions with the Group Chief Executive, via telephone conferencing, opinion surveys and the Group's Employee Promise Survey which is open to all employees. Face-to-face briefings and team meetings are actively encouraged and are held in all business units across the Group. The Group's businesses in the UK have established employee consultative forums and a European Consultative Forum convenes annually to discuss matters impacting the business across Europe.

The Group ensures that involvement of employees in its performance is encouraged by allowing eligible employees to participate in the Group's all employee share ownership plans.

On 2 June 2009, the Company's celebrations on becoming "One Aviva" saw employees taking part in social and community events in every country in which the Group operates. Team activities took place in all businesses to welcome the new global brand, raise funds for good causes and heighten awareness of Aviva's global commitment to corporate responsibility.

Employee practice

The Group respects all fundamental human rights and is guided in the conduct of its business by the provisions of the United Nations Universal Declaration of Human Rights and the International Labour Organisation core labour standards. Aviva also supports the United Nations Global Compact Principles. Aviva Group companies are committed to providing equal opportunities to all employees, irrespective of their gender, sexual orientation, marital status, race, nationality, ethnic origin, disability, age, religion or union membership status. Aviva is an inclusive employer and values diversity in its employees. These commitments extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal. In the event of employees becoming disabled, every effort is made to ensure that their employment with the Group continues and to provide specialised training where this is appropriate.

Corporate responsibility

The Group has a well established corporate responsibility programme and continues to use its position to influence other companies to engage in sustainable business practices and to be open and transparent in the information they publicly report. In November 2009 the Company announced its intention to put its Corporate Responsibility Report to an advisory vote of shareholders at the 2010 Annual General Meeting as a means of obtaining feedback on the report and the Company's performance in this area. The report is set out on page 68 and further details of the resolution are set out in the Notice of Meeting.

Creditor payment policy and practice

It is the Group's policy to pay creditors when they fall due for payment. Terms of payment are agreed with suppliers when negotiating each transaction and the policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions. The Company has no trade creditors. In respect of Group activities in the UK, the amounts due to trade creditors at 31 December 2009 represented approximately 23 days of average daily purchases through the year *(2008: 37 days)*.

Corporate Governance Statement

In compliance with Disclosure and Transparency Rules (the DTRs) 7.2.1, the disclosures required by DTR 7.2.2 to 7.2.7 can be found in the Corporate Governance Report on pages 87 to 92 which is incorporated into this Directors' Report by reference.

Reappointment of the auditor and disclosure of information to the auditor

In accordance with section 489 of the Companies Act 2006, a resolution is to be proposed at the forthcoming Annual General Meeting to reappoint Ernst & Young LLP as auditor of the Company. A resolution will also be proposed authorising the directors to determine the auditor's remuneration. The Audit Committee reviews the appointment of the auditor, the auditor's effectiveness and relationship with the Group, including the level of audit and non-audit fees paid. Further details on the work of the auditor and the Audit Committee are set out below in the Audit Committee report.

The directors in office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which Ernst & Young LLP are unaware and each director has taken all steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that Ernst & Young LLP are aware of that information.

Annual General Meeting

The 2010 Annual General Meeting of the Company will be held on Wednesday 28 April 2010 at the Barbican Centre, Silk Street, London EC2Y 8DS at 11am. A separate document accompanying this annual report and accounts contains the Notice convening the Meeting and a description of the business to be conducted thereat.

By order of the Board

Andrew Moss
Group chief executive
3 March 2010
Registered Office: St. Helen's, 1 Undershaft, London EC3P 3DQ Registered in England No. 2468686

The Combined Code on Corporate Governance

The Company is aware of the changing regulatory environment following the recent economic downturn. This has led to the review of a number of regulations and corporate governance guidelines. The Company will aim to comply fully with any resulting regulatory changes and best practice guidelines, where it does not already do so.

The Combined Code on Corporate Governance sets out standards of good practice in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority (FSA) requires companies listed in the UK to disclose, in relation to section 1 of the Combined Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting year. Where the provisions have not been complied with companies must provide an explanation for this.

It is the Board's view that the Company has been fully compliant throughout the accounting period with the provisions set down in section 1 of the Combined Code, apart from a period during the year when the majority of the members of the Nomination Committee were not independent non-executive directors. This was due to the resignation of Nikesh Arora, a non-executive director, who resigned from the Board on 5 August 2009 following his relocation to the United States (US). Mary Francis was appointed to the Committee on 2 December 2009 and the Company is once again in compliance with this aspect of the Combined Code. This report sets out details of how the Company has applied the principles and complied with the provisions of the Combined Code during 2009. Further information on the Combined Code can be found on the Financial Reporting Council's website, www.frc.org.uk

The Board

The directors are responsible to shareholders for ensuring that the Company is appropriately managed and that it achieves its objectives. It meets regularly to determine the Company's strategic direction, to review the Company's operating and financial performance and to provide oversight that the Company is adequately resourced and effectively controlled. The specific duties of the Board are clearly set out in its terms of reference that address a wide range of corporate governance issues and list those items that are specifically reserved for decision by the Board. Matters requiring Board approval include:

— Group strategy and business plans;
— Acquisitions, disposals and other transactions outside delegated limits;
— Financial reporting and controls;
— Capital structure;
— Dividend policy;
— Shareholder documentation;
— The constitution of Board committees; and
— Key business policies, including the remuneration policy.

The full terms of reference for the Board are available from the Group Company Secretary. Matters that are not specifically reserved for the Board and its committees under its terms of reference, or for shareholders in general meeting, are delegated to the Group Chief Executive. The Board's terms of reference also set out those matters that must be reported to the Board, such as significant litigation or material regulatory breaches, and cover how matters requiring consideration by the Board that arise between scheduled meetings should be dealt with.

The Board and its committees operate in line with work plans agreed prior to the start of each year. At Board and committee meetings, directors receive regular reports on the Group's financial position, risk management, regulatory compliance, key business operations and other material issues. Directors are fully briefed in advance of Board and committee meetings on all matters to be discussed. The Group Company Secretary is responsible for following Board procedures and advising the Board, through the Chairman, on governance matters. All directors have access to his advice and services.

The Board has adopted a procedure whereby directors may, in the performance of their duties, seek independent professional advice at the Company's expense if considered appropriate. During the year the members of the Remuneration Committee sought independent advice from Hewitt New Bridge Street Consultants on issues surrounding senior executive remuneration. The Audit Committee and the Risk and Regulatory Committee also appointed Keith Nicholson, a former partner at KPMG LLP, to provide advisory services.

The Directors

The Board currently comprises the Chairman, eight independent non-executive directors and four executive directors. Each non-executive director serves for a fixed term not exceeding three years that may be renewed by mutual agreement. Subject to the Board being satisfied with a director's performance, independence and commitment, there is no specified limit regarding the number of terms a director may serve. Each director is required to be elected by shareholders at the Annual General Meeting following his/her appointment by the Board and to be re-elected at least once every three years. Any non-executive director who has served on the Board for nine years or more is required to submit himself/herself for re-election annually. The Board's policy is to appoint and retain non-executive directors, who can apply their wider knowledge and experiences to their understanding of the Aviva Group, and to review and refresh regularly the skills and experience the Board requires through a programme of rotational retirement. In addition to the strengths of experience, diversity and an international perspective, the Board also seeks to comply with the requirements of the Combined Code on the independence of directors. The process for appointing new directors is conducted by the Nomination Committee whose report, including a description of its duties, is set out on page 93.

The Combined Code requires that at least half the Board, excluding the Chairman, should comprise independent non-executive directors as determined by the Board. The Nomination Committee performs an annual review of directors' interests in which all potential or perceived conflicts, including time commitments, length of service and other issues relevant to their independence, are considered. It is the Board's view that an independent non-executive director also needs to be able to present an objective, rigorous and constructive challenge to management, drawing on his/her wider experiences to question assumptions and viewpoints and where necessary defend their beliefs. To be effective, an independent director needs to acquire a sound understanding of the industry and the Company so as to be able to evaluate properly the information provided. Having considered the matter carefully the Board is of the opinion that all of the current non-executive directors are independent and free from any relationship or circumstances that could affect, or appear to affect, their independent judgement. Accordingly, over half of the Board members, excluding the Chairman, are independent non-executive directors. Each of the directors being proposed for re-election at the 2010 Annual General Meeting has been subject to a formal performance evaluation and took part in a peer evaluation review during 2009. Details of the directors standing for re-election at this year's Annual General Meeting are set out in the Notice of Meeting. Biographical details of all the directors are set out on pages 80 to 81.

The Chairman and Group Chief Executive

The respective roles of the Chairman and Group Chief Executive are set out in the Board's terms of reference. The Chairman's priority is the leadership of the Board and the Group Chief Executive's priority is the management of the Company. The Chairman's commitment to the Company is two to three days per week and his main interests outside the Company are set out in his biographical details on page 80.

Senior Independent Director

Under the Combined Code the Board appoints one of the non-executive directors to act as Senior Independent Director. The main responsibility of the Senior Independent Director is to be available to shareholders should they have concerns that they have been unable to resolve through normal channels, or when such channels would be inappropriate. The Senior Independent Director is also responsible for leading the Board's discussion on the Chairman's performance and the appointment of a new chairman, when appropriate. Richard Goeltz has served as the Senior Independent Director since January 2009.

Board effectiveness

The effectiveness of the Board is vital to the success of the Group and the Company undertakes a rigorous evaluation each year in order to assess how well the Board, its committees, the directors and the Chairman are performing. The aim is to improve the effectiveness of the Board and its committees and the Group's performance. The process is led by the Chairman and supported by the Group Company Secretary. This year the evaluation was carried out by Boardroom Review, an independent consultancy, and interviews were conducted with each Board member. All directors also completed a questionnaire evaluating the Board and committees' processes, their effectiveness and where improvements may be considered. Boardroom Review prepared a report based on the interviews with the directors and the questionnaire circulated and the overall results of the evaluation were presented to and reviewed by the Board in January 2010.

The performance of the Chairman is also included in the above process and takes into account the views of both the executive and non-executive directors. The Chairman's evaluation is managed by the Senior Independent Director who provides feedback to the Chairman. As part of the Chairman's evaluation the non-executive directors meet separately under the chairmanship of the Senior Independent Director. The Board evaluation process assesses the executive directors in their capacities as directors of the Company. They are evaluated in respect of their executive duties through a separate process whereby the Chairman and the non-executive directors assess the Group Chief Executive and the Group Chief Executive assesses the executive directors.

Following this comprehensive review, the directors have concluded that the Board and its committees operate effectively and have agreed actions in respect of certain processes identified for improvement. Additionally, the Chairman has concluded that each director contributes effectively and demonstrates full commitment to his/her duties.

Training and development

The Board believes strongly in the development of all its employees and directors and it is a requirement of each director's appointment that they commit to continue their development. The form that this development takes is subject to individual director's requirements and the quality and relevance of the training available.

During the year, directors attended a number of internal and external courses including an update on the macro-economic outlook at a Board strategy session, and seminars on life accounting and Solvency II for members of the Audit and Risk and Regulatory Committees. New members of the Corporate Responsibility Committee had an induction on the Company's Corporate Responsibility Programme and two members of the Committee participated in a Climate Change forum in Hong Kong. Training sessions have also been built into the Board's and committees' work plans for 2010. The Board made visits to the Group's businesses located in the UK, Singapore, Korea and China during the year to gain a closer understanding of their operations.

The Board has a comprehensive induction programme consisting of several separate sessions which take place over a number of months at times convenient for the director. The sessions include presentations from key members of senior management, visits to the Group's main operating businesses, and meetings with the external auditor and one of the Company's corporate brokers. Further or follow-up meetings are arranged where a director requires a deeper understanding on a particular issue.

Directors' attendance

The Company requires directors to attend all meetings of the Board and the committees on which they serve and to devote sufficient time to the Company in order to perform their duties. The attendance of the directors at the Board and committee meetings held in 2009 was as follows:

Board and Board committee attendance 2009

	Board	Audit Committee	Corporate Responsibility Committee	Nomination Committee	Risk and Regulatory Committee	Remuneration Committee
Number of meetings held*	15	9	4	6	6	8
Mary Francis#	13	9	—	—	6	8
Richard Goeltz	15	9	—	6	—	—
Eulen Goh	15	9	3	—	—	—
Mark Hodges	14	—	—	—	—	—
Andrea Moneta (appointed 29 September 2009)	4	—	—	—	—	—
Andrew Moss	14	—	3	6	—	—
Carole Piwnica	13	—	4	—	—	7
Lord Sharman	15	—	4	6	—	—
Leslie Van de Walle (appointed 6 May 2009)†	7	—	—	—	2	1
Russell Walls	14	9	—	6	6	—
Scott Wheway	12	—	3	—	—	8
Former directors						
Nikesh Arora (resigned 5 August 2009)	4	—	—	1	2	—
Wim Dik (retired 29 April 2009)	5	—	1	—	2	—
Philip Scott (retired 26 January 2010)	13	—	—	—	—	—

* There were 11 scheduled Board meetings during 2009 and four additional meetings.
— Indicates not a member of that committee.
Became a member of the Nomination Committee on 2 December 2009.
† Became a member of the Risk and Regulatory Committee and the Remuneration Committee on 24 September 2009.

During 2009, the Chairman and the non-executive directors met in the absence of the executive directors and the non-executive directors met in the absence of the Chairman, including one meeting chaired by the Senior Independent Director in order to appraise the Chairman's performance.

Board committees

The Board has established the following standing committees to oversee and debate important issues of policy and oversight outside the main Board meetings:
— Audit Committee;
— Corporate Responsibility Committee;
— Nomination Committee;
— Risk and Regulatory Committee; and
— Remuneration Committee.

Throughout the year the chairman of each committee provided the Board with a summary of the key issues considered at the meetings of the committees and the minutes of the meetings were circulated to the Board. The committees operate within defined terms of reference which are available on the Company's website, www.aviva.com, or from the Group Company Secretary upon request. Board committees are authorised to engage the services of external advisers as they deem necessary in the furtherance of their duties at the Company's expense.

Reports of the committee chairmen are set out on pages 93 to 116.

Conflicts of interest

In line with the Companies Act 2006, the Company's Articles of Association now allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. The decision to authorise a conflict of interest can only be made by non-conflicted directors (those who have no interest in the matter being considered) and in making such decision the directors must act in a way they consider in good faith will be most likely to promote the Company's success. The Board has established a procedure whereby actual and potential conflicts of interest are regularly reviewed and for the appropriate authorisation to be sought prior to the appointment of any new director or if a new conflict arises. During 2009 this procedure operated effectively.

Internal Control

A company's system of internal control plays a key role in the management of risks that may impact the fulfilment of its objectives. Internal control facilitates effective and efficient operations, the development of robust and reliable internal and external reporting and compliance with laws and regulations.

A system of internal control reduces but cannot eliminate the possibility of errors, control circumvention, manual override, poor decision making or the impact of unforeseen circumstances. As such, a sound system of internal control provides reasonable but not absolute assurance over material misstatements or losses or that a company will not be hindered in achieving its business objectives.

As part of the Financial Reporting Council's 'Internal Control: Guidance for Directors on the Combined Code', the Board should 'maintain a sound system of internal control to safeguard shareholders' investment and the company's assets'. In addition, as part of their responsibilities 'The Directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management systems'.

The Board has overall responsibility for maintaining the system of internal control for the Group and monitoring its effectiveness. During the year, the Audit Committee, with the Risk and Regulatory Committee, on behalf of the Board, have regularly review the effectiveness of the Group's system of internal control. The necessary actions have been and are being taken to remedy significant failings and weaknesses identified from these reviews. The Audit Committee and the Risk and Regulatory Committee monitor resolution of any weaknesses to a satisfactory conclusion. In addition, the Company meets the Securities and Exchange Commission (Sarbanes-Oxley Act 2002) requirements for new registrants.

The principal features of the system of internal control and methods by which the Board satisfies itself that this system operates effectively are set out below.

Control environment

The Group operates a 'three lines of defence' model with management as the first line, having overall accountabilty for the management of all risks relevant to the Group's business. Management is therefore responsible for designing, implementing and monitoring the operation of the system of internal control and for providing assurance to the Executive Committee, the Audit Committee, and the Risk and Regulatory Committee, as relevant, that it has done so.

The Group Risk and Compliance functions operate as the second line of defence and are accountable for providing objective challenge and oversight of the business' management of all risk through the system of internal control. The functions operate globally with teams in all major regions and business units.

Group Audit operates as the third line of defence and is accountable for providing reliable independent assurance to the Audit and Risk and Regulatory Committees, local audit committees, Board members and the Executive Committee of the Group on the adequacy and effectiveness of the system of internal control.

Governance and Oversight Committee Structure

The Board delegates oversight in relation to risk management and internal control to the following committees:
— Audit Committee; and
— Risk and Regulatory Committee

The Audit Committee is responsible for assisting the Board in discharging its responsibilities for the integrity of the Company's financial statements and the effectiveness of the system of internal financial control and monitoring the effectiveness, performance and objectivity of the internal and external auditors.

The Risk and Regulatory Committee, working closely with the Audit Committee, assists the Board in providing direction and oversight around the Group's risk and regulatory policies and procedures, including those relating to compliance, risk management, financial malpractice and internal controls.

These Committees have clearly defined terms of reference and full reports for these Committees are set out on pages 94 to 97.

Oversight of the risk management framework and system of internal control is performed on behalf of the Board by the Risk and Regulatory Committee working with the Audit Committee. These Committees receive reporting over risk management and internal control procedures and consider where relevant whether appropriate actions have been undertaken as well as monitoring the completion of any Group level actions to a satisfactory conclusion.

Control activities

A formal policy framework has been rolled out across the Group, which sets out and governs minimum standards around the management of financial and non-financial risks and the Group's approach to internal controls.

Compliance with the policy framework is regularly assessed and reported upon on a quarterly basis. Such reporting includes any moves outside the Group's risk appetite and tolerance and any emerging issues. Appropriate action plans are developed and undertaken where such moves are identified.

In addition to the regular reporting, a six monthly Group policy framework compliance management certification process is in place. Any risks, control weaknesses, or non-compliance with the Group policy framework or local delegation of authority must be highlighted as part of this process.

Internal Controls over financial reporting

A Group Reporting Manual including International Financial Reporting Standards (IFRS) and Market Consistent Embedded Value (MCEV) requirements has been defined and rolled out across the Group. A Financial Reporting Control Framework (FRCF) is in place across the Group. FRCF relates to the preparation of reliable financial reporting and preparation of local and consolidated financial statements in accordance with IFRS and MCEV. FRCF also allows compliance with the requirements of the Sarbanes-Oxley Act 2002.

The FRCF process follows a risk based approach, with management identification, assessment (documentation and testing), remediation as required, reporting and certification over key financial reporting related controls. Management quality assurance procedures over the application of the FRCF process and FRCF controls are undertaken regularly. The results of the FRCF process are signed off by business unit and regional Chief Executives and Chief Financial Officers and at a Group level by the Group Chief Executive and Chief Financial Officer.

The Disclosure Committee, which has the role of overseeing the design and effectiveness of the Group's disclosure controls, for both financial and non-financial information, evaluates the Group's disclosure controls and reviews and endorses the Group's key periodic external reports including the consolidated financial statements. This Committee is chaired by the Chief Financial Officer and reports to the Audit Committee and Executive Committee. A Group Technical Committee, reporting to the Disclosure Committee is in place, which presides over significant technical matters, reviewing technical decisions including key judgements, issues and application of assumptions.

Risk Management

An Enterprise wide Risk Management Framework (ERMF), designed to identify, evaluate, manage and monitor significant risks to the achievement of business objectives is in place and embedded throughout the Group. The Group Risk function facilitates the implementation of the risk management framework, with management owning the management and monitoring of risks. The Group Risk function assesses and reports significant risks identified across the Group and corresponding action plans to the Executive Committee, the Risk and Regulatory Committee and Audit Committee.

A company's objectives, its internal organisation and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. Management in conjunction with the Group Risk function monitors the risk profile of business units, regions and the Group on a regular basis. On a quarterly basis, risk reports, setting the risk profiles, risk exposures outside Group risk appetite and action plans within financial, operational, compliance and strategic risk categories, are reported by the Group risk function. A consolidated Group wide risk profile including residual risk levels and action plans are considered by the Executive Committee and the Risk and Regulatory Committee. Regional executive committees and management receive and similarly consider local risk reporting.
Where significant risks outside Group risk appetite are identified an immediate escalation process is in place. Such significant risks are reported by the Chief Risk Officer to the Executive Committee, the Risk and Regulatory Committee and Audit Committee, along with any proposed mitigating actions.

The risk management process has been in place for the year under review and up to the date of approval of the annual report and accounts.

Internal audit

The Group's internal audit function provides independent assurance to management on the effectiveness of the internal control systems and, the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. The internal audit function also provides objective independent assurance on risk and control to both the Audit Committee and the Risk and Regulatory Committee.

Throughout 2009, the internal audit function through the Chief Audit Officer provided quarterly reporting on issues arising and the status of action items to the Audit Committee and Risk and Regulatory Committee. Similar reporting is undertaken on a regional and business unit basis to local executive management and local audit committees. The effectiveness of the Group's internal audit function is reviewed annually by the Audit Committee.

Share capital and control

The information required to be provided by the directors pursuant to section 992 of the Companies Act 2006 can be found on page 83 of the Directors' report.

Communication with shareholders

The Company places considerable importance on communication with shareholders and engages with them on a wide range of issues.

The Group has an ongoing programme of dialogue and meetings between the executive directors and institutional investors, fund managers and analysts. At these meetings a wide range of relevant issues including strategy, performance, management and governance are discussed within the constraints of information already made public.

The Company's investor relations department is dedicated to facilitating communication with institutional investors.
The directors consider it important to understand the views of shareholders and, in particular, any issues which concern them. The Board receives reports on matters that have been raised with management at the regular meetings held with the Company's major investors. During the year the Chairman and the Senior Independent Director held a meeting with the major institutional investors and attended investor meetings with management. In addition, the Senior Independent Director is available to meet with major investors to discuss any areas of concern that cannot be resolved through normal channels of investor communication, and arrangements can be made to

meet with the Senior Independent Director through the Group Company Secretary. Similarly, arrangements can be made for major investors to meet with newly appointed directors. In addition, the Board consults with shareholders in connection with specific issues where it considers appropriate.

The Board is equally interested in the concerns of private shareholders and, on its behalf, the Group Company Secretary oversees communication with this group of investors. The Company has provided a dedicated email address to which questions can be sent, in addition to the facility on the Company's website and a freepost address, which are all highlighted in the shareholder information section of the Notice of Meeting. These can be used by shareholders to put relevant questions to the directors. These are considered to be particularly helpful for those shareholders who are unable to attend the meeting. Written responses are provided through a brochure containing answers to the most frequently asked questions, which is also placed on the Company's website, www.aviva.com/agm. All material information reported to the regulatory news service is simultaneously published on the Company's website, affording all shareholders full access to Company announcements.

The Company has taken full advantage of the provisions within the Companies Act 2006 allowing communications to be made electronically to shareholders where they have not requested hard copy documentation. As a result, the Company's website has become the primary method of communication for the majority of its shareholders. Details of the information available for shareholders on the website can be found in shareholder information on pages 323 to 324 and the Shareholder Services section of the website at www.aviva.com/investor-relations.

The Company's Annual General Meeting provides a valuable opportunity for the Board to communicate with private shareholders. At the meeting, the Company complies with the Combined Code as it relates to voting, the separation of resolutions and the attendance of Board committee chairmen. Whenever possible, all directors attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and have an opportunity to meet with the directors following the conclusion of the formal part of the meeting. The Company will also ensure that it continues to provide shareholders with the right to ask questions at meetings, which will ensure compliance with the recently enacted Companies (Shareholders' Rights) Regulations 2009. In line with the Combined Code, details of proxy voting by shareholders, including votes withheld, are made available on request and are placed on the Company's website following the meeting.

The Company's annual report and accounts and annual review, together with the Company's half-year report, interim management statements, 20F document (for filings with the United States Securities and Exchange Commission) (SEC) and other public announcements, are designed to present a balanced and understandable view of the Group's activities and prospects and are available on the Company's website, www.aviva.com. The Chairman's statement, Group Chief Executive's review, and Performance Review provide an assessment of the Group's affairs and they will be supported by a presentation to be made at the Annual General Meeting.

Shareholder Tracing Programmes

During the year, the Company undertook three shareholder tracing programmes in order to identify and locate shareholders with unclaimed payments. The exercises were conducted by professional tracing agencies on behalf of the Company and two subsidiaries, General Accident plc and RAC plc. The exercises, which were largely successful, related to shareholders who have had dividend payments returned and unclaimed, and dissentient shareholders who did not accept takeover offers when the Company acquired the subsidiaries.

As at 31 December 2009 the response rate across all three programmes ranged between 19% and 58%.

Aviva Investors

Aviva Investors, the Group's core asset management company, believes that good governance plays an important role in protecting and enhancing shareholder value. In keeping with the Group's values, Aviva Investors looks to act as a responsible investor, monitors the governance of the companies in which it invests and seeks to maintain an effective dialogue and engagement with companies on matters which may affect the future performance of those companies.

Aviva Investors maintains a detailed Corporate Governance and Voting Policy as part of its investment strategy, which underpins its approach to engaging and voting at company general meetings. The policy encompasses social, environmental and ethical issues and is applied pragmatically after careful consideration of all relevant information. In addition, Aviva Investors makes detailed voting reports available to clients, as well as providing some summary reporting on its website, www.avivainvestors.com.

US Listing requirements

The Company was admitted to the NYSE on 20 October 2009 and its ordinary shares are traded as American Depositary Shares. As a foreign company listed on the NYSE, the Company is required to comply with the NYSE corporate governance rules to the extent that these rules apply to foreign private issuers such as the Company. As a foreign private issuer, the Company is therefore required to comply with NYSE Rule 303A.11 by making a disclosure of the differences between the Company's corporate governance practices and the NYSE corporate governance rules applicable to US companies listed on the NYSE. These differences are summarised below:

Independence criteria for directors

Under NYSE listing rules applicable to US companies, independent directors must form the majority of the board of directors. The Combined Code requires that at least half the Board, excluding the Chairman, should comprise independent non-executive directors, as determined by the Board. The NYSE listing rules for US companies also state that a director cannot qualify as independent unless the Board affirmatively determines that the director has no material relationship with the company, and the NYSE rules prescribe a list of specific factors and tests that US companies must use for determining independence. The Combined Code sets out its own criteria that may be relevant to the independence determination, but permits the Board to conclude affirmative independence notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, so long as it shall state its reasons.

Non-Executive Director Meetings

Pursuant to NYSE listing standards, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management and, if that group includes directors who are not independent, listed companies should at least once a year schedule an executive session including only independent directors. Under the

Combined Code, the Chairman and non-executive directors must meet separately to assess the executive directors.

Committees
Under NYSE standards, US companies are required to have a nominating/corporate governance committee. In addition to identifying individuals qualified to become Board members, this committee must develop and recommend to the Board a set of corporate governance principles. The Company's Nomination Committee's terms of reference do not require the Committee to develop and recommend corporate governance principles for the Company.

Code of Business Conduct and Ethics
NYSE listing standards require US companies to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. While the Company does not strictly follow this NYSE standard applicable to US companies, it is committed to ensuring that its business is conducted in all respects according to rigorous ethical, professional and legal standards. The Company has adopted a Business Ethics Code to which all employees are bound and a Code of Ethics for Senior Management to comply with the Sarbanes-Oxley Act 2002.

Shareholder Approval of Equity-Compensation Plans
Under the NYSE listing standards, shareholders must be given the opportunity to vote on all equity-compensation plans and "material revisions" to those plans. Under the Combined Code, shareholder approval is also necessary for certain equity-compensation plans and "significant changes" thereto, subject to certain exceptions. The Combined Code does not provide a detailed definition or explanation of what are considered to be "significant changes", in contrast to the detailed definition of "material revisions" provided by the NYSE.

Directors' responsibilities

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

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

The directors are responsible for maintaining proper accounting records, which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company and the Group. They are also ultimately responsible for the systems of internal control maintained by the Group for safeguarding the assets of the Company and the Group and for the prevention and detection of fraud and other irregularities. Further details of the systems of internal controls maintained by the Group are more fully described on pages 89 and 90.

Directors' responsibility statement pursuant to the Disclosure and Transparency Rule 4

The directors confirm that, to the best of each person's knowledge:

(a) the Group and Company financial statements in this report, which have been prepared in accordance with IFRS as adopted by the EU, International Financial Reporting Interpretations Committee's interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and results of the Company and of the Group taken as a whole; and
(b) the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Andrew Moss
Group Chief Executive
3 March 2010

Patrick Regan
Chief Financial Officer

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Overview on pages 2 to 8 and the Performance Review on pages 9 to 66. The Performance Review includes sections on Group Performance (pages 10 to 56), Capital Management (pages 61 to 63) and Risk Management (pages 56 to 59. In addition, the financial pages include notes on the Group's borrowings (note 48); its contingent liabilities and other risk factors (note 51); its capital structure and position (notes 54 and 55); management of its risks including market, credit and liquidity risk (note 56); and derivative financial instruments (note 57).

The Group has considerable financial resources together with a diversified business model, with a spread of business and geographical reach. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

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

Nomination committee report

This report provides details of the role of the Nomination Committee and the work it has undertaken during the year.

The main purpose of the Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process when making or renewing appointments of directors to the Board. It also advises the Board on issues of directors' conflicts of interest and independence. The full terms of reference for the Committee can be found on the Company's website, www.aviva.com, and are also available from the Group Company Secretary.

The following directors served on the Committee during the year:

Member	Period From	To
Lord Sharman (Chairman)	25 January 2006	To date
Nikesh Arora	29 July 2008	5 August 2009
Mary Francis	2 December 2009	To date
Richard Goeltz	29 July 2008	To date
Andrew Moss*	12 July 2007	To date
Russell Walls	23 January 2007	To date

* The Nomination Committee notes that the Combined Code does not preclude the Group Chief Executive from membership of the Committee and the Committee believes that his input is essential and invaluable in its discussions and therefore important that this is obtained through his membership of the Committee. Any concern about this will be allayed by the predominant membership of independent non-executive directors on the Committee.

The Committee met on six occasions in 2009 and the members' attendance record is set out in the Corporate Governance report on page 88. Nikesh Arora ceased to be a member of the Committee on 5 August 2009 following his resignation from the Board due to his relocation to the US. The Group Company Secretary acts as the secretary to the Committee.

The Committee keeps under review the balance of skills on the Board and the knowledge, experience, length of service and performance of the directors. It also reviews their external interests with a view to identifying any actual, perceived or potential conflicts of interests, including the time available to commit to their duties to the Company. The Committee monitors the independence of each non-executive director and makes recommendations concerning such to the Board. The results of these reviews are important when the Board considers succession planning and the re-election of directors. Members of the Committee take no part in any discussions concerning their own circumstances. During 2009 the Committee reviewed the senior management pool to identify potential Executive Committee members.

During the year, the Board accepted the Committee's recommendations that Andrea Moneta, Patrick Regan, Michael Hawker and Leslie Van de Walle join the Board. Andrea Moneta and Patrick Regan were appointed as executive directors of the Board, with Patrick Regan replacing Philip Scott as Chief Financial Officer and Andrea Moneta's appointment increasing the number of executive directors to four. Leslie Van de Walle was appointed as a new non-executive director from 6 May 2009 and Michael Hawker's appointment as a non-executive director took effect from 1 January 2010. In respect of Mr Van de Walle's and Mr Hawker's appointments, the Committee engaged a search agency to help it identify suitable candidates with the skills and capabilities required and to assist with the preparation of an interview list.

In line with the Combined Code requirement, the Board undertook a review of the effectiveness of all its committees during the year, including the Nomination Committee.

This report was reviewed and approved by the Board on 3 March 2010.

Lord Sharman of Redlynch
Chairman, Nomination Committee

Audit committee report

This report provides details of the role of the Audit Committee and the work it has undertaken during the year. The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Group and Company's financial statements, the assessment of the effectiveness of the systems of internal financial controls and monitoring the effectiveness and objectivity of the internal and external auditors. The full terms of reference for the Committee can be found on the Company's website, www.aviva.com, and are also available from the Group Company Secretary.

The following independent non-executive directors, served on the Committee during the year:

	Period	
Member	From	To
Russell Walls (Chairman)	1 July 2004	To date
Mary Francis	1 January 2007	To date
Richard Goeltz	1 July 2004	To date
Euleen Goh	1 January 2009	To date

The Committee met on nine occasions in 2009 and the members' attendance record is set out in the Corporate Governance report on page 88. In addition, the Committee held separate meetings with members of senior management for the purpose of induction and training. The Group Company Secretary acts as the secretary to the Committee.

Russell Walls, a Fellow Chartered Certified Accountant, is a former group finance director of BAA plc, Wellcome plc and Coats Viyella plc. Richard Goeltz is a former chief financial officer of American Express Company and NatWest Group plc and a former member of the Accounting Standards Board. Euleen Goh, a Chartered Accountant and member of the Chartered Institute of Taxation, is a former financial controller of Pontiac Land and chief executive of Standard Chartered Bank, Singapore. The Board is satisfied that these directors have recent and relevant financial experience. The Group Chief Executive, Chief Financial Officer, Chief Audit Officer, Chief Accounting Officer, Chief Risk Officer and the external auditor normally attend, by invitation, all meetings of the Committee. Other members of senior management are also invited to attend as appropriate to present reports. In performing its duties, the Committee has access to the services of the Chief Audit Officer, the Group Company Secretary and external professional advisers. During 2009 the Committee appointed Keith Nicholson, a former partner at KPMG LLP, as an external adviser to the Committee.

The Committee follows an agreed annual work plan. It reviews, with members of management and the internal and external auditors, the Company's financial announcements including the annual report and accounts to shareholders and associated documentation. It places particular emphasis on their fair presentation and the reasonableness of the judgemental factors and appropriateness of significant accounting policies used in their preparation. At each meeting, the Committee receives a report from the Chief Audit Officer concerning the Company's systems of internal financial control, including any significant new issues and actions taken on previously reported issues. The Committee also reviews, approves and monitors the annual work plan for the Group's internal audit function. Twice each year, the Committee receives reports on the adequacy of the Group's life assurance and general insurance reserves. The Committee reports to the Board regarding the effectiveness of the Group's overall systems of internal financial control including the risk management systems in relation to the financial reporting process. The Committee works closely with the Risk and Regulatory Committee, which reviews the Company's overall internal controls and risk management systems.

The Committee receives reports from the external auditor and, at all scheduled meetings, holds discussions with both the Chief Audit Officer and external auditors in the absence of management. The chairman of the Committee reports to the subsequent meeting of the Board on the Committee's work and the Board receives a copy of the minutes of each meeting of the Committee.

During the year, the Committee was integrally involved in the SEC registration and NYSE listing of the Company and received regular updates on progress of the project. The Committee reviewed and approved the registration document and the Company's financial reporting control framework was developed to ensure compliance with the United States Sarbanes-Oxley Act 2002. This included ensuring all the risks associated with the project were understood and within risk appetite.

The Committee held two joint meetings with the Risk and Regulatory Committee and one with the members of the business unit audit committees in the Asia Pacific region. This meeting allowed the Committee to gain a deeper understanding of the relevant local issues and assess the effectiveness of the systems of internal financial controls and the effectiveness and objectivity of the internal and external auditors in those businesses.

Each of the Group's major business units has an audit committee that provides an oversight role for its business. The Chief Audit Officer reviews the papers and minutes from these committees and brings all significant matters to the Committee's attention. The Chief Audit Officer also attends local audit committee meetings on a regular basis and reports back on the effectiveness of these local committees to the Committee. In addition, during 2009 the members of the Committee attended several local audit committee meetings, including those in Aviva USA, Aviva UK Life, Aviva UKGI, Aviva Investors and the Europe Region Oversight Committee. This programme of attendance at local audit committee meetings will continue during 2010.

Internal audit

The Group's internal audit function reports to management on the effectiveness of the Company's systems of internal controls, the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. The internal audit function is fully centralised and each country/region head has a full reporting line to the Chief Audit Officer (with the exception of Delta Lloyd). The Chief Audit Officer reports to the Group Chief Executive and to the chairman of the Group Audit Committee. Through the Chief Audit Officer, the internal audit function provides objective assurance on risks and controls to the Committee. The plans, the level of resources, the budget of the internal audit function and the remuneration of the Chief Audit Officer are reviewed and approved at least annually by the Committee, which also undertakes an annual review of the effectiveness of the Group's internal audit function against guidance criteria provided by the Institute of Chartered Accountants in England and Wales and by the Institute of Internal Auditors (IIA). Every five years the review is performed by an independent party as required by the IIA standards. The last independent review was performed in 2008.

The continuing deteriorating economic and market environment required even greater attention to internal controls in 2009. During 2009 the Group internal audit function carried out assurance reviews of the Group's capital and liquidity management including a review of its risk management function and the management actions put in place to maintain business as usual activities.

External auditor

Ernst & Young LLP (Ernst & Young) was appointed auditor of the Company in 2001 having previously been the auditor of Norwich Union plc. Following the annual external audit effectiveness review, the Committee concluded that the audit service was fit for purpose and recommended that a re-tender process should not be undertaken in 2009 but that the relationship and the effectiveness of the auditor be kept under review. Ernst & Young audits all significant subsidiaries of the Group.

The Company introduced a revised external auditor policy on 1 January 2008 aimed at safeguarding and supporting the independence and objectivity of the external auditors. The policy was updated to reflect current global best practice on auditor independence, and is in full compliance with all UK, US and International Federation of Accountants (IFAC) rules. The revised external auditor policy aims to be simpler to interpret, providing greater clarity on what services may and may not be provided by the Group's external auditors.

The external auditor policy regulates the appointment of former audit employees to senior finance positions in the Group and sets out the approach to be taken by the Group when using the services of the external auditor, including requiring that all services provided by the external auditor are pre-approved by the Committee. It distinguishes between those services where an independent view is required and that should be performed by the external auditor (such as statutory and non-statutory audit and assurance work), prohibited services where the independence of the external auditor could be threatened and they must not be used, and other non-audit services where the external auditor may be used. Non-audit services where the external auditor may be used include: non-recurring internal controls and risk management reviews (ie excluding outsourcing of internal audit work), advice on financial reporting and regulatory matters, due diligence on acquisitions and disposals, project assurance and advice, tax compliance services, and employee tax services. The Committee receives a quarterly report of compliance against the external auditor policy and the policy has worked effectively during 2009.

Annually, the Committee reviews a formal letter provided by the external auditor confirming its independence and objectivity within the context of applicable regulatory requirements and professional standards.

The Group paid £15.0 million to Ernst & Young for audit services in 2009, relating to the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries and associates pursuant to legislation *(2008: £12.1 million)*. The fees for other services, which included advice on accounting and regulatory matters, reporting on internal controls, corporate governance matters, and due diligence work, were £19.0 million, giving a total fee to Ernst & Young of £34.0 million *(2008: £25.0 million)*. Further details are provided in note 12 to the consolidated financial statements. In addition, the Group engaged the organisation Corporate Citizenship in relation to certain assurance work, including verification of its Corporate Responsibility Report.

During the year, the Committee performed its annual review of the independence, effectiveness and objectivity of the external auditor, assessing the audit firm, the audit partner and audit teams. The process was conducted by means of a questionnaire, completed Group-wide by members of senior management and members of the Group's finance community and the Committee. The questionnaire sought opinions on the importance of certain criteria and the performance of the external auditor against those criteria. Based on this review, the Committee concluded that the audit service of Ernst & Young was fit for purpose and provided a robust overall examination of the Group's business and the risks involved.

In line with the Combined Code requirement, the Board undertook a review of the effectiveness of all its committees during the year, including the Audit Committee. In addition, the Committee also carried out a self-evaluation of its effectiveness.

This report was reviewed and approved by the Board on 3 March 2010.

Russell Walls
Chairman, Audit Committee

Risk and Regulatory committee report

This report provides details of the role of the Risk and Regulatory Committee and the work it has undertaken during the year.

The purpose of the Committee is to assist the Board in providing leadership, direction and oversight of the Group's management of risk. The full terms of reference for the Committee can be found on the Company's website, www.aviva.com, and are also available from the Group Company Secretary.

The following independent non-executive directors served on the Committee during the year:

	Period	
Member	From	To
Mary Francis (Chairman)	14 January 2006	To date
Nikesh Arora	1 July 2007	5 August 2009
Wim Dik	14 January 2006	29 April 2009
Leslie Van de Walle	24 September 2009	To date
Russell Walls	14 January 2006	To date

Michael Hawker was appointed to the Committee on 1 January 2010. The Committee met on six occasions in 2009 and the members' attendance record is set out in the Corporate Governance report on page 88. In addition the Committee held separate meetings with members of senior management and Ernst & Young for the purposes of induction and training. The Group Company Secretary acts as the secretary to the Committee.

The Group Chief Executive, Chief Risk Officer, Chief Financial Officer, Chief Audit Officer, Group Regulatory Director and the external auditor normally attend, by invitation, all meetings of the Committee. Other members of senior management are also invited to attend as appropriate to present reports. It is the Committee's practice at each meeting to meet separately with the Chief Audit Officer and the external auditor without any members of management being present. In performing its duties, the Committee has access to the services of the Chief Audit Officer, the Chief Risk Officer, the Group Regulatory Director, and the Group Company Secretary and external professional advisers. During 2009 the Committee appointed Keith Nicholson, a former partner at KPMG LLP, as an external adviser to the Committee.

External background

In the challenging economic and market environment the Board and the Committee continued to focus on financial risk and capital management. The Committee also spent an increasing amount of time on the emerging requirements of the European Union's Solvency II Directive, and the recommendations of the Walker Report in the UK. Although the recommendations of the Walker Report are not yet binding on the Group, the Group is already compliant with the majority of the recommendations relating to risk. In particular, the Board has had a separate risk and regulatory committee since 2006. The Committee chairman regularly reports to the Board on the Committee's activities, and sits on the Audit and Remuneration Committees to ensure that risk considerations are fully reflected in their decisions.

Committee activities during 2009

The Committee's main functions are to assist the Board in making decisions on the Group's risk appetite; to oversee the monitoring and control of risks so that they remain aligned with appetite; to ensure that management is reviewing emerging risks and testing the Group's resilience through scenario planning and stress testing; to give broad direction to the way the Group assesses its capital requirements and how it is optimising the balance between risk and reward when allocating capital for new business; and to ensure that management and the Board have high quality information on risk when reviewing Group strategy and future plans.

During the year the Committee focused on the following areas:

— **Strengthening the risk function**: a number of changes have been made to the risk function since the Group's move to a regional structure. Following a review of progress, further changes have been implemented including; the appointment of a new Chief Risk Officer who reports to the Group Chief Executive; emphasis on first line responsibilities for managing risk, with support and challenge from the risk function and initiation of a comprehensive review of the Group's risk appetite.

— **Capital management**: this was a strong focus of the Committee throughout the year. Group capital requirements were monitored against existing risk appetite and capital availability in a rapidly changing market. The Committee reviewed scenario and stress testing and also considered reinsurance and hedging strategies to understand their contribution to capital management.

— **Solvency II**: with increasing emphasis on economic capital, the Committee monitored the likely impact of Solvency II on the Group's economic capital requirements and businesses. The Committee is responsible for the oversight of the Group's Solvency II programme.

— **Risk monitoring**: the Committee received regular reports on key risks and the actions and controls introduced to mitigate any risks that were out of appetite. Necessary focus was placed on financial and insurance risks including those relating to capital, credit, and equity risk. The Committee continued its practice of inviting business unit and regional teams, led by their Chief Executive, to present on how risk is managed in their businesses. During the year, presentations were received from North America region, Europe region, Asia Pacific region and UK General Insurance.

— **Group risk policies**: The Committee approved significant changes to certain Group risk policies and received regular reports on compliance with Group policies.

— **Operational risks**: during the year the Committee paid particular attention to business protection and IT risks, and how business units were embedding behaviour that met the FSA's principles of Treating Customers Fairly.

— **Regulatory risks and relationships**: The Committee received regular reports on compliance issues and regulatory and other public policy initiatives. In particular, it monitored the actions being taken by management in response to the FSA's Risk Mitigation Programme; monitored worldwide regulatory reform developments arising from the financial crisis and government and regulatory responses to it; monitored management responses to proposed changes in the prudential requirements for financial services companies; and oversaw measures to strengthen oversight of the Group's compliance functions, particularly outside the UK.

— **Fraud and financial crime**: the Committee maintained regular oversight of compliance with controls against financial malpractice including fraud, and of the arrangements for employees to report in confidence any concerns about lack of probity (whistleblowing).
— **Internal controls**: the Group's internal audit function provided the Committee with independent and objective assurance over the appropriateness, effectiveness and sustainability of the Company's system of internal controls. Key control issues reported by Group internal audit to management and to the Committee members were monitored on a quarterly basis until the risk exposure had been properly mitigated.

During the year the Committee held two joint meetings with the Audit Committee and one with the members of the business unit audit committees in the Asia Pacific region.

The chairman of the Committee reports at the subsequent meeting of the Board on the Committee's work and the Board receives a copy of the minutes of each meeting of the Committee.

In line with the Combined Code requirement, the Board undertook a review of the effectiveness of all its committees during the year, including the Risk and Regulatory Committee.

This report was reviewed and approved by the Board on 3 March 2010.

Mary Francis
Chairman, Risk and Regulatory Committee

Corporate Responsibility committee report

This report provides details of the role of the Corporate Responsibility Committee and the work it has undertaken during the year.

The purpose of the Committee is to provide guidance and direction to the Group's corporate responsibility (CR) programme, review the key CR risks and opportunities and to monitor progress. The Committee also reviews the Group's strategy for CR together with the Group's CR targets. The full terms of reference for the Committee can be found on the Company's website, www.aviva.com, and are also available from the Group Company Secretary.

The following directors served on the Committee during the year:

	Period	
Member	From	To
Carole Piwnica (Chairman)	14 January 2006	To date
Euleen Goh	1 January 2009	To date
Andrew Moss	12 July 2007	To date
Lord Sharman	14 January 2006	To date
Scott Wheway	5 December 2007	To date

The Committee met on four occasions in 2009 and the members' attendance record is set out in the Corporate Governance report on page 88. The Group Company Secretary acts as the secretary to the Committee.

During the year, the Committee reviewed and approved the content and scope of the Company's 2009 CR Report, monitored the management of the CR risks affecting the Group and helped establish a process by which regions could report performance and progress to the Committee. In November 2009 the Company announced its intention to put its CR Report to an advisory vote of shareholders at the 2010 AGM as a means of obtaining feedback on the report and the Company's performance in this area. The report is set out on pages 67 to 78 and further details of the resolution are set out in the Notice of Annual General Meeting.

The Committee reviewed each region's performance and progress during the year against the Group key performance indicators and, for the first time, began to review performance of Group functions which contribute to our CR programme activities, beginning with Group procurement. In addition, it reviewed Aviva Investor's approach and progress in Sustainable and Responsible Investment. The Committee also received updates on the Group's key CR programme activities, including climate change, community investment, diversity and external benchmarking. The Committee reviewed the Group's carbon offset projects as part of management's commitment to be carbon neutral on a global basis.

Members of the Committee are interviewed as part of the external assurance process of the CR programme and the subsequent management report, including Aviva's action plan, is reviewed by the Committee to assist the strengthening and future direction of the programme.

In line with the Combined Code requirement, the Board undertook a review of the effectiveness of all its committees during the year, including the Corporate Responsibility Committee.

This report was reviewed and approved by the Board on 3 March 2010.

Carole Piwnica
Chairman, Corporate Responsibility Committee

Directors' remuneration report

Highlights

- The Remuneration Committee (the Committee) approved the Executive Directors' (EDs) request to freeze their basic salaries for 2009 and to take a 10% reduction on the personal element of their annual bonus. In 2010, the EDs requested that their basic salaries should not be subject to annual review and the Committee has endorsed this proposal.
- The demanding financial and non-financial targets set for the 2009 annual bonus were met in part during the year. The combination of financial outcomes, along with those targets relating to employees, customers, and personal objectives mean that the Group Chief Executive received a 2009 bonus of 74% of his maximum opportunity *(2008: 54%)*.
- The Committee entered the 2010 reward period conscious of the challenging economic background and widespread comment on over generous executive remuneration. The Committee believes Aviva's 2009 business results are strong and that Aviva's remuneration practices already closely link pay to performance and also align with current governance guidelines. The Committee has, however, continued to ensure prudent and proportionate reward outcomes.
- Andrea Moneta, Chief Executive Officer, Aviva Europe, Middle East and Africa was appointed as ED of Aviva plc on 29 September 2009. Information on his remuneration therefore appears in this report for the first time.
- On 1 January 2010, Mark Hodges was appointed Chief Executive Officer of the whole of Aviva's UK Insurance operations, which brought together the Life and General Insurance businesses. As a result of this significant expansion of his managerial responsibilities, his basic salary was increased.
- On 26 January 2010, Philip Scott retired from the Board. He continues to be employed by the Group and will retire on 31 July 2010. Details of his leaving arrangements are disclosed in this report.
- Patrick Regan joined Aviva as the new Chief Financial Officer on 22 February 2010. Details of his joining arrangements and ongoing annual remuneration are disclosed in this report.

Introduction

This report sets out the details of the remuneration policy for the Company's directors, describes its implementation and discloses the amounts paid in 2009. In addition to meeting statutory requirements, particularly the Companies Act 2006, Schedules 5 and 8, the Committee has aimed to comply with best practice guidelines, including guidance issued by the Association of British Insurers and the National Association of Pension Funds, in producing this report. Relevant sections of this report have been audited in accordance with corporate governance best practice and legislation.

This report covers the following:

- The Committee's objectives, membership and main activities in 2009;
- A review of Aviva's remuneration policy and practice;
- Commentary on the alignment between remuneration, risk and Aviva's business strategy and objectives;
- Details of the terms of EDs' service contracts;
- Aviva's share ownership policy with respect to EDs;
- Aviva's policy on external board appointments;
- Aviva's UK all employee share plans and share incentive plans;
- Aviva's position against dilution limits;
- Remuneration of the Non Executive Directors (NEDs), and;
- Tables summarising the 2009 position on:
  - Directors' remuneration
  - EDs' pension arrangements
  - Share incentive plans
  - Directors' interests in shares

The Committee's objectives

The Committee is a committee of the Board. Its terms of reference are available from the Group Company Secretary and can be found on the Company's website www.aviva.com/terms-of-reference. The Committee's key objectives are to:

- Establish a competitive remuneration package to attract, retain and motivate high quality leaders;
- Promote the achievement of both the Company's annual plans and its strategic objectives by providing a remuneration package that contains appropriately motivating targets that are within the Group's risk appetite; and
- Align senior executives' remuneration with the interests of shareholders and other stakeholders, including customers and employees.

The Committee's main responsibilities are to:

- Recommend to the Board the Group's remuneration policy for the EDs and members of senior management, covering basic salary, bonus, long-term incentives, retirement provisions, long-term wealth creation and other benefits;
- Strike an appropriate balance between (i) the fixed and variable components and (ii) the cash, equity and equity related components of the total remuneration package;
- Ensure the remuneration package is congruent with, and provides the incentives to realise, short and long term goals;
- Review and determine the terms of employment and remuneration of the individual EDs, including any specific recruitment or severance terms;
- Assess and, within the broad policy from time to time approved by the Board, determine the remuneration terms of the Chairman of the Board;

— Recommend to the Board the establishment of any employee share plans and exercise all the Board's powers in relation to the operation of all share incentive plans, including the granting of awards, the setting and testing of performance conditions (where appropriate), and any discretion on behalf of the Board regarding any material amendments to the plans' rules not requiring the approval of shareholders; and
— Select, appoint and determine terms of reference for independent remuneration consultants to advise the Committee on remuneration policy and levels of remuneration.

Committee membership

Table 1 below shows the independent NEDs who served on the Committee during the year:

Table 1: Members of the Committee during 2009

Member	From	To
Mary Francis	25 January 2006	To Date
Carole Piwnica	25 January 2006	To Date
Scott Wheway (Chairman from 1 January 2009)	5 December 2007	To Date
Leslie Van de Walle	24 September 2009	To Date

Aviva announced on 24 September 2009 the appointment of Mr Van de Walle as a member of the Committee.

The Committee met on eight occasions in 2009 and the meeting attendance record is set out in the Corporate Governance report on page 88.

Committee meetings are attended by the Group Chief Executive, Andrew Moss (other than when his own remuneration is being discussed) and the Group Human Resources Director, John Ainley. The Group Company Secretary, Graham Jones, acts as secretary to the Committee. The Chairman, Lord Sharman, also attends meetings of the Committee at the discretion of the Committee Chairman but specifically when discussing the remuneration of the Group Chief Executive.

The Committee was advised in 2009 by the Group Human Resources Strategy Director, David Hope, and the Group Reward Director, Martyn Fisher, on market practice and the alignment of reward arrangements to business strategy and by the Chief Accounting Officer, David Rogers, on matters relating to the performance measures and targets for the Group's share incentive plans. Group Audit also provide assurance to the Committee over non-financial bonus targets.

In addition, the Committee appointed Hewitt Associates (HNBS) to advise on matters relating to senior executive remuneration. HNBS provided no other material assistance to the Company in 2009. PricewaterhouseCoopers (PwC) provide advice to management on relevant remuneration matters. PwC also provided consultancy services to the Group in 2009. Deloitte LLP, which also provided consultancy services to the Group in 2009, advised the Committee on the calculation of Total Shareholder Return (TSR) in respect of the Long Term Incentive Plan (LTIP) vesting. The Group Company Secretary and Linklaters LLP advised the Committee in relation to the operation of the Company's share plans. Linklaters LLP provided other legal services to the Company during 2009.

In line with Combined Code requirements, the Board undertook a review of the effectiveness of the Committee during the year. Additionally, the Committee reviewed its own performance and agreed steps to enhance its effectiveness and addressed the issues identified.

Committee activities during 2009

The Committee is required by its terms of reference to meet at least three times per year and has a standing calendar of items within its remit. In addition to these standing items, the Committee discusses matters relating to the operation of the remuneration policy and emerging market practices. In 2009, the Committee met eight times and discussed, amongst others, the issues set out in Table 2 below:

Table 2: Matters discussed by the Committee during its 2009 meetings

Meeting	Standing agenda items	Other agenda items
February	— A review of EDs' basic salaries and benefits in kind — Consideration and approval of EDs' bonus awards for 2009 and approval of share awards under the Annual Bonus Plan (ABP) — A review and approval of Long Term Incentive Plan (LTIP) grants to the EDs and approval of the performance conditions for the 2009 grants — A performance test of subsisting LTIP grants — A decision on the operation of the UK's All Employee Share Ownership Plan and the Aviva Ireland's All Employee Share Ownership Plan — A review of dilution limits — A review and approval of recommendations on contributions into the Aviva Capital Accumulation Plan (ACAP) — Approval of the 2008 Directors' Remuneration Report — Approval of the 2009 One Aviva Twice The Value Bonus Plan (OATTV) grants — EDs' shareholding requirements	— Assurance of non-financial bonus targets
June	— None	— Approval of the departure terms of Philip Scott
August	— A review of EDs' bonus targets following a rebase for exchange rates and capital assumptions — Approval of an invitation to UK and Irish employees to participate in the Savings Related Share Option Schemes (SAYE) — EDs' shareholding requirements	— Consideration of EDs' 2009 bonus targets — Committee Terms of Reference — LTIP and OATTV Plan performance testing for the Australian participants following the decision to sell the business — Update on governance and regulatory developments — Consideration of the impact of the Finance Act 2009 on remuneration
September	— None	— Approval of Andrea Moneta's appointment terms as an ED
October	— None	— Approval of Mark Hodges' remuneration following the expansion of his responsibilities — Approval of Patrick Regan's appointment terms as an ED from February 2010 — Review remuneration changes for relevant members of the Executive Committee following new appointments and changes to responsibilities
December	— Approval of the proposed 2010 financial, employee and customer targets for the operation of the ABP — Comment upon and noting of the EDs' personal objectives for 2010 — A review of the proposed approach to the 2009 Directors' remuneration report — A review of the Committee's 2010 work plan	— A review and update of proposed governance and regulatory changes — Review of the workplan for the 2010 Strategic Reward Review — Approve proposals for changes to two share incentive plans, as a result of the 2009 Finance Act

Committee Decisions

The Company's EDs elected to take a basic salary freeze in 2009 and to take a 10% reduction on the personal element of their annual bonus. A further 45 members of senior management similarly accepted a 2009 basic pay freeze. The 2008 Annual Report and Accounts stated the Committee had decided to review mid year the financial targets used for bonus purposes for EDs and other senior managers. This was in addition to the mechanical rebasing for exchange rate and capital assumptions that is carried out annually. Only in exceptional circumstances would the Committee consider amending financial targets, either up or down, and any significant change would be the subject of appropriate consultation. Having reviewed the targets, it was agreed that they remained valid and therefore the bonuses paid for the 2009 performance year, which are disclosed in this report, are based on unaltered financial and non-financial targets.

The Committee remains conscious of the shareholders' loss of value in light of the recession. This has also impacted the EDs through the significantly lower value of the deferred ABP shares and LTIP grants in 2007, both of which will vest in 2010.

Future actions and changes

The Company does not anticipate any significant changes to the structure of EDs' compensation packages in 2010, compared with those outlined in this report. There are, however, three main areas of activity in 2010 which are worth noting:

i) Increased regulation in executive remuneration and changes in corporate governance

2009 has seen a series of regulatory and governance guidelines issued by a wide ranging group of organisations, from the Financial Services Authority, the Company's primary regulator, to the Financial Stability Board of the G20. Whilst many of the issued guidelines do not yet formally apply to Aviva, the Company has already reviewed its existing remuneration arrangements against these and Aviva's current remuneration structures are broadly in line with the requirements laid down by the majority of the codes of practice and corporate governance expectations. A good example of this is the high level of deferral on the annual bonus (two-thirds) which would be considered best practice in the new environment. In addition, the Company has introduced clawback provisions into the Company's share incentive plans. The Group Risk and Regulatory Committee is also mindful of the recommendations and that its involvement will be required including its input into the setting of financial objectives.

ii) Changes to UK taxation

The changes in the personal tax regime effective in April 2010 will create a significantly different tax position for a number of senior employees. The Company has therefore made available the choice to receive deferred annual bonus awards as restricted stock, thus allowing the payment of income tax on grant prior to the changes coming into effect in April 2010. Any potential cost to the Company is judged to be minimal. In addition, the 2010 LTIP grant will be underpinned by an approved share option grant. This will have no additional cost to the Company. These changes were discussed with Her Majesty's Revenue and Customs (HMRC) before being implemented.

iii) Strategic Reward Review

The Company is required every five years to seek shareholder approval for the operation of its share-based incentive plans. The Committee has, in the past, carried out a comprehensive review of senior executive remuneration to coincide with this. This has allowed the Company to put to shareholders' proposals that reflect a thorough review of the Company's remuneration package taking into account changing market and regulatory practice and the requirement to ensure that the package remains competitive. It was agreed in 2008 that the review would be delayed by 12 months from 2009 to 2010. This will enable Aviva to reflect on the new regulatory and governance requirements that emerge from the global financial crisis. Following an in-depth review during 2010, new proposals will be put to shareholders in 2011.

Remuneration policy

Alignment with Group Strategy

The Committee considers alignment between Group strategy and the remuneration of its senior executives, including EDs, to be critical. It believes that senior executives should be highly rewarded (on a market competitive basis) for the delivery of stretching goals but should receive reduced rewards when the business performs poorly. The pay and employment conditions of employees of the Company and Group were also taken into account when determining directors' remuneration for the financial year. To achieve this alignment Aviva's remuneration package is leveraged, with a high percentage of pay "at risk" against the achievement of stretching goals which is aligned with the Company's risk profile and employee behaviour. Furthermore two-thirds of any bonus and any LTIP grant are delivered in the form of Aviva shares. The element of deferred bonus that is matched under the OATTV Plan only vests if very demanding Earnings Per Share (EPS) targets are met. The requirements to defer bonus, participation in the LTIP and the OATTV Plan closely tie the long-term value of executive remuneration to the Company's share price performance.
Senior executives thus have high exposure to the same benefits and drawbacks of share price movement as all shareholders. The belief that senior executives should be shareholders is reinforced through formal guidelines requiring EDs to build up and maintain a significant holding of shares in the Company.

The Group's strategic priorities and targets are set out elsewhere in this report. Those priorities are reflected closely in the remuneration package:

— Basic Salary: Internal and external equity in basic salary positioning is an important contributor to a motivational remuneration package. A range of market data is used to inform decision making taking into account the Company's policy with regard to the FTSE 30 and FTSE 50.
— ABP: Bonus structures are effective only if they drive, through the targets, the maintenance of the Company on a sound financial footing and sustained profitable growth. In addition, the targets must not provide an incentive to promote behaviours which could be detrimental to the Company's long-term interests. Management must justify the targets it recommends. The Committee assures itself that the targets provide appropriate incentives, are sufficiently challenging, are aligned to shareholders' interests and are within the Group's risk appetite.

The Committee also considers how, given changing economic circumstances, the Group's priorities, and consequently the targets underpinning its bonus structures, need to change. Given the challenging current environment the Committee has agreed that financial targets for 2010 should focus more on profitable growth and long-term value creation. Financial targets sit alongside targets on customer advocacy and employee engagement introduced in 2005 that the Committee believes are critical to long-term organisational health. The personal objectives of Executive Committee members are reviewed by the Committee to ensure they adequately reflect the strategic aims of the Group, good governance and best practice.

- OATTV Plan: This plan was introduced to emphasise the Group Chief Executive's clear strategic aim for the Group to deliver growth in EPS, with a target of doubling EPS in five years from a baseline at the end of December 2007. No other element of executive remuneration was focused on EPS growth, and this bonus scheme directly aligns a portion of executive remuneration to this key strategic goal.
- LTIP: The LTIP encourages a longer-term management focus on Return on Capital Employed (ROCE) and relative TSR. These metrics measure how the Company is performing in both absolute and relative terms.

The Committee considers all these elements, plus pension and other benefits, as a whole. It looks to ensure that an appropriate balance is maintained between them so that the need for both short-term success and long-term sustainable growth is recognised. The Committee also ensures that the non-financial business measures and individual objectives reflect adequately the Company's environmental, social and governance responsibilities.

Constituent elements of reward as a percentage of total remuneration

Tables 3a and 3b below show how the Group's remuneration policy translates in practice into the Group Chief Executive's remuneration package. The tables outline the contribution each element makes to overall compensation at both "Target" and "Stretch" levels of performance. More than 50% of EDs' total remuneration is performance related. For the remainder of EDs, 43% of total remuneration is paid in cash for on "Target" performance and 27% for "Stretch" performance (excluding ACAP which EDs participate in to varied degrees, see Table 5).

Tables 3a and 3b: Breakdown of remuneration for the Group Chief Executive

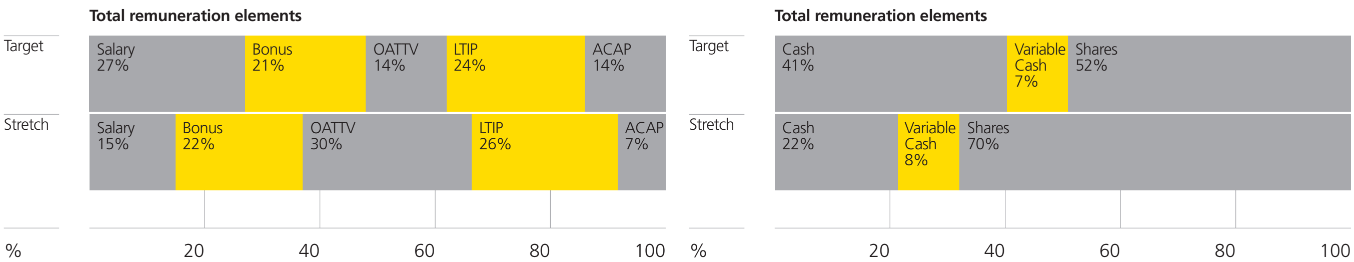


Table 3a shows the breakdown of the Group Chief Executive's remuneration package into its main constituent elements. Table 3b gives the proportions of fixed cash, variable cash and shares. For the purposes of Table 3b, fixed cash includes basic salary and the discretionary ACAP payment. Variable cash is the one-third of bonus paid in cash annually. The share element includes the two-thirds of the annual bonus deferred into shares, the OATTV Plan match and the LTIP.

- "Target" performance means a target ABP outcome (75% of basic salary), a 50% vesting of the LTIP (87.5% of basic salary) and 1:1 match from the OATTV Plan (50% of basic salary).
- "Stretch" performance means a stretch ABP outcome (150% of basic salary), 100% vesting of the LTIP (175% of basic salary) and a 2:1 match from the OATTV Plan (200% of basic salary).

The breakdown does not include any share price growth, the dividends on the ABP deferred shares or other benefits (eg cash car allowance, value of Private Medical Insurance (PMI) and all employee share ownership plans).

Remuneration policy in practice for EDs

Table 4, below, summarises Aviva's remuneration policy as it is applied in practice to EDs.

Table 4: Remuneration Policy in practice

Policy	How delivered
Total remuneration Total remuneration package levels are informed by relevant pay data, in particular the lower quartile to median range of the FTSE 30 and the median to upper quartile range of the FTSE 50. These reference points are chosen to reflect Aviva's market capitalisation and comparability to other large, sophisticated multi-national companies and the positioning that is appropriate to Aviva in those different comparator groups.	— Basic salary — ABP — OATTV Plan — LTIP — Long-term savings — Aviva Staff Pension Scheme (ASPS) — Benefits — All employee schemes
Basic salary Benchmarked as for total remuneration but with positioning and progression taking account of individual and business performance and the levels of increase provided for the broader UK employee population (basic salaries of the UK staff increased by 3% on average in 2009). The Committee takes seriously institutional investors' concerns on the upward ratchet of basic salaries and is rigorous in its review of market position and salary.	— Monthly in cash — Reviewed annually in February, with changes taking effect from 1 April.
ABP The ABP is intended to motivate executives to achieve the annual business plan, based on a series of key financial, employee and customer performance indicators (KPIs), which make up 70% of the bonus opportunity, and personal objectives which make up 30%. 75% of basic salary is payable for "on target" performance and up to 150% for "stretch" performance. Two-thirds of bonus is deferred into shares and the deferred shares vest on the third anniversary of the date of grant, subject to the recipient remaining in service. On resignation during the three-year deferral period, all or part of the grant is forfeited (100% in year of grant, 50% in following year and 25% in year after that). Additional shares are awarded at vesting in lieu of the dividends paid on the deferred shares during the deferral period.	— Annually, one-third is paid in cash and two-thirds in deferred shares.
OATTV Plan The OATTV Plan aligns senior executives with the Group Chief Executive clear strategic aim of doubling EPS by the end of 2012. The plan matches 100% of the deferred ABP shares for the Group Chief Executive (75% for other EDs) For the 2009 awards, the vesting of these matched shares is dependent on the achievement of 49.2 pence per share and then compounded annual growth targets as follows: — Less than 12.5% growth pa Nil — 12.5% growth pa 0.1 for 1 — 41.5% growth pa 2 for 1 Matching is on a straight-line basis for performance from 12.5% to 41.5%. No additional shares are awarded for the dividends paid during the three-year performance period on those shares that vest.	— Annually, a proportion of the deferred element of the ABP is matched in shares. — Shares vest based only upon the achievement of demanding EPS growth targets.
LTIP The LTIP is intended to motivate the achievement of the Company's longer-term objectives, to aid the retention of key personnel and to align executive interests to those of shareholders. The Group Chief Executive is eligible to receive an annual award of shares equal to 175% of basic salary. Other EDs are eligible to receive an annual award of shares equal to 150% of basic salary. The Company operates a phantom scheme in the United States (US) for its US-based employees. Levels of awards reflect US market practice. No additional shares are awarded for the dividends paid during the three-year performance period on those shares that vest.	— Annual awards in shares that vest, subject to ROCE and relative TSR performance conditions being met at the end of a three-year performance period. — Awards that do not vest lapse.
Long-term savings The Aviva Capital Accumulation Plan (ACAP) is a long-term savings vehicle which aids retention whilst recognising a need for flexibility in long-term wealth planning. Company contributions are discretionary and vary year on year, but would not normally exceed 50% of basic salary. Contributions for the EDs are shown in the table on page 113. No ED who participates in the ACAP is currently accruing benefits in the ASPS. A resignation or departure for breach of contract generally results in forfeiture of contribution for the relevant year.	— Discretionary payments into a trust where they are held for a minimum of five years.
ASPS The UK ASPS provides a competitive post retirement package. No ED is currently accruing service-based benefits in the ASPS. The scheme provides accrual at 1/30th, 1/45th or 1/60th of annual basic salary depending on seniority and the date of joining the scheme. Lump sum death in service benefit of four times basic salary is provided, as is a spouse's or partner's pension equal to two-thirds of actual or, on death in service and in certain other circumstances, prospective pension. Post retirement increases are equivalent to the Retail Price Index up to a maximum of 10%. Retirement benefits can be accessed from age 60.	— Deferred cash payable on retirement in the form of a lump sum /monthly payment.

Policy	How delivered
Other Benefits Other benefits are provided on a market competitive basis.	— Cash car allowance — PMI

Overview of the effect on current EDs

The effect of these policies in 2009 for current EDs is set out below. It should be emphasised that the figures shown for both the OATTV Plan and the LTIP grant represent the face value of those grants. The LTIP grant would only be realised if very stretching performance conditions were to be met. Details on pension benefits are set out later in this report.

Table 5: Overview of current EDs' remuneration

Andrew Moss, Group Chief Executive

Element	Amount	Commentary**
Basic Salary	£925,000 during the year	Mr Moss requested not to receive an increase to his basic salary in 2009. Mr Moss requested that his basic salary should not be subject to annual review in 2010.
ABP	£1,029,294 (111.3% of basic salary) (£343,098 delivered in cash and £686,196 deferred into shares for three years)	Bonus is a function of the degree of achievement of 2009 targets as follows: Financial 38.9% (maximum 50%) Employee 5.0 % (maximum 10%) Customer 6.9 % (maximum 10%) Personal 23.3 % (maximum 30%)
OATTV Plan	£501,443	The face value of 100% of the two-thirds deferred element of 2008 annual bonus.
LTIP – Face Value of grant	£1,618,750	The face value of the grant represented 175% of basic salary on 28 February 2009.
ACAP	£462,500	The Trustee of the Plan accepted Aviva's recommendation and made an award into the plan equivalent to 50% of Mr Moss' basic salary as at 1 April.
Other Benefits	£19,000 cash car allowance 2% basic salary cash supplement PMI	Mr Moss receives 2% of basic salary as a non-pensionable cash supplement provided in consideration of his surrendering his Unapproved Unfunded Retirement Benefit (UURB) promise at the point when accrual in the ASPS ceased.

Philip Scott, Chief Financial Officer*

Element	Amount	Commentary**
Basic Salary	£600,000 during the year.	Mr Scott requested not to receive an increase to his basic salary in 2009.
ABP	£577,650 (96.3% of basic salary) (£192,550 delivered in cash and £385,100 deferred into shares for three years)	Bonus is a function of the degree of achievement of 2009 targets as follows: Financial 38.9% (maximum 50%) Employee 5.0 % (maximum 10%) Customer 6.9 % (maximum 10%) Personal 13.3 % (maximum 30%)
OATTV Plan	£243,945	The face value of 75% of the two-thirds deferred element of 2008 annual bonus.
LTIP – Face Value of grant	£900,000	The face value of the grant represented 150% of Mr Scott's basic salary on 28 February 2009.
ASPS	Membership of the ASPS	Mr Scott has a fully accrued pension equivalent to two-thirds of his pensionable salary at retirement. He therefore no longer accrues service related benefits but does continue to accrue additional benefits as a result of pensionable salary increases.
Other Benefits	£16,120 cash car allowance PMI	

* Philip Scott retired from the Board on 26 January 2010.
** Percentages do not necessarily add up due to rounding.

Mark Hodges, CEO, Aviva UK

Element	Amount	Commentary**
Basic Salary	£520,000 during the year.	Mr Hodge s requested not to receive an increase to his basic salary in 2009. On 1 January 2010, his basic salary increased to £600,000 to reflect his increased responsibilities across the UK business. Mr Hodges requested that his basic salary should not be subject to annual review in 2010.
ABP	£502,528 (96.6% of basic salary) (£167,509 delivered in cash and £335,019 deferred into shares for three years)	Mr Hodges' bonus is a function of the degree of achievement of 2009 targets as follows: Financial 26.5% (maximum 50%) Employee 3.7 % (maximum 10%) Customer 7.5 % (maximum 10%) Personal 26.7 % (maximum 30%)
OATTV Plan	£266,039	The face value of 75% of the two-thirds deferred element of 2008 annual bonus.
LTIP – Face Value of grant	£780,000	The face value of the grant represented 150% of Mr Hodges' basic salary on 28 February 2009.
ACAP	£260,000	The Trustee of the Plan accepted Aviva's recommendation and made an award into the plan equivalent to 50% of Mr Hodges' basic salary as at 1 April 2009.
Other Benefits	£16,120 cash car allowance PMI	

Andrea Moneta, CEO, Aviva Europe, Middle East and Africa

Element	Amount	Commentary**
Basic Salary	€713,333 during the year (£635,220) As at 1 January 2009 €680,000 (£605,537) As at 29 September 2009 €780,000 (£694,587)	On appointment to` the Board, Mr Moneta received a basic salary increase from 29 September 2009 of €100,000 (14.7%). Mr Moneta requested that his basic salary should not be subject to annual review in 2010.
ABP	€848,660 (108.8% of basic salary) (€282,887 delivered in cash and €565,773 deferred into shares for three years)	Mr Moneta's bonus is a function of the degree of achievement of 2009 targets as follows: Financial 41.7% (maximum 50%) Employee 0.0 % (maximum 10%) Customer 8.8 % (maximum 10%) Personal 22.0 % (maximum 30%)
OATTV Plan	€408,000	The face value of 75% of the two-thirds deferred element of 2008 annual bonus.
LTIP – Face Value of grant	€850,000	The face value of the grant represented 125% of Mr Moneta's basic salary on 28 February 2009.
ACAP	€91,848	Mr Moneta's ACAP contribution is for the period 1 July 2009 to 31 December 2009.
Other Benefits	€16,653 cash car allowance during the year	Annual car allowance of £13,300 (€14,936) from 1 January 2009 to 28 September 2009, and €21,500 per annum from 29 September 2009 to 31 December 2009.
	€82,201 exchange rate adjustment	€82,201 is payable as an exchange rate adjustment for the period 1 July 2008 to 30 June 2009.
	€1,066,700 compensation for loss of earnings, options and performance shares from previous employer	A further €800,000 compensation is payable for loss of earnings, options and performance shares from a previous employer, half payable in 2010 and half payable in 2011.
	€100,000 housing allowance per annum for three years	€100,000 annual housing allowance up to July 2011, grossed up for tax purposes.***
	€40,000 schooling allowance PMI	€40,000 annual schooling allowance payable up to the end of secondary schooling, grossed up for tax purposes.***
	(Based on average exchange rate for 2009 of €1.12297: £1.00)	

** Percentages do not necessarily add up due to rounding.
*** These exceptional other benefits were provided to replicate pre-existing obligations and are time-limited.

ABP – target setting

The financial targets which underpinned the ABP (accounting for 50% of annual bonus) in 2009 were derived from Aviva's return, growth and capital efficiency/capital generation goals. Three of the financial targets (operating profit, volume and new business contribution) were "stretched" (as set out in Table 6) due to their importance in achieving these aspirations.

Employee and customer targets (each accounting for up to 10% of annual bonus) are set taking into account performance to date and aspirations for the future. The employee targets on leadership and engagement are derived from the Group's employee promise survey in which all business units participate and which over 37,500 staff completed in 2009. This survey is delivered through an independent third party who is able to provide extensive external benchmark data. The Company's aspiration is to reach the upper quartile positions compared to the relevant global and national norms on leadership and engagement over time. In 2009, the number of businesses measuring customer advocacy using a consistent robust methodology doubled, and this was measured by an independent global research agency. All business units now have customer advocacy targets in place for 2010. The Company's aspiration is to reach the upper quartile in the relevant local market benchmark. Internal assurance that the outcomes on employee and customer targets were accurately calculated and reported was provided to the Committee by Group Audit.

Personal objectives based on delivery of key strategic priorities, personal leadership and operating performance of the relevant portion of the business account for up to 30% of annual bonus. Carbon emissions targets are also included as part of the EDs' personal objectives.

The Group's performance against its financial, employee and customer KPIs in 2009, as they affected the bonus of the Group Chief Executive, is shown in Table 6.

Table 6: Group performance in 2009 against its KPIs

	Key Performance Indicators	Weighting (% of total bonus opportunity) On target (%)	Stretch (%)	Actual payment (%)
Business measures (70%)	Volume – Total long-term savings	5.0	5.0	5.0
	Volume – Net written premium	2.5	2.5	—
	IFRS operating profit	1.5	10.0	9.3
	MCEV operating profit	1.5	10.0	10.0
	New business margin	1.0	5.0	2.2
	Combined Operating Ratio (COR)	1.0	5.0	—
	Net capital returns	7.5	7.5	7.5
	Cost savings (expense base)	5.0	5.0	5.0
	Customer	5.0	10.0	7.0
	Employee	5.0	10.0	5.0
Personal measures (30%)	Personal – individual strategic	15.0	30.0	23.3
	Total *	50.0	100.0	74.2

* Totals in columns do not add up due to rounding.

The Committee is sensitive to the current environment in relation to executive pay, and particularly relating to the payment of bonuses in circumstances where financial targets have not been met and share prices have fallen. However, the combination of financial and non-financial measures is central to the structure of the ABP. The Committee wants to ensure a balanced focus on both short-term financial performance and on the objective non-financial measures that are leading indicators of future financial success. This balance is, in the Committee's view, reflective of good practice in incentive design and is consistent with the FSA's guidance on creating incentive schemes that have a focus on long-term sustainable performance.

As described above, the Committee took the view that it was important to maintain the integrity of the financial targets for the EDs, and so these were not adjusted during the year. In the same way, the Committee believes that it is appropriate to pay bonuses based on pre-agreed rigorous targets when these have been met.

To align with the business priorities for 2010, the financial measures at Group level for 2010 are operating profit, volume, new business margin, the Combined Operating Ratio (COR) of our general insurance businesses and cost savings.

OATTV Plan

The OATTV Plan aligns senior executives with the Group Chief Executive's clear strategic aim of doubling EPS by the end of 2012. The plan matches 100% of the deferred ABP shares for the Group Chief Executive (75% for other EDs). For the grant made in 2009 the vesting of these matched shares is dependent on the average annual growth in EPS during the three year performance period, thus:

— Less than 12.5% growth pa	Nil
— 12.5% growth pa	0.1 for 1
— 41.5% growth pa	2 for 1

Matching is on a straight-line basis for performance between 12.5% and 41.5%. The maximum match of two shares for each deferred share is paid for delivering a doubling of EPS by the end of 2010. The threshold matching of 0.1 of a share for each share deferred is equivalent to doubling EPS by 2014. The Committee reviews the performance conditions of this plan annually.

LTIP – Target Setting

The LTIP vests subject to the degree of achievement of two equally weighted performance measures, chosen to reflect shareholders' long-term interest, in absolute ROCE and relative TSR performance.

ROCE targets

ROCE targets are set annually within the context of the Company's three-year business plan and are set on a Market Consistent Embedded Value basis. Vesting depends upon performance over the three-year period against a target return. The Company's external auditor provides a formal opinion on the ROCE vesting calculation. The 2009 LTIP award ROCE targets are set out in Table 7 below:

Table 7: 2009 LTIP ROCE Targets

ROCE over the three-year performance period	Percentage of shares in award that vests based on achievement of ROCE targets
Less than 31.5%	0%
31.5%	15%
Between 31.5% and 37.5%	Pro rata between 15% and 50% on a straight line basis
37.5% and above	50%

TSR Targets

Relative TSR determines the vesting of the other 50% of any LTIP award. The comparator group for the assessment of relative TSR performance at the time of the 2009 grant comprised Aegon, Allianz, Axa, Fortis, Friends Provident, Generali, ING, Legal and General, Lloyds Banking Group, Prudential, Royal Bank of Scotland, Royal and Sun Alliance, Standard Life and Zurich. HBOS had been delisted by the time the 2009 grant was made and so was not included in the comparator group. Friends Provident was delisted in November 2009.

TSR vesting operates as set out in Table 8 below:

Table 8: TSR vesting schedule for the 2009 award

TSR position over the three-year performance period	Percentage of shares in award that vests based on achievement of TSR targets
Below Median	0%
Median	15%
Between median and upper quintile	Pro rata between 15% and 50% on a straight line basis
Upper quintile and above	50%

The same targets will apply for the 2010 LTIP awards. The comparator group will remain unchanged other than the removal of Friends Provident which will be replaced by Resolution Limited. The Committee has agreed a shortlist of companies that would be considered for inclusion in the comparator group, subject to final review, should any further member of the group be delisted.

Details of subsisting LTIP awards are provided on page 110 and Table 9 below shows the vesting projections (non-audited) of those awards as at 31 December 2009.

Table 9: Projections of vesting of subsisting LTIP awards

LTIP Award	31 December 2009 vesting projection (% of award)
Aviva LTIP 2009	50%
Aviva LTIP 2008	50%
Aviva LTIP 2007	50%

Details of the assumptions used in valuing the LTIP for accounting purposes can be found on page 202 of this report. The vesting assumption made in respect of the 2010 award for accounting purposes is 50%.

Since the LTIP has performance conditions attached to it, then one potential outcome is that neither performance condition is met and the whole of the LTIP lapses. Table 10 below has been drawn up to assist in understanding the potential value of the LTIP awards made to EDs in 2010 should the performance conditions be met in part or in whole.

Table 10: Potential value of 2009 LTIP awards (rounded to nearest £50)

LTIP	Andrew Moss	Philip Scott	Mark Hodges	Andrea Moneta*
	£	£	£	£
Face Value of grant	1,618,750	900,000	780,000	756,900
Threshold Vesting	485,600	270,000	234,000	227,100
Expected Value	936,950	520,900	451,500	438,100
Maximum Vesting	2,154,550	1,197,900	1,038,200	1,007,500

* Figures shown for Mr Moneta have been converted from Euro to Pound Sterling at the average exchange rate for 2009 of €1.12297:£1.00

Assumptions are as follows:
- Threshold vesting assumes TSR and ROCE elements vest at the minimum level, producing a 30% vesting of the total award. No share price growth is assumed;
- Expected value, based on the vesting assumption made for accounting purposes, assumes TSR and ROCE elements vest at a combined rate of 50% of the total award. Share price growth of 5% per annum is assumed over the three-year performance period;
- Maximum vesting assumes both TSR and ROCE elements vest in full, producing a 100% vesting. Share price growth of 10% per annum is assumed over the three-year performance period.

Andrea Moneta joined Aviva in July 2008 and does not have an LTIP award vesting in 2010.

At the end of the performance period for the 2006 LTIP grant, which vested in 2009, the Company was ranked eighth out of the 15 companies in the TSR comparator group (15% vesting) and ROCE was 36.0% (41.3% vesting). The total vesting was therefore 56.3%. The 43.7% of the award which did not vest lapsed.

The LTIP vesting history is set out in Table 11 below. Prior to the 2005 award, vesting history is based on an earlier LTIP plan, and the last award made under this plan was in 2004.

Table 11: Vesting history of LTIP awards

		Percentage of award vesting		
Year of grant	Performance period	ROCE	TSR	Total
2002	January 2002 to December 2004	23.3	23.0	46.3
2003	January 2003 to December 2005	30.0	34.9	64.9
2004	January 2004 to December 2006	30.0	34.9	64.9
2005	January 2005 to December 2007	50.0	0.0	50.0
2006	January 2006 to December 2008	41.3	15.0	56.3

Aviva does not award additional shares for the dividends that were paid during the three-year performance period on those shares that vest.

Share Awards

Table 12 below sets out the current position of those share-based awards made to EDs under current remuneration arrangements.

Table 12: ABP, OATTV Plan and LTIP awards

	At 1 January 2009 Number	Awards granted during year Number	Awards vesting during year Number	Awards lapsing during year Number	At 31 December 2009 Number	Market price at date awards granted[1] Pence	Market price at date awards vested Pence	Vesting Date
Andrew Moss								
Aviva Long Term Incentive Plan								
— 2006	87,804	—	49,433	38,371	0	814.0	202.5	Mar-09
— 2007	136,540	—	—	—	136,540	778.5		Mar-10
— 2008	253,289	—	—	—	253,289	617.5		Mar-11
— 2009	—	632,324	—	—	632,324	245.0		Mar-12
Aviva Annual Bonus Plan								
— 2006	47,648	11,024[8]	58,672	—	0	814.0	202.5	Mar-09
— 2007	64,273	—	—	—	64,273	778.5		Mar-10
— 2008	93,567	—	—	—	93,567	617.5		Mar-11
— 2009	—	195,876	—	—	195,876	245.0		Mar-12
One Aviva Twice the Value Bonus Plan								
— 2008	93,567	—	—	—	93,567	598.0		Mar-11
— 2009	—	195,876	—	—	195,876	245.0		Mar-12
Philip Scott								
Aviva Long Term Incentive Plan								
— 2006	95,121	—	53,553	41,568	0	814.0	202.5	Mar-09
— 2007	107,282	—	—	—	107,282	778.5		Mar-10
— 2008	140,625	—	—	—	140,625	617.5		Mar-11
— 2009	—	351,562	—	—	351,562	245.0		Mar-12
Aviva Annual Bonus Plan								
— 2006	47,138	10,907[8]	58,045	—	0	814.0	202.5	Mar-09
— 2007	58,647	—	—	—	58,647	778.5		Mar-10
— 2008	70,312	—	—	—	70,312	617.5		Mar-11
— 2009	—	127,054	—	—	127,054	245.0		Mar-12
One Aviva Twice the Value Bonus Plan								
— 2008	52,734	—	—	—	52,734	598.0		Mar-11
— 2009	—	95,291	—	—	95,291	245.0		Mar-12
Mark Hodges								
Aviva Long Term Incentive Plan								
— 2006	44,207	—	24,888	19,319	0	814.0	202.5	Mar-09
— 2007	56,892	—	—	—	56,892	778.5		Mar-10
— 2008	97,450	—	—	—	97,450	617.5		Mar-11
— 2009	—	304,687	—	—	304,687	245.0		Mar-12
Aviva Annual Bonus Plan								
— 2006	32,725	7,572[8]	40,297	—	0	814.0	202.5	Mar-09
— 2007	37,366	—	—	—	37,366	778.5		Mar-10
— 2008	55,785	—	—	—	55,785	617.5		Mar-11
— 2009	—	138,561	—	—	138,561	245.0		Mar-12
One Aviva Twice the Value Bonus Plan								
— 2008	41,838	—	—	—	41,838	598.0		Mar-11
— 2009	—	103,921	—	—	103,921	245.0		Mar-12
Andrea Moneta[6]								
Aviva Long Term Incentive Plan								
— 2009	—	249,023	—	—	249,023	245.0		Mar-12
Aviva Annual Bonus Plan								
— 2009	—	159,375	—	—	159,375	245.0		Mar-12
One Aviva Twice the Value Bonus Plan								
— 2009	—	119,531	—	—	119,531	245.0		Mar-12

Notes

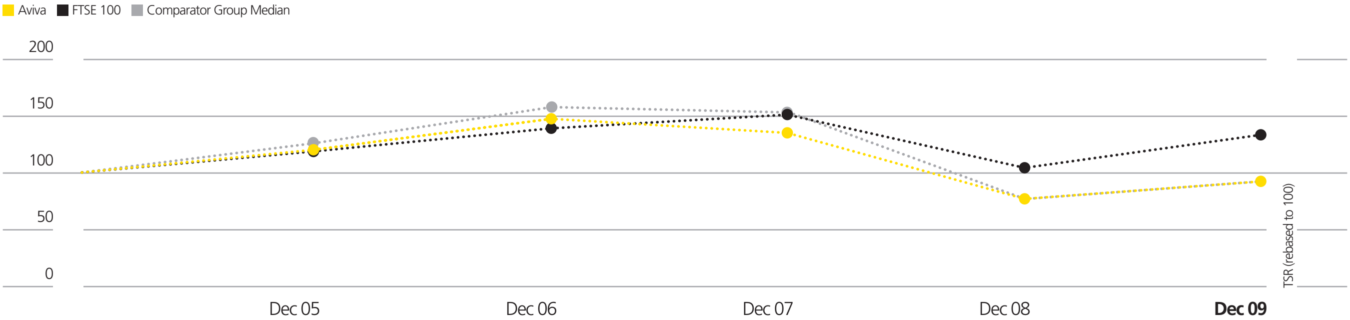
1. The actual price used to calculate the ABP and LTIP awards is based on a three day average price. These were in 2006: 820p; 2007: 769p; 2008: 608p; 2009: 256p. The three day average price used to grant the 2008 OATTV Plan awards was 617p and in 2009 was 256p
2. The performance period for all awards begins at the commencement of the financial year in which the award is granted.
3. The performance conditions for awards granted and vested during 2009 are explained elsewhere in this report.
4. The monetary value of awards will be calculated by multiplying the relevant number of shares by the market price at the date of vesting.
5. The award date for the awards which vested in 2009 was 30 March 2006.
6. The awards granted to Andrea Moneta were awarded before he was appointed to the board, and were held at the date of his appointment.
7. The awards that vested in 2009 were released with the net amount being settled in shares and the balance settled in cash and used to pay the resulting tax liability.
8. These figures relate to shares issued in lieu of dividends accrued during the deferral period.
9. The aggregate net value of share awards granted to the directors in the period was £5.256 million *(2008: £4.319 million)*. The net value has been calculated by reference to the market price at the date of grant.

Performance graph

Table 13 below compares the TSR performance of the Company over the past five years with the TSR of the FTSE 100 Return Index. This index has been chosen because it is a recognised equity market index, of which Aviva is a member.

The companies which comprise the current LTIP comparator group for TSR purposes were chosen on the basis of product and geographic match to Aviva and are listed above. The TSR graph for the comparator group has been plotted using the 20 companies (including Aviva) in the comparator group for pre-2005 grants, the 15 companies (including Aviva) in the comparator group for 2005-07 grants, the 16 companies (including Aviva) in the comparator group for the 2008 grant, and the 15 companies (including Aviva) in the comparator group for the 2009 grant.

Table 13: Aviva plc five-year TSR performance against the FTSE 100 Index and the comparator group



EDs' service contracts

Service contracts agreed with each ED incorporate their terms and conditions of employment. Contracts were last reviewed during 2006 bringing them in line with good market practice. The aim is to strike a fair balance between the Company's and the employee's interests taking into account good market practice. The key terms are set out in Table 14 below.

Table 14: EDs' key terms and conditions of employment

Provision	Policy
Notice period By the director By the Company	 6 months 12 months, rolling. No notice or payment in lieu to be paid where the Company terminates for cause.
Termination payment	Pay in lieu of notice up to a maximum of 12 months' basic salary. This may be increased by a discretionary redundancy payment (where appropriate) but any such further termination payment is capped at 12 months' basic salary. Any amount is subject to phased payment and mitigation requirements.
Remuneration and benefits	As described in this Report the operation of the ABP, the OATTV Plan and LTIP is at the Company's discretion and, in the case of the long-term savings plans, at the trustees' discretion.
Expenses	Reimbursement of expenses reasonably incurred in accordance with their duties.
Holiday entitlement	30 working days plus public holidays.
Sickness	In line with senior management terms, ie 100% basic salary for 52 weeks, and 75% thereafter.
Non-compete	During employment and for six months after leaving.
Contract dates	Director — Date current contract commenced Andrew Moss — 1 January 2007 Philip Scott — 15 November 2006 Mark Hodges — 26 June 2008 Andrea Moneta — 29 September 2009

Share ownership requirements

An internal shareholding requirement was introduced in 2005 that the Group Chief Executive and any EDs should build, over a five-year period, a shareholding in the Company equivalent to 175% of basic salary and 150% of basic salary respectively and no specific value per share was designated for the calculation. Shares held in compulsory bonus deferrals and performance shares held in unvested LTIPs are not taken into account in applying this test.

As at 31 December 2009, based on that day's closing share price of 397.9p, Mr Moss' shareholding of 239,848 shares represented 103% of his basic salary of £925,000 (his holding of 176,067 shares at 1 January 2009 represented 76% of his basic salary of £925,000 using the 31 December 2009 share price). As it currently stands, largely due to the volatile market conditions in the current economic climate, Mr Moss will not meet the internal shareholding requirement target of 1.5 x his salary by April 2010, although he is on target to meet the 1.75 x his salary by July 2012. Mr Scott's shareholding of 512,652 shares represented 340% of his basic salary of £600,000 (his holding of 400,973 shares at 1 January 2009 represented 266%). Mr Hodges' shareholding of 139,028 shares represented 106% of his basic salary of £520,000 (his holding of 100,086 shares at 1 January 2009 represented 77%). Mr Moneta's shareholding of 394 shares represented 0% of his basic salary of €780,000 (£694,587 based on average exchange rate for 2009 of €1.12297: £1.00).

External Board appointments

Aviva recognises its senior executives can benefit from serving in a personal capacity as a NED of non Aviva Group companies. It is, at the same time, conscious of the corporate governance recommendations that EDs should take account of the time commitment required by a NED position and ensure any such role does not impact their ability to carry out fully their executive duties. The Company therefore has a policy of normally allowing senior executives to serve as a NED of one external company, subject to approval by the Board, and to retain any board fees.

The only ED who held an external NED appointment during 2009 was Philip Scott who was appointed to the Board of Diageo plc on 17 October 2007 and, following the announcement of his intended retirement from the Company, to the Board of Royal Bank of Scotland Group plc on 1 November 2009. As a NED of Diageo plc, Mr Scott received fees totalling £101,250 in 2009. As a NED of Royal Bank of Scotland Group plc, Mr Scott received fees totalling £25,000 in 2009.

All employee share plans

EDs are eligible to participate in a number of HMRC approved all employee share plans on the same basis as other eligible employees.

These plans include a free share element of the Aviva All Employee Share Ownership Plan (AESOP). Under this plan, eligible employees can receive up to a maximum of £3,000 per annum in shares based upon the profits of the Company's UK businesses. The shares are free of tax subject to a retention period. In addition, the partnership element of the AESOP, which the Company also operates, allows participants to invest up to £125 per month out of their gross salary in the Company's shares. There is no matching to this investment by the Company.

The Aviva SAYE allows eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. In order to exercise these options, participants must have saved through a three, five or seven-year HMRC approved savings contract, subject to a maximum savings limit of £250 per month.

Details of holdings under these plans can be found on page 115.

Dilution

Awards granted under the Aviva employee shares plans are met by the funding of an employee trust administered by an external trustee that acquires shares in the market. The current practice is that new issue shares will generally only be issued where it is not practicable to use the trust and the funding policy is kept under review by the Committee and the Board. Details of the shares currently held in the employee trust are set out in note 30 to the accounts.

During 2009 loans totalling of £53.6 million were made to RBC Trustees (CI) Limited to ensure sufficient shares were available to meet its ongoing liabilities.

NEDs

The NEDs, including the Chairman, have letters of appointment which set out their duties and responsibilities. The key terms of the appointments are set out in Table 15 below.

Table 15: NED key terms of appointment

Provision	Policy		
Period	Three-year term which can be extended by mutual consent.		
Termination	By the director or the Company at their discretion without compensation.		
Fees	As described below.		
Expenses	Reimbursement of travel and other expenses reasonably incurred in the performance of their duties.		
Time commitment	Between 25 and 50 days per annum depending upon Board and committee requirements and corporate activity.		
Non-compete	During term of directorship and for six months after leaving.		
Appointment dates	Director	Date of last appointment on letter of appointment	Appointment end date on letter of appointment
	Mary Francis	1 October 2008	AGM 2012
	Richard Karl Goeltz	3 May 2007	AGM 2010
	Euleen Goh	1 January 2009	AGM 2011
	Carole Piwnica	30 May 2009	AGM 2012
	Lord Sharman	14 January 2008	AGM 2011
	Leslie Van de Walle	6 May 2009	AGM 2010
	Russell Walls	3 May 2007	AGM 2010
	Scott Wheway	5 December 2007	AGM 2010

It is the Company's policy to set the fees paid to its Chairman and NEDs taking account of the median market payments in international companies of similar size and complexity. NEDs receive a basic annual fee in respect of their Board duties. A further fee is paid to NEDs (other than the Chairman) in respect of membership and, where appropriate, chairmanship of Board committees.

Fees are reviewed annually and are set by the Board to attract individuals with the required range of skills and experience. In determining the level of fees paid to the NEDs the Board receives recommendations from the EDs, who consider the NED's duties and responsibilities, together with the time commitment required in preparing for and attending meetings, and the amounts paid by competitors and similar-sized companies.

The Chairman and NEDs do not participate in any incentive or performance plans or pension arrangements.

The Company's Articles of Association provide that the total aggregate remuneration paid to the Chairman and NEDs will be determined by the Board within the limits set by shareholders. The current aggregate limit of £1.5 million was approved by shareholders at the Company's 2005 Annual General Meeting. The amount paid in 2009 was £1.165 million. EDs are remunerated under their service contracts and receive no additional fee for serving as directors.

NED fees payable from 1 April 2009 are set out in Table 16 below.

Table 16: NED fees from 1 April 2009

Chairman	£495,000
Board membership fee	£63,000
Additional fees are paid as follows:	
Senior independent director	£20,000
Committee Chairman	
– Audit	£35,000 (inclusive of committee membership fee)
– Corporate Responsibility	£10,000 (inclusive of committee membership fee)
– Remuneration	£20,000 (inclusive of committee membership fee)
– Risk and Regulatory	£20,000 (inclusive of committee membership fee)
Committee Membership	
– Audit	£10,000
– Corporate Responsibility	£5,000
– Nomination	£5,000
– Remuneration	£10,000
– Risk and Regulatory	£5,000

Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal hours of business, and at the place of the Company's Annual General Meeting from 10.45am on Wednesday 28 April 2010 until the close of the meeting.

Directors' remuneration in 2009

Table 17 below sets out the remuneration paid or payable to the directors in respect of the year to 31 December 2009. This section (Directors' remuneration in 2009) and those sections headed "EDs' pension arrangements" and "Share incentive plans" along with their associated footnotes have been subject to audit.

Table 17: Directors' Remuneration in 2009

	Basic salary/fees		Bonuses[1]		ACAP		Benefits[2]		Total	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000	**2009 £'000**	2008 £'000	**2009 £'000**	2008 £'000	**2009 £'000**	2008 £'000
Chairman										
Lord Sharman	**495**	490	**—**	—	**—**	—	**—**	15	**495**	505
Executive directors										
Andrew Moss	**925**	914	**1,029**	752	**463**	463	**74**	91	**2,491**	2,220
Philip Scott	**600**	593	**578**	488	**—**	—	**34**	35	**1,212**	1,116
Mark Hodges	**520**	463	**503**	532	**260**	208	**66**	99	**1,349**	1,302
Andrea Moneta[3]	**629**	—	**756**	—	**82**	—	**142**	—	**1,609**	—
Non-executive directors										
Nikesh Arora	**44**	69	**—**	—	**—**	—	**—**	—	**44**	69
Wim Dik	**24**	95	**—**	—	**—**	—	**—**	—	**24**	95
Mary Francis	**103**	99	**—**	—	**—**	—	**—**	—	**103**	99
Richard Goeltz	**98**	94	**—**	—	**—**	—	**—**	—	**98**	94
Euleen Goh	**78**	—	**—**	—	**—**	—	**—**	—	**78**	—
Carole Piwnica	**83**	87	**—**	—	**—**	—	**—**	—	**83**	87
Leslie Van de Walle	**45**	—	**—**	—	**—**	—	**—**	—	**45**	—
Russell Walls	**108**	107	**—**	—	**—**	—	**—**	—	**108**	107
Scott Wheway	**88**	77	**—**	—	**—**	—	**—**	—	**88**	77
Total emoluments of directors	**3,840**	3,088	**2,866**	1,772	**805**	671	**316**	240	**7,827**	5,771

Notes

1. Bonuses show the value at the date of award inclusive of the two-thirds of bonus which Aviva requires its EDs to defer into Aviva shares for three years.
2. "Benefits". All the EDs received life assurance benefits during the year that relate to the cost incurred by the Company of insuring the directors' life and relevant spouses' benefits which, had the director died during the year, could not have been wholly paid by the pension scheme and would therefore have been met by the Company had the insurance not been in place. The disclosure also includes the cost of private medical insurance and, where appropriate, accompanied travel, accommodation and car benefits. All the numbers disclosed include the tax charged on the benefits. No directors received an expense allowance during the year.
3. Figures shown for Mr Moneta have been converted from Euro to Pound Sterling at the average exchange rate for 2009 of €1.12297 : £1.00. Further details of Mr Moneta's benefits are contained in table 5. The grossed element for schooling and housing as outlined in table 5 will be delivered in 2010.
4. For the purposes of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the directors in respect of 2009 was £6.7 million *(2008: £5.2 million).*
5. No compensation payment for loss of office was made to any director, or former director, during the year.
6. Annual bonuses are one-third paid in cash and two-thirds deferred into shares for three years.

Fees earned in 2009 by the NEDs are set out in Table 18 below.

Table 18: NEDs fees paid in 2009

			Committee Chairman/Membership					
	Board membership fees	Senior independent director	Remuneration	Audit	Nomination	Corporate Responsibility	Risk and Regulatory	Total fees
Lord Sharman, Chairman	£495,000							£495,000
Nikesh Arora	£37,714				£2,993		£2,993	£43,700
Wim Dik	£20,756					£1,647	£1,647	£24,050
Mary Francis	£63,000		£10,000	£10,000	£397		£19,375	£102,772
Richard Goeltz	£63,000	£20,000		£10,000	£5,000			£98,000
Euleen Goh	£63,000			£10,000		£5,000		£78,000
Carole Piwnica	£63,000		£10,000			£10,000		£83,000
Leslie Van de Walle	£41,238		£2,623				£1,373	£45,234
Russell Walls	£63,000			£35,000	£5,000		£5,000	£108,000
Scott Wheway	£63,000		£20,000			£5,000		£88,000

Following a review in March 2009 of Aviva's fees against market benchmarks the following changes in NEDs' emoluments were made with effect from 1 April 2009:
- — The fee for chairing the Risk and Regulatory Committee (inclusive of membership fee) was increased from £17,500 pa to £20,000 pa (an increase of 14.3%)
- — A new fee of £10,000 (inclusive of membership fee) was introduced for chairing the Corporate Responsibility Committee
- — Other fees remained unchanged

The following changes to NED responsibilities took place during the year:
- — Nikesh Arora ceased to be a member of the Board, Nomination Committee and Risk and Regulatory Committee on 5 August 2009.
- — Wim Dik retired from the Board, Corporate Responsibility Committee and Risk and Regulatory Committee on 29 April 2009.
- — Leslie Van de Walle joined the Board on 6 May 2009 and joined the Remuneration Committee and Risk and Regulatory Committee on 24 September 2009.
- — Mary Francis joined the Nomination Committee on 2 December 2009.

Senior executives' remuneration

The total compensation paid during the year to key management personnel, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the Company's EDs and NEDs (as required to be disclosed by International Accounting Standard 24) was £61 million *(2008: £53 million)* and is set out in note 59 to the Accounts.

EDs' pension arrangements

The positions of the EDs with respect to accumulated pension benefits under the defined benefits section of the ASPS is set out in Table 19 below.

Table 19: EDs' Pension Benefits

	Andrew Moss £'000	Philip Scott £'000	Mark Hodges £'000	Andrea Moneta £'000
Benefit Type	Defined benefit	Defined benefit	Defined benefit	Defined contribution
Accrued annual pension at 31 December 2008	21	395	81	—
Accrued annual pension at 31 December 2009	22	400	85	—
Gross increase in accrued pension over the year	1	5	4	—
Increase (decrease) in accrued pension net of inflation over the year	—	(15)	—	—
Employee contributions during the year	—	8	—	—
Defined contribution employer contributions during the year	—	—	—	61
Transfer value of accrued pension at 31 December 2008	231	6,300	660	—
Transfer value of accrued pension at 31 December 2009	350	7,544	1,062	—
Change in transfer value during the period less employee contributions	119	1,236	402	—
Transfer value of net increase (decrease) in accrued pension less employee contributions	17	(279)	50	—
Age at 31 December 2009 (years)	51	55	44	44

Notes
1. Accrued pensions shown are the amounts that would be paid annually on retirement based on service to the end of the year.
2. Benefits deriving from Additional Voluntary Contributions (AVCs) paid by directors are excluded from the amounts above.
3. The change in transfer value allows for fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as changes in stock market conditions. The transfer values have been calculated in line with the relevant legislation and using actuarial assumptions agreed by the Trustee. These assumptions were revised during the year resulting in higher transfer values.
4. Mr Scott opted out of the ASPS on 30 June 2009. For the first three months of 2009 Mr Scott made regular member contributions of 5% of salary. Mr Scott then switched to making salary sacrifice contributions at the same rate for the final three months of his Scheme membership. Salary sacrifice contributions are excluded for the figures above.
5. Mr Moneta opted out of the Scheme on 30 June 2009. Contributions shown are for the period to this date.
6. No former Directors received any increase in retirement benefits in excess of the amount to which they were entitled, on the later of the date when the benefits first became payable, or 31 March 1997.
7. The transfer value of net increase (decrease) in accrued pension shows the value of the increase (decrease) in accrued pension net of inflation, over the year net of contributions.

No former Directors received any increase in retirement benefits in excess of the amount to which they were entitled, on the later of the date when the Benefits first became payable, or 31 March 1997.

Share incentive plans

Details of the EDs who were in office for any part of the financial year, and hold or held options to subscribe for ordinary shares of the Company or hold or held awards over shares in the Company, pursuant to the Company's share based incentive plans, are set out in Table 20 below.

Savings related share options in Table 20 refer to options granted under the HMRC approved SAYE. Options are normally exercisable during the six month period following the end of the relevant (three, five or seven year) savings contract.

Table 20: EDs' options to subscribe for, or awards over, Company shares

	At 1 January 2009 Number	Options granted during year number	Options exercised during year Number	Options lapsing during year Number	At 31 December 2009 Number	Exercise Price Pence	Exercise Period
Mark Hodges Savings related options 2007	1,705	—	—	—	1,705	563.0	December 2010 – May 2011
Andrew Moss Savings related options 2005	3,279	—	—	—	3,279	491.0	December 2010 – May 2011
Philip Scott Savings related options 2008	2,341	—	—	—	2,341	410.0	December 2011 – May 2012

The mid-market price of an ordinary share in the Company on 31 December 2009, being the last business day of the year, was 397.9p, and the mid-market prices during the year ranged from 163.3p to 467.5p. During the year, no share options were exercised by directors *(2008: nil options exercised)*.

Directors' interests in Aviva shares

The interests held by each person who was a director at the end of the financial year in the ordinary shares of 25 pence each in the Company are shown in Table 21 below. All the disclosed interests are beneficial. The table also summarises the interests in shares held through the Company's various share incentive plans. Details of the options and long-term incentive awards are shown below.

Table 21: Directors' interests in Aviva Shares

	Shares[1]		ABP[2]		LTIP[3]		OATTV Plan[4]		Options[5]	
	1 January 2009	31 December 2009	1 January 2009	31 December 2009	1 January 2009	31 December 2009	1 January 2009	31 December 2009	1 January 2009	31 December 2009
Mary Francis	1,800	1,800	—	—	—	—	—	—	—	—
Richard Karl Goeltz	2,500	2,500	—	—	—	—	—	—	—	—
Mark Hodges	100,086	139,028	125,876	231,712	198,549	459,029	41,838	145,759	1,705	1,705
Andrea Moneta[7]	73	394	—	159,375	—	249,023	—	119,531	—	—
Andrew Moss	176,067	239,848	205,488	353,716	477,633	1,022,153	93,567	289,443	3,279	3,279
Carole Piwnica	2,500	2,500	—	—	—	—	—	—	—	—
Philip Scott	400,973	512,652	176,097	256,013	343,028	599,469	52,734	148,025	2,341	2,341
Lord Sharman	20,000	33,531	—	—	—	—	—	—	—	—
Leslie Van de Walle	—	2,485	—	—	—	—	—	—	—	—
Russell Walls	4,000	4,000	—	—	—	—	—	—	—	—
Scott Wheway	1,677	13,579	—	—	—	—	—	—	—	—

Notes
1. "Shares" are the directors' beneficial holdings in the ordinary shares of the Company and in respect of the EDs include shares held in trust under the Company's AESOP being shares purchased by them under the partnership element and shares granted under the free share element.
2. ABP relates to entitlements to shares arising through the Aviva Annual Bonus Plan. Under these plans some of the earned bonuses are paid in the form of shares and deferred for three years. The transfer of the shares to the director at the end of the period is not subject to the attainment of performance conditions but a proportion of the shares can be forfeited if the executive leaves service before the end of the period.
3. Awards granted under the LTIP which vest only if the performance conditions are achieved.
4. OATTV Plan awards are granted as a match to the bonus plan awards under the ABP and vest only if the performance conditions are achieved.
5. "Options" are options over shares granted under the SAYE.
6. The interests of connected persons to the Directors are included in the Directors' interests above.
7. Andrea Moneta was appointed as a director on 29 September 2009. On this date he held 394 shares, 159,375 bonus plan awards, 249,023 long term incentive awards, 119,531 OATTV Plan awards and 0 options.

The following changes to directors' interests which relate to shares acquired each month under the partnership element of the AESOP during the period 1 January 2010 to 25 February 2010 have been reported to the Company.

	Number of shares
Philip Scott	64
Mark Hodges	63

Developments in 2010

Patrick Regan

Mr Regan joined the Board of Aviva as Chief Financial Officer on 22 February 2010. As part of the recruitment offer made to Patrick Regan, the Committee agreed to compensate Mr Regan for the loss of unvested Willis Group Holdings Limited restricted shares and stock options and for loss of the bonus which would have been paid to him by Willis Group Holdings Limited for the 2009 financial year. This will be in the form of a restricted share award to the value of £1.65 million which is subject to clawback provisions and will be granted on the earliest permitted date after Mr Regan's date of joining, a deferred share award to the value of £283,333 which is subject to clawback provisions and will be granted in March 2010 and a cash bonus of £141,667 which is payable in March 2010. Mr Regan's basic salary is £600,000 per annum and the other elements of his remuneration follow the policies in practice for EDs as outlined earlier in this report.

Philip Scott

Philip Scott retired from the Board on 26 January 2010 but will still be employed by Aviva until 31 July 2010. His ABP for 2008 and 2009 will vest immediately. His LTIP and OATTV Plan awards for 2008 and 2009 will vest to the extent the Committee determines that the performance conditions have been met and mirroring the good leaver provisions in accordance with the Plan rules. As discussed in the 2008 Annual Report and Accounts Mr Scott will receive a non-discounted pension with effect from January 2012 and, from 1 October 2010, will be providing consultancy services to the Group for a limited period.

Michael Hawker

Michael Hawker joined the Board of Aviva as a NED on 1 January 2010. He will be paid a fee of £63,000 per year as a member of the Board and an additional £5,000 per year as a member of the Risk and Regulatory Committee.

Scott Wheway
Chairman, Remuneration Committee
3 March 2010

Shareholder information

In this section

Additional information for Shareholders

Major shareholders and related party disclosures

Major shareholders

The Financial Services Authority Disclosure and Transparency Rules 2006 provide that a person or corporate entity that acquires an interest of 3% or more in Aviva ordinary shares is required to notify us of that interest, whether it is held beneficially or not. Any subsequent increase or decrease of 1% or more must also be notified. Similarly, a notification is required once the interest falls below 3%.

Based on notifications received up to 31 December 2009, no shareholder held a beneficial interest of 5% or more in Aviva ordinary shares at 31 December 2009 or at any point in the preceding three financial years.

We are required under the Financial Services Authority Listing Rules to disclose in the directors' report to our annual financial statements all notifications received since our previous annual report. We have summarised below the notifications received during last three financial years: 2007, 2008 and 2009.

The table below summarises the shareholders with at least 3% ownership of our outstanding ordinary shares as of 3 March 2010 according to notifications received from our shareholders. Our major shareholders as listed below have the same voting rights as all our ordinary shareholders.

	Total number of shares held	% of total issued shares/ % of voting rights
Blackrock Inc[1]		
– Non-beneficial interest (shares held nominally on behalf of others)	140,757,642	5.09%
Axa S.A. and its Group companies		
– Held beneficially	88,336,674	3.19%
– Non-beneficial interest	18,451,502	0.67%
Legal & General Group plc		
– Held beneficially	116,354,795	4.24%

1. On 1 December 2009, Barclays Group sold Barclays Global Investors business to BlackRock Inc, resulting in BlackRock holding 140,757,642 shares, or 5.09%, of voting rights of which 2,081,107 shares, or 0.08%, are held in CFDs.

To the best of our knowledge, except as set forth in the table above, no other shareholder held more than 3% of our outstanding ordinary shares as of 3 March 2010.

As at 27 February 2008	Total number of shares held	% of total issued shares/ % of voting rights
Barclays plc		
– Non-beneficial interest	133,026,405	5.08%
Axa S.A. and its Group companies		
– Held beneficially	28,520,097	1.10%
– Non-beneficial interest	230,932,552	8.90%
Legal & General Group plc		
– Held beneficially	104,107,838	4.01%

As at 27 February 2007	Total number of shares held	% of total issued shares/ % of voting rights
Barclays plc		
– Non-beneficial interest	153,862,359	5.99%
Axa S.A. and its Group companies		
– Held beneficially	29,277,260	1.14%
– Non-beneficial interest	232,943,181	9.08%
Legal & General Group plc		
– Held beneficially	93,312,175	3.65%

As at 1 March 2006	Total number of shares held	% of total issued shares/ % of voting rights
Barclays plc	109,751,163	4.57%
Legal & General Group plc	81,072,340	3.38%

Related party transactions

For more information relating to related party transactions, including more information about the transactions described below, please see "Financial Statements IFRS – Note 53 – Related party transactions".

Subsidiaries

Transactions between the Company and its subsidiaries are eliminated on consolidation.

However, the Company has transactions and outstanding balances with certain unit trusts, Open Ended Investments Companies, collateralised debt obligations and similar entities which are not consolidated and where a Group company acts as manager. These entities are regarded as related parties for the purposes of International Accounting Standard ("IAS") 24. The balances are included in the Group's statement of financial position at fair value or amortised cost in accordance with their IAS 39 classifications. The transactions are included in the income statement and include amounts paid on issue of shares or units, amounts received on cancellation of shares or units and paid in respect of the periodic charge and administration fee.

Directors and key management

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the executive and non-executive directors is as follows:

	2009 £m	2008 £m	2007 £m
Salary and other short-term benefits	**39**	38	40
Post-employment benefits	**5**	3	4
Equity compensation plans	**16**	9	14
Termination benefits	**1**	3	2
Total	**61**	53	60

Various directors and key management of Aviva may from time to time purchase insurance, asset management or annuity products, or be granted mortgages marketed by Aviva Group companies in the ordinary course of business on substantially the same terms, including interest rates and security requirements, as those prevailing at the time for comparable transactions with other persons.

Apart from the disclosed transactions discussed above and in the "Governance" section of this report, no director had an interest in shares, transactions or arrangements that requires disclosure under applicable rules and regulations.

Other related parties

The Group received income from other related parties from transactions made in the normal course of business. Loans to other related parties are made on normal arm's length commercial terms.

Services provided to other related parties

	2009		2008		2007	
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m
Associates	**49**	**3**	61	3	58	2
Joint ventures	**17**	**328**	20	300	26	169
Employee pension schemes	**9**	**2**	24	6	26	6
	75	**333**	105	309	110	177

Income from associates predominantly relates to our investments in the Royal Bank of Scotland (RBS) life and collective investment companies listed in the 'Financial Statements IFRS – Note 19 – Interest in, and loans to, associates.' Under management service agreements with these associates, our UK life insurance companies provide administration services, the cost of which is recharged to the RBS companies. In addition, our fund management companies provide fund management services to these associates, for which they charge fees based on the level of funds under management.

Transactions with joint ventures relate to the property management undertakings. At 31 December 2009, there were 18 such joint ventures, the most material of which are listed in the 'Financial Statement IFRS – Note 13 – Interest in, and loans to, joint ventures.' Our interest in these joint ventures comprises a mix of equity and loans, together with the provision of administration services and financial management to many of them. Our UK life insurance companies earn interest on loans advanced to these entities and our fund management companies charge fees for administration services and for arranging external finance.

Our UK fund management companies manage most of the assets held by the Group's main UK staff pension scheme, for which they charge fees based on the level of funds under management. The main UK scheme and the Dutch scheme hold investments in Group-managed funds and insurance policies with other Group companies, as explained in 'Financial Statement IFRS – Note 41(e)(iv) – Pension obligations'.

The other related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties provided on behalf of related parties are given in 'Financial Statements IFRS – Note 45(h) – Contingent liabilities and other risk factors – Other'.

Loans to joint ventures

We make loans to our property management joint ventures to fund property developments which we undertake with our joint venture partners. Movements in these loans may be found in 'Financial Statements IFRS – Note 18 – Interests in, and loans to, joint ventures'. Total loans at 31 December 2009 and at the end of each of the last three financial years are shown in the table below:

	2009 £m	2008 £m	2007 £m
Loans to joint ventures	**327**	297	167

These constitute loans to joint ventures to fund shopping, business or distribution centres or properties in Europe, as well as a film studio development in the UK. The largest of these is part of a facility granted in November 2005 and had a balance of £255 million as of 31 December 2009 and bears an interest rate of 8%.

Dividend Data

Our dividend policy is to sustain a target dividend cover of between one and a half and two times our IFRS adjusted operating profit after tax before amortisation of goodwill and adjusting items. Under UK company law, we may only pay dividends if the company has "distributable profits" available. "Distributable profits" are accumulated, realised profits not previously distributed or capitalised, less accumulated, unrealised losses not previously written off based on IFRS. Even if distributable profits are available, we pay dividends only if the amount of our net assets is not less than the aggregate of our called-up share capital and undistributable reserves and the payment of the dividend does not reduce the amount of our net assets to less than that aggregate.

As a holding company, we are dependent upon dividends and interest from our subsidiaries to pay cash dividends. Many of our subsidiaries are subject to insurance regulations that restrict the amount of dividends that they can pay to us. Historically, we have declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). Subject to the restrictions set out above, the payment of interim dividends on ordinary shares is made at the discretion of our Board of Directors, while payment of any final dividend requires the approval of our shareholders at a general meeting. Ordinary preference shares are irredeemable and dividends on ordinary preference shares are made at the discretion of our Board of Directors.

We pay our cash dividends in pounds sterling, although our Articles of Association permit payment of dividends on ordinary shares in other currencies and in forms other than cash, such as ordinary shares. If dividends on ordinary shares held by the American Depositary Shares (ADS) depositary are paid in pounds sterling, the ADS depositary will convert the pounds that it receives on behalf of the ADS holders into US dollars according to the prevailing market rate on the date that the ADS depositary actually receives the dividends.

For the 2007 final dividend and previous final and interim dividends, shareholders on record were provided with the opportunity to elect to receive dividends in the form of newly issued ordinary shares through our scrip dividend scheme. For the 2008 interim dividend the scrip dividend scheme was replaced by a dividend reinvestment plan (DRIP). For those shareholders participating in the DRIP, we paid a cash dividend, which was then used to buy existing shares on the open market. For the 2008 final dividend we withdrew the DRIP and reintroduced the scrip dividend scheme.

An interim dividend is generally paid in November of each year. A final dividend is proposed by our Board of Directors after the end of the relevant year and generally paid in May. The following table shows certain information regarding the dividends that we paid on ordinary shares for the periods indicated in pounds sterling and converted into US dollars at the noon buying rate in effect on each payment date.

Year	**Interim dividend per share (pence)**	**Interim dividend per share (cents)**	**Final dividend per share (pence)**	**Final dividend per share (cents)**
2004	9.36	17.39	16.00	29.44
2005	9.83	16.90	17.44	32.82
2006	10.82	20.49	19.18	37.88
2007	11.90	24.37	21.10	41.31
2008	13.09	19.69	19.91	30.31
2009	**9.00**	**14.75**	**15.00**	**23.55**

Controls and procedures

Disclosure controls and procedures

Management has evaluated, with the participation of Aviva's Group Chief Executive and Group Chief Financial Officer, the effectiveness of the disclosure controls and procedures as at 31 December 2009. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon Aviva's evaluation, the Group Chief Executive and Group Chief Financial Officer concluded that as of 31 December 2009 Aviva's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by Aviva in the reports Aviva files and submits under the Securities Exchange Act is recorded, processed, summarised and reported, within the time periods specified in the applicable rules and forms and that it is accumulated and communicated to Aviva's management, including the Group Chief Executive and Group Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Management's annual report on internal control over financial reporting

This Annual Report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Audit committee financial expert

The Board has determined that Russell Walls, Richard Goeltz and Euleen Goh all qualify as audit committee financial experts within the meaning of Item 16A of Form 20-F, and that Russell Walls, Richard Goeltz and Euleen Goh are all independent as defined by the New York Stock Exchange Corporate Governance Standards.

Code of ethics

The company has adopted a code of ethics for its group chief executive, chief financial officer, general auditor and group chief accounting officer as required by the provisions of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules issued by the SEC. There have been no amendments to, or waivers from, the code of ethics relating to any of those officers. The code of ethics was filed on 7 October 2009 as an exhibit to our Form 20-F registration document.

Regulation

Compliance

In our insurance business, matters may arise as a result of industry-wide issues, inspection visits or other regulatory activity requiring discussion and resolution with insurance industry regulators. As a result of these matters, we ensure that procedures are in place to address regulatory concerns and that such procedures are properly planned, managed and resourced. We pursue corrective action when necessary and report progress to the regulatory bodies in a timely manner.

Overview of regulation as it affects our business

Our principal insurance and investment operations are in the United Kingdom, Europe, North America and the Asia Pacific region. We are therefore subject to financial services regulation in these regions, which is discussed below.

United Kingdom

The Financial Services Authority

In the UK, the Financial Services Authority (the FSA) is the single regulator for all authorised persons with respect to regulated activities in the financial services sector. In this regard, the FSA is authorised to make rules and issue guidance in relation to a wide sphere of activity encompassing the governance of the conduct of business by, and the prudential supervision of persons which the FSA has authorised to conduct such business ("Authorised Persons" or "Authorised Firms").

Under the Financial Services and Markets Act 2000 ("FSMA"), no person may carry on or purport to carry on a regulated activity by way of business in the UK unless he is an Authorised Person or an exempt person. A firm which is granted permission by the FSA to carry on regulated activities becomes an Authorised Person for the purposes of FSMA. "Regulated activities" are prescribed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 and include banking, insurance and investment business, stakeholder pension schemes, insurance mediation and certain mortgage mediation and lending activities.

Authorised Firms must at all times meet certain threshold conditions, which include having adequate resources for the carrying on of its business and being a fit and proper person, having regard to all the circumstances. Authorised Firms must also comply with the FSA's Principles for Business, which are 11 high level principles for conducting financial services business in the UK. These include the maintenance of adequate systems and controls, treating customers fairly and communicating with customers in a manner that is clear, fair and not misleading.

The FSA's regulation of the group

A number of the Group's UK subsidiaries are directly authorised and regulated by the FSA. The regulated subsidiaries include our insurance companies (eg the UK Life and UK General Insurance companies), asset managers (Aviva Investors) and intermediaries (UK Healthcare and RAC Motoring Services). Aviva plc, although not directly authorised by the FSA, does itself come within the scope of regulation by virtue of being the ultimate insurance holding company in the Group. In line with requirements under the Insurance Groups Directive, Group solvency returns are required to be prepared at Aviva plc level.

The FSA regime is built on the basic principle that a firm should have systems and controls, including risk management, which are appropriate to the size, complexity and diversity of its business.

Approved persons and controllers

The FSA regime is also predicated on the principle of senior management responsibility. The directors and senior managers holding positions of significant influence of each of the Group's regulated entities are individually registered with the FSA under the "Approved Person" regime, and can be held directly accountable to the FSA for control failings in those firms. A number of senior managers at Group level have also been registered as Approved Persons for the regulated subsidiaries, even though they are neither directors nor senior managers of these firms. This recognises that these managers exert significant influence over the regulated subsidiaries, because they are responsible for key parts of the Group's control framework on which the regulated subsidiaries place reliance.

The FSA regulates from a legal entity perspective, even though we tend to operate within Regions by Business Unit.

However, the FSA also recognises, and indeed expects, that Aviva's regulated subsidiaries operate within an overall framework of Group governance and controls. Its rules expressly provide that any systems and controls which operate on a Group basis will be taken into account in determining the adequacy of a regulated subsidiary's systems and controls. The robustness of these Group controls, from the operation of the Aviva plc board and its committees down, is thus very much within its regulatory remit.

The FSA regulates the acquisition and increase of control over Authorised Firms. Under FSMA, any person proposing to acquire control of or increase control over certain thresholds over an Authorised Firm must first obtain the consent of the FSA. The Authorised Firm must also inform the FSA of any such proposed acquisition or increase. In considering whether to grant or withhold its approval to the acquisition or increase of control, the FSA must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by this acquisition or increase of control.

Control over a UK Authorised Firm ("A") is acquired if the acquirer holds 10% (or 20% if the Authorised Firm is an insurance intermediary) or more of the shares in A or a parent undertaking of A ("P"); is able to exercise significant influence over the management of A or P by virtue of his shareholding in that company; is entitled to exercise, or control the exercise, of 10% (20% in the case of an insurance intermediary) or more of the voting power of A or P, or is able to exercise significant influence over the management of A or P by virtue of his voting power in that company. Increases in "control", once they reach thresholds of 20%, 33% and 50% of the shares or voting power of an Authorised Firm or one of its parent undertakings, also requires the consent of the FSA.

In order to determine whether a person or a group of persons is a "controller" for the purposes of FSMA, the holdings (shares or voting rights of the person and his 'associate'), if any, are aggregated.

FSA conduct of business rules

The FSA's Conduct of Business (COB) Rules apply to every Authorised Firm carrying on regulated activities and regulate the day-to-day conduct of business standards to be observed by Authorised Persons in carrying on regulated activities.

The COB Rules are principle based and the scope and range of obligations imposed on an Authorised Firm will vary according to the scope of its business and range of the Authorised Firm's clients. Generally speaking, however, the obligations imposed on an Authorised Firm by the COB Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the Authorised Firm, meet certain standards of product disclosures (including fee and remuneration arrangements), ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products, controls on the range and scope of advice given, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets.

Day-to-day supervision

The FSA's day-to-day supervision of Aviva is conducted by a dedicated team within its Major Retail Groups Division. The FSA takes a risk-based approach to its regulatory activity, concentrating its resources on those firms and activities which it assesses pose the greatest potential threats to its four statutory objectives of:

— maintaining confidence in the financial system
— promoting public understanding of the financial system
— securing the appropriate degree of protection for consumers
— reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime

Given our size, and the extent of our share of the UK retail market, a major issue within our business which causes concern for the FSA could have a very significant impact on these objectives. The FSA therefore aspires to have a 'close and continuous' relationship with us. In practice, this means that a wide range of Group, Regional and UK Business Unit senior managers have regular scheduled 'close and continuous' meetings with the FSA, and other meetings and discussions on specific issues take place as the need occurs. This adds up to weekly or even daily FSA interaction at both UK Business Unit and Group level, although contact at a Regional level would be less frequent.

The FSA also periodically conducts a formal ARROW review of Aviva (which stands for Advanced Risk-Responsive Operating framework), to assess the level of risk that the Group poses to each of the FSA objectives. The last full risk assessment was conducted in 2009 and the next full risk assessment is due to start in the first half of 2011. The resulting risk mitigation programme (RMP) itemises those areas of potential risk or weakness where the FSA particularly wishes us to focus attention. The risk assessment and RMP are updated on an on-going basis between each ARROW review.

Along with other firms in the insurance industry, our relationship with the FSA has recently gone through another significant stage in its development with the roll out of the individual capital assessment (ICA) regime. This is shifting emphasis from managing issues after the event to better assessing the adequacy of up-front governance, risk management and prevention. It has also increased focus on risk, controls and governance at individual entity level.

The FSA has highlighted in its 2009 Business Plan that it expects to focus on:

— Ensuring firms are soundly run and in particular that they adjust their business models to ensure they can remain well capitalised and securely funded.
— Maintaining pressure on firms to treat customers fairly.
— Playing a full role in modernising the global regulatory framework.
— Completing the planned programme of improvements to its supervisory processes.

Outside of the UK, each Aviva business is regulated by its own national regulator(s). However, overseas operations are also within the remit of the FSA for two main reasons:

The structure of the Group means that the great majority of the overseas operations are owned, ultimately, by Aviva International Insurance (AII), a UK regulated insurance company. In its regulation of AII, the FSA has a legitimate interest in the systems and controls by which the Group manages its overseas businesses, to ensure that financial shocks do not flow through to the UK.

Our activities within the EU are subject to the Insurance Groups Directive (as discussed in more detail below). This gives the FSA the additional formal responsibility of acting as lead regulator (ie the cross sector supervisory co-ordinator) for the Group within the EU.

The FSA therefore seeks to monitor the strategy and performance of the Group's international businesses through regular 'Close and Continuous' meetings with the CEOs and Finance Directors of the overseas Regions.

The FSA aims to play a leading role in the development of both EU and international regulation. It is, in particular, at the vanguard of the movement towards risk-based insurance regulation. The FSA has increased its desire for a principles based approach to regulation. In line with this FSA continues to place increasing weight on the 'Treating Customers Fairly' principle. More recently FSA has rewritten the conduct of business rules to remove many of the more granular requirements.

Intervention and enforcement

The FSA has extensive powers to investigate and intervene in the affairs of Authorised Firms and is obliged under FSMA to monitor compliance with the requirements imposed by, and to enforce the provisions of, FSMA, related secondary legislation and the rules made thereunder.

The FSA's enforcement powers, which may be exercised against both Authorised Firms and Approved Persons, include public censure, imposition of unlimited fines and, in serious cases, the variation or revocation of permission to carry on regulated activities or of an Approved Person's status. The FSA may also vary or revoke an Authorised Firm's permission to protect the interests of consumers or potential consumers, or if the Authorised Firm has not engaged in regulated activity for 12 months, or if it is failing to meet the threshold conditions for authorisation. The FSA has further powers to obtain injunctions against Authorised Persons and to impose or seek restitution orders where persons have suffered loss.

In addition to its ability to apply sanctions for market abuse, the FSA has the power to prosecute criminal offences arising under FSMA and insider dealing under Part V of the Criminal Justice Act 1993 and breaches of money laundering regulations. The FSA's stated policy is to pursue criminal prosecution in all appropriate cases.

The Financial Services Compensation Scheme (FSCS)

The FSCS is intended to compensate individuals and small businesses for claims against an Authorised Firm where the Authorised Firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business). Under a new funding system that started on 1 April 2008, for the purposes of funding FSCS compensation costs, the FSCS levy is split into five broad classes:

- Deposits
- Long-term insurance and savings
- General insurance
- Investments
- Home finance

With the exception of the deposits class, each broad class is divided into two sub-classes based on provider/intermediation activities. Each of the 'sub-classes' is made up of firms which are providers or intermediaries and engage in similar styles of business with similar types of customer.

The sub-classes are based on the activities a firm undertakes (and are aligned to their FSA permissions). A firm could be allocated to one or more sub-classes according to the activities that it undertakes. In the event of a failure of a market participant, the Authorised Firms in the Group could be required to make contributions to compensate investors.

Restrictions on business

Under the FSA's Handbook, an insurance company is restricted from carrying on any commercial business other than insurance business and activities directly arising from that business. Therefore, the FSA authorised insurance companies in the Group are bound by this restriction.

Capital and solvency rules for insurers

Under the FSA Handbook, a UK insurer (including those within the Group) must hold capital resources equal to at least the Minimum Capital Requirement (the 'MCR'). Insurers with with-profits liabilities of more than £500 million must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (the ECR). The ECR is intended to provide a more risk responsive and "realistic" measure of a with-profits insurer's capital requirements, whereas the MCR is broadly speaking equivalent to the previous required minimum margin and satisfies the minimum EU standards.

Determination of the ECR involves the comparison of two separate measurements of the Authorised Firm's financial resources requirements, which the FSA refers to as the 'twin peaks' approach. The two separate peaks are:

- The requirement comprised by the mathematical reserves plus the 'long-term insurance capital requirement' (the LTICR), together known as the 'regulatory peak'; and
- A calculation of the "realistic" present value of the insurer's expected future contractual liabilities together with projected 'fair' discretionary bonuses to policyholders, plus a risk capital margin, together known as the 'realistic peak'.

The regulatory peak implements the Solvency I Directives, the latter forming part of the European Commission's efforts to achieve a single European market for financial services. The LTICR is made up of several components, but in general is equal to approximately 4% of the mathematical reserves, although the formula varies according to the type of business written.

All insurers must also assess for themselves the amount of capital needed to back their business (Individual Capital Assessments). If the FSA views the result of this assessment as insufficient, the FSA may draw up its own Individual Capital Guidance for the firm, which can be imposed as a requirement on the scope of the Authorised Firm's permission.

Long-term assets and liabilities

Where a UK insurer carries on life insurance business, then long-term business assets and liabilities – namely those assets and liabilities relating to life and health insurance policies – must be segregated from the assets and liabilities attributable to non-life insurance business or to shareholders. Separate accounting and other records must be maintained and a separate fund must be established to hold all receipts of long-term business.

The extent to which long-term fund assets may be used for purposes other than long-term business is restricted by the rules in the FSA Handbook. Only the "established surplus" – the excess of assets over liabilities in the long-term fund, as determined by actuarial investigation – may be transferred so as to be available for other purposes. Restrictions also apply to the payment of dividends by the insurance company, as described below. The rules in the FSA Handbook for insurers require the maintenance of sufficient assets in the separate long-term insurance fund to cover the actuarially determined value of the insurance liabilities.

Distribution of profits and with-profits business
For UK authorised life insurer carrying on with-profits business, the FSA's rules require that once an allocation of surplus in a with-profits fund has been made to policyholders, no transfer of assets representing any part of a subsequent surplus can be made, to shareholders or otherwise, unless either the "relevant minimum" (as defined in the FSA Handbook) of the surplus has been allocated to policyholders or a statutory notification procedure has been followed. Calculation of the relevant minimum is based on the percentage of the relevant surplus previously allocated to eligible policyholders.

Reporting requirements
Under the FSA Handbook, insurance companies must file with the FSA their audited annual accounts and statements of financial position and life insurers' annual reports from the actuary performing the actuarial function. There is also a requirement to report the annual solvency position of the insurance company's ultimate parent.

The FSA uses the annual return to monitor the solvency (ability to meet current and future obligations such as claims payments to policyholders) of an insurance company. For general insurance business, the return is also used to assess retrospectively the adequacy of the company's claims provisions. The directors of an insurance company are required to sign a certificate, which includes a statement as to whether the company has maintained the required minimum margin of solvency throughout the year. The directors must also certify that the company has completed its return to the FSA properly in accordance with the FSA's instructions and that the directors are satisfied that the company has complied in all material respects with the requirements set out in the FSA Handbook.

UK winding up rules
The general insolvency laws and regulations applicable to UK companies are modified in certain respects in relation to UK insurance companies, where direct insurance claims will have priority over the claims of other unsecured creditors (with the exception of preferred creditors), including reinsurance creditors, on a winding-up by the court or a creditors' voluntary winding up of the insurance company. Furthermore, instead of making a winding-up order when an insurance company has been proved unable to pay its debts, a UK court may, under section 311 of FSMA, reduce the amount of one or more of the insurance company's contracts on terms and subject to conditions (if any) which the court considers fit. Where an insurance company is in financial difficulties but not in liquidation, the Financial Services Compensation Scheme may take measures for securing the transfer of all or part of the business to another insurance company.

FSMA provides further protection to policyholders of insurance companies effecting or carrying out contracts of long-term insurance. Unless the court orders otherwise, a liquidator must carry on the insurer's business so far as it consists of carrying out the insurer's contracts of long-term insurance with a view to it being transferred as a going concern to a person who may lawfully carry out those contracts. In carrying on the business, the liquidator may agree to the variation of any contracts of insurance in existence when the winding-up order is made, but must not effect any new contracts of insurance.

The European Union (EU)
In addition to its UK businesses Aviva is also currently active in 14 of the 27 EU member states through wholly owned subsidiary and joint venture companies. These companies are subject to the laws and regulation of the EU member state in which they are based. However, as progress continues towards the creation of a single market in financial services, EU legislation will continue to have a significant influence on the legislative environment both in the UK and other EU markets.

The EU operates by promulgating Directives that must be implemented into local national legislation within each EU member country. Directives set the minimum standards for the appropriate national legislatures to meet, but leave it up to the legislatures to decide just how they should be implemented. National governments are generally free to include restrictions in their laws beyond those required by a directive but may not pass laws that do not meet the minimum standard. Directives are written at a fairly high level of detail and consequently implemented in more detail at national level according to the local legal system. Still higher levels of detail may be imposed through the rules and regulations of national regulators. In the case of financial services businesses these rules can be extensive.

EU financial services regulation is based on the principle of 'home country control' under which the home country regulator is responsible for monitoring compliance with all applicable regulation. For life and non-life insurance business the home country control principle was implemented through the Third Life and Non-Life Directives during the mid 1990's. This regime places the responsibility for such issues as solvency, actuarial reserves and investment of assets as well as certain governance issues on the home country regulator. Consequently most companies that have been licensed to conduct insurance business in one member state may conduct business or apply to 'passport' into all other member states without having to be separately licensed in each. The general exception is selling activity which continues to be regulated by the state in which the sale takes place.

Insurance group directive (IGD)
The EU has promulgated the Insurance Groups Directive ("IGD"), which requires member states to introduce the following measures to strengthen supervision of insurance companies which are part of a group:
- An adjustment to the solo supervision solvency calculation in relation to participating interest in other insurance undertakings in order to eliminate 'double-gearing' (the use of the same regulatory capital in more than one entity of a group).
- An additional parent undertaking solvency margin calculation analogous to the adjusted solo solvency margin test referred to above, to be applied at the level of the parent undertaking.
- The introduction of new solo-supervision requirements, including rules as to internal control within the insurance undertaking regarding the production of information relevant to supplementary supervision, the exchange of information within the group and the supervision of intra-group transactions.
- Further provisions aimed at ensuring co-operation between competent regulatory authorities of member states.

Since 31 December 2006 the group capital resources requirement (the parent undertaking solvency calculation mentioned above) has been a 'hard' test (ie it constitutes a requirement to maintain the group capital resources, rather than simply to make the calculation) under the FSA Handbook.

Reinsurance directive
On 16 November 2005, the Council and the European Parliament adopted Directive 2005/68/EC on reinsurance (the "Reinsurance Directive") which member states were obliged to transpose into national law by 10 December 2007. The Reinsurance Directive requires that all reinsurance undertakings be authorised in their home member state. To obtain that authorisation, they will need to meet strict requirements. Once they have done so, they will be free to carry out their activity anywhere in the EU through the single market passport. The FSA has implemented the requirements of the Directive by changing its Handbook with effect from 31 December 2006.

Distance marketing directive
Under the Distance Marketing Directive, EU member states are required to implement a framework of rules and guidance in order to protect consumers by:
— Setting minimum standards for information that must be provided to consumers before entering into a financial services contract by 'distance means'.
— For certain products and services, giving a cooling-off period, which for general insurance is 14 days, in which a consumer may, without penalty, cancel such a contract.

Insurance mediation directive
Under the Insurance Mediation Directive, EU member states are required to establish a framework to:
— Ensure that insurance and reinsurance intermediaries have been registered on the basis of a minimum set of professional and financial requirements.
— Ensure that registered intermediaries will be able to operate in other member states by availing themselves of the freedom to provide services or by establishing a branch.
— Impose minimum requirements, with certain limitations, as regards the content of the information which the insurance intermediaries must make available to their potential customers, and the arrangements for its provision.

Financial Services Action Plan (FSAP)
Further measures towards the creation of a single market in financial services were incorporated into the Financial Services Action Plan (FSAP) adopted in 2000. The FSAP included specific legislative action aimed at extending (i) the single wholesale market (ii) creating an open and secure retail market and (iii) introducing state of the art prudential rules and supervision.

The FSAP also included measures towards harmonising conduct of business rules, notably The Insurance Mediation Directive and the Distance Marketing Directive described above.

Investment business
With the introduction of the Investment Services Directive (ISD) the same home country control and passporting regime applied to fund management activities. In November 2007 the ISD was superseded by the Markets in Financial Instruments Directive (MiFID). MiFID builds on the home country control principle but extends the range of 'core' investments services and activities that may be passported from one member state to another and increased clarity of responsibilities between home and host country jurisdictions. MiFID also introduces greater harmonisation governing the organisation and conduct of business of investment firms.

The Capital Requirement Directive which came into force on 1 January 2007 sets out for the first time directive-based capital requirements for all investment firms brought into regulation by MiFID.

International Financial Reporting Standards (IFRS)
The standards drafted by the International Accounting Standards Board (IASB) have been mandatory for about 7,000 EU listed companies since 1 January 2005. For standards on insurance contracts a two phased approach has been adopted by the IASB. Under the interim solution adopted as IFRS 4 Insurance Contracts, insurers apply a variety of existing local accounting practices subject to a number of adjustments. Proposals for a final standard for accounting for insurance contracts are currently under review but might not be agreed before 2011 or later.

Solvency II
On 5 May 2009, the European Parliament formally adopted the Solvency II Level 1 Directive. Solvency II represents a fundamental change in European regulation and will result in a more sophisticated risk based capital approach. It establishes a solvency system that is better matched to the true risks of insurers enabling supervisors to protect policyholder interests as effectively as possible in accordance with common principles across the EU.

Since the approval, the focus has been on the development of the Level 2 implementing measures advice published by the CEIOPS which fill in the detail under Level 1 and focused on technical issues. Aviva has been actively participating in the process by providing responses to the CEIOPS as well as participating in the key European industry working groups who provide the voice of industry in on-going negotiation in Brussels.

The formal CEIOPS consultation process has already closed and the European Commission are now considering the wording on the implementing measures that will be finalised by the end of 2010. Full implementation of Solvency II will be required in October 2012.

Future EU developments
The integration of retail financial services and the increased awareness of consumers to financial issues remain high on the EU agenda. This is tending to drive a number of initiatives including the Single Market review which will encompass reviews of the working of the retail financial services markets, adequacy of consumer protection and contractual rights provisions as well as more specific proposals on investment products and mortgages.

In addition to the EU wide initiatives there have also been developments within our major EU markets, including:

In France all applicable EU Directives have now been brought together in a single insurance code supervised by the Authorité de Contrôle des Assurances et des Mutuelles (ACAM). In the Netherlands, where Aviva operates under the Delta Lloyd brand, a new Financial Services Act replacing eight former supervision Acts came into force on 1 January 2007. Under the new Act the role of the two market regulators – The Nederlandische Bank (DNB) for prudential issues and the Authority for Financial Markets (AFM) for conduct of business are clearly defined.

Primary EU insurance regulation in Ireland has been implemented through two Acts and supervised by the Financial Regulator. In July 2007 the Consumer Protection Code was introduced, a major legislative development bringing together comprehensive rules to apply across the financial services sector.

In both Spain and Italy where we operate through joint ventures with local banks and savings institutions there has been significant progress in revising local regulation and strengthening among others governance, mediation and disclosure requirements

On Poland's accession to the EU in 2003 the introduction of a number of Acts continued the liberalisation of insurance law started by the Insurance Act of 1990. The 2003 Acts introduced EU law on insurance activities covering areas including licensing, supervision, reserving and technical provisions, financial reporting, selling activities, pension fund supervision and the role of an insurance ombudsman. The 2006 Act on Financial Market Supervision created a single regulator the Polish Financial Supervision Authority (KNF). The process was completed on 1 January 2008 when the KNF assumed responsibility for bank regulation from the National Bank of Poland.

The European Commission has adopted draft legislation that will create a European Systemic Risk Board (ESRB) and set up a European System of Financial Supervision (ESFS). The ESFS will be composed of national supervisors and three new European Supervisory Authorities (ESAs) for banking, insurance and securities. The ESAs will have powers to develop technical standards and guidelines and direct national supervisors to take action or refrain from action in cases where national supervisors cannot reach agreement between them and where the Commission has decided that an emergency situation exists. The Commission is now looking to the Council and Parliament for rapid adoption so that the new structures can begin functioning in 2010.

United States

We write life and annuity business in the United States through Aviva USA, a wholly owned subsidiary formed by the merger of Aviva Life Insurance Company of America with AmerUS which it acquired in July 2006. Aviva USA is domiciled in Iowa and licensed to conduct business in all 50 states. In New York it operates a wholly owned subsidiary Aviva Life Insurance Company of New York.

There is no federal system of regulation for the insurance businesses. Rather, individual states have authority to pass statutes, adopt regulation or issue directives to regulate insurance activities within their jurisdiction.

Consequently, life insurance companies are subject to regulation both in the state in which they are domiciled as well as in each of the individual states in which they operate. State regulation can vary in detail from state to state. All have laws and regulations covering the financial aspects of the insurance business including standards of solvency, reserves reinsurance and capital adequacy. In addition, most states have specific regulation governing licensing and conduct of selling agents as well as the approval of products and associated product forms and literature.

Federal initiatives

While the National Association of Insurance Commissioners (NAIC) has no statutory powers, its members are the insurance commissioners in each state and it acts as a forum to develop and propose model laws and regulations. Each state then decides whether to adopt the NAIC model laws or regulations and each state may make changes to the adoption process. However, the models are generally widely adopted. An example is the 'Suitability in Annuity Transactions Model Act' which has been widely adopted by states for a broad range of transactions.

NAIC has a commitment to modernising the state based system of insurance regulation and is pushing forward an action plan aimed at achieving consistency of approach between states on a number of issues including consumer protection, licensing, solvency and changes in insurance company control. The American Council of Life Insurers (ACLI) is proposing an optional federal charter (OFC) under which life insurers could choose to be federally regulated instead of state regulated. It is envisaged that the OFC would operate within the NAIC modernisation plan.

In addition to the OFC there have been legislative proposals for federal reform in the US. The legislation that is currently pending would impose stricter prudential standards on systemically significant financial companies, higher risk financial activities and introduce new mechanisms for resolving failures of significant financial companies. The legislative proposals require additional stress testing and reporting on a regular basis. In addition, a federal insurance office (FIO) will be established with a remit to monitor the insurance industry, co-ordinate federal efforts and develop federal policy on international insurance matters. While the FIO will have no regulatory authority over the business of insurance it will be required to conduct a study of how to improve and modernise insurance regulation and report to Congress no later than one year after the proposed legislations comes into force.

Additionally, there is active discussion within the NAIC of moving to a principles-based valuation system for the setting of reserves and capital for life insurance companies. This could change our statutory reserve and capital requirements significantly and it is not possible to estimate the impact on our financial condition and results of operation at this time.

On 17 December 2008 the SEC voted in favour of adopting a new rule 151A under the Securities Act of 1933, as amended. The effect of the rule change is to bring indexed annuity products within SEC regulation on a similar basis as the so called 'variable' products which are regulated as securities. The rule was set to become effective on 12 January 2011 and apply to equity indexed annuities issued on or after that date. However, after a legal challenge by several life insurers in the US Court of Appeals for the D.C. Circuit, the court remanded rule 151A back to the SEC on 21 July 2009, requesting further technical analysis. One of the life insurers involved requested the Court to delay the effective date of the rule change to two years after SEC completes their analysis. The SEC has now consented to the delay but the court is now considering whether it should set aside the rule entirely. Aviva believes indexed annuities represent an important product within the US savings and retirement market and that we will be able to meet the requirements of the new rule 151A under the Securities Act of 1933.

Risk-based capital

The NAIC has developed risk-based capital standards for life insurance companies as well as a model act for state legislatures to enact. The model act requires that life insurance companies report on a formula-based, risk-based capital standard that they calculate by applying factors to various asset, premium and reserve items. The formula takes into account the risk characteristics of a company, including asset risk, insurance risk, interest rate risk and business risk. The NAIC designed the formula as an early warning tool to identify potentially inadequately capitalised companies for purposes of initiating regulatory action. The model act imposes broad confidentiality requirements on those engaged in the insurance business (including insurers, agents, brokers and others) and on state insurance departments as to the use and publication of risk-based capital data.

Any state adopting the model act gives the state insurance commissioner explicit regulatory authority to require various actions by, or take various actions against, insurance companies whose adjusted capital does not meet minimum risk-based capital standards. The Iowa Insurance Commissioner takes into account the NAIC's risk-based capital standards to determine adequate compliance with Iowa insurance law.

Effective 31 December 2005, the NAIC implemented new requirements, referred to as C-3 Phase II, for calculating risk based capital in connection with variable annuity products with death and living benefit guarantees. These changes did not have a material effect on our US operations, and at 31 December 2008, the Company's total adjusted capital under the NAIC's definition substantially exceeded Iowa standards.

Canada

We write property and casualty business in Canada via a number of wholly owned companies.

Insurance business in Canada is regulated federally by the Office of the Superintendent of Financial Institutions (OSFI) with the focus very much on prudential supervision, ie capital adequacy, solvency etc. OSFI derives its powers from the federal Insurance Companies Act (Canada) which governs the structure and operation of federally incorporated insurance companies.

The capital adequacy of insurance companies is monitored under the Minimum Capital Test (MCT) – a risk based framework allowing for capital to be assessed on the basis of an individual company's risk profile taking account of the investments held and insurance business being written. Companies have their own internal MCT target as well as being expected to maintain capital in excess of 150% of the OSFI minimum requirement.

There are also 10 individual provincial regulators each regulating predominantly conduct of business issues such as policy terms and conditions, pricing and underwriting of companies they have licensed to write business in the province.

Asia Pacific

We operate within the Asia Pacific region through a network of subsidiary companies either wholly owned or established as a joint venture with a local partner. Our business in the region is predominately long-term and savings business, with small general insurance and health operations.

There are wholly owned businesses in Singapore and Hong Kong. Aviva operates in China, India, Malaysia, Sri Lanka, Taiwan and Korea which, depending on the nature and extent of the control we are able to exert, are either accounted for as subsidiaries, joint ventures or associates.

The Asia Pacific region is made up of a number of widely differing and independent markets. The markets tend to be at different stages in their development but each has its own regulatory structures and Aviva fully complies with the local regulation in each of the countries in which it operates.

Industry regulation across the region typically focuses on financial stability, ie minimum capital and the basis for calculating solvency, reserves and policyholder liability. In many of the markets across the region Regulators have the power to revoke operating licences, regulate shareholder structures and the participation in and the payment of dividends. Markets within the region are moving quickly to modernise insurance regulation with an increasing focus on governance and conduct of business.

Intellectual property

Our primary brands in the UK (Aviva, Norwich Union, RAC) are registered trade marks in the UK and elsewhere.

We own approximately 300 registered or pending marks in the UK, including Community trade marks having effect in the entire EU.

We have an active programme of review of marks and watching for infringements. There are no material infringements in the UK known to us as at the date of this report, either by the Group or third parties.

Financial statements IFRS

In this section

Independent auditor's report to the shareholders of Aviva plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Aviva plc for the year ended 31 December 2009 which comprise the Accounting Policies, the Consolidated and Parent Company Income Statements, the Pro Forma Reconciliation of Group Operating Profit to Profit before Tax, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, and the related notes 1 to 59 and A to I. 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 to 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 92, 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 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 (APB'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 Group's and the Parent 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.

Opinion on financial statements

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2009 and of the Group's and the Parent company's profit for the year then ended
— the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Separate Opinion in relation to IFRSs

As explained in the Accounting Policies to the Group financial statements, the Group, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion, the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

— the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
— the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
— the information given in the Corporate Governance Statement, set out on page 90 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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:

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

— adequate accounting records have not been kept by the Parent company, or returns adequate for our audit have not been received from branches not visited by us; or
— the Parent company financial statements and the part of the Directors' Remuneration Report to be audited 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; or
— a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

— the directors' statement, set out on page 92, in relation to going concern; and
— the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

James W Dean (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

3 March 2010

Accounting policies

Aviva plc (the "Company"), a public limited company incorporated and domiciled in the United Kingdom (UK), together with its subsidiaries (collectively, the "Group" or "Aviva") transacts life assurance and long-term savings business, fund management, and most classes of general insurance and health business through its subsidiaries, associates and branches in the UK, Ireland, continental Europe, United States (US), Canada, Asia, Australia and other countries throughout the world.

The Group is managed on a regional basis, reflecting the management structure whereby a member of the Executive Management team is accountable to the Group Chief Executive for the operating segment for which he is responsible. Further details of the reportable segments are given in note 4.

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

(A) Basis of presentation

Since 2005, all European Union listed companies have been required to prepare consolidated financial statements using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The date of transition to IFRS was 1 January 2004. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the European Union, the Group and Company have also complied with IFRS as issued by the International Accounting Standards Board and applicable at 31 December 2009.

In 2008, the IASB issued a revised version of IFRS 3, *Business Combinations*, which introduces a number of changes in accounting for such transactions that will impact the amount of goodwill recognised, the reported results in the period an acquisition occurs, and future reported results. A consequential amendment to IAS 27, *Consolidated and Separate Financial Statements*, requires a change in the ownership interest of a subsidiary (without loss of control) to be accounted for as an equity transaction, rather than giving rise to goodwill or a gain or loss. Other consequential amendments were made to IAS 7, *Statement of Cash Flows*, IAS 12, *Income Taxes*, IAS 21, *The Effects of Changes in Foreign Exchange Rates*, IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures*. These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period. On adoption, they will impact the areas noted above in the Group's financial reporting.

In 2009, the IASB issued IFRS 9, *Financial Instruments – Classification and Measurement*, the first part of a replacement standard for IAS 39, *Financial Instruments: Recognition and Measurement*. This is applicable prospectively for accounting periods commencing 1 January 2013 or later, and is therefore not applicable for the current accounting period. It has not yet been endorsed by the EU but, on adoption, will require us to review the classification of certain investments while allowing us to retain the fair value measurement option as we deem necessary.

During 2008 and 2009, the IASB also issued amendments to IFRS 1, *First Time Adoption of IFRS,* IAS 32, *Financial Instruments: Presentation*, IAS 39 and the results of its annual improvements project. Further amendments to IFRS 1, IFRS 2, *Share-Based Payment*, IAS 24, *Related Party Disclosures*, and the results of its second annual improvements project have been issued but have not yet been endorsed by the EU. These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period. On adoption, they will not have any material impact on the Group's financial reporting.

IFRIC interpretation 17, *Distributions of Non-cash Assets to Owners*, and interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*, as well as an amendment to interpretation 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, were issued during 2008 and 2009 but the latter two have not yet been endorsed by the EU. These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period. On adoption, they will not have any impact on our financial reporting.

In accordance with IFRS 4, *Insurance Contracts*, the Group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in policy F below.

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are stated in sterling, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m). As supplementary information, consolidated financial information is also presented in euros.

The separate financial statements of the Company are on pages 275 to 282.

(B) Operating profit

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, short-term realised and unrealised investment gains and losses are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term and non long-term businesses. Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. For non-long-term business, the total investment income, including realised and unrealised gains, is analysed between that calculated using a longer term return and short-term fluctuations from that level. Further details of this analysis and the assumptions used are given in notes 8 and 9.

(C) Critical accounting policies and the use of estimates

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

Critical accounting policies

The major areas of judgement on policy application are considered to be over whether Group entities should be consolidated (set out in policy D), on product classification (set out in policy F) and in the classification of financial investments (set out in policy S).

Use of estimates

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

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

Item	Accounting policy
Insurance and participating investment contract liabilities	F & K
Goodwill, AVIF and other intangible assets	N
Fair values of financial investments	S
Impairment of financial investments	S
Fair value of derivative financial instruments	T
Deferred acquisition costs and other assets	W
Provisions and contingent liabilities	Z
Pension obligations	AA
Deferred income taxes	AB

(D) Consolidation principles

Subsidiaries

Subsidiaries are those entities (including special purpose entities) in which the Group, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are excluded from consolidation from the date the Group no longer has effective control. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

From 1 January 2004, the date of first time adoption of IFRS, the Group is required to use the purchase method of accounting to account for the acquisition of subsidiaries. Under this method, the cost of an acquisition is measured as the fair value of assets given up, shares issued or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see policy N below). Any surplus of the acquirer's interest in the subsidiary's net assets over the cost of acquisition is credited to the income statement.

Merger accounting and the merger reserve

Prior to 1 January 2004, certain significant business combinations were accounted for using the "pooling of interests method" (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account. These transactions have not been restated, as permitted by the IFRS 1 transitional arrangements.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

Investment vehicles

In several countries, the Group has invested in a number of specialised investment vehicles such as Open-ended Investment Companies (OEICs) and unit trusts. These invest mainly in equities, bonds, cash and cash equivalents, and properties, and distribute most of their income. The Group's percentage ownership in these vehicles can fluctuate from day-to-day according to the Group's and third-party participation in them. Where Group companies are deemed to control such vehicles, with control determined based on an analysis of the guidance in IAS 27 and SIC 12, they are consolidated, with the interests of parties other than Aviva being classified as liabilities. These appear as "Net asset value attributable to unitholders" in the consolidated statement of financial position. Where the Group does not control such vehicles, and these investments are held by its insurance or investment funds, they do not meet the definition of associates (see below) and are, instead, carried at fair value through profit and loss within financial investments in the consolidated statement of financial position, in accordance with IAS 39, *Financial Instruments: Recognition and Measurement.*

As part of their investment strategy, the UK and certain European long-term business policyholder funds have invested in a number of property limited partnerships (PLPs), either directly or via property unit trusts (PUTs), through a mix of capital and loans. The PLPs are managed by general partners (GPs), in which the long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary.

Accounting for the PUTs and PLPs as subsidiaries, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms of each partnership agreement. Where the Group exerts control over a PLP, it has been treated as a subsidiary and its results, assets and liabilities have been consolidated. Where the partnership is managed by a contractual agreement such that no party exerts control, notwithstanding that the Group's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be greater than 50%, such PUTs and PLPs have been classified as joint ventures. Where the

Group holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are carried at fair value through profit and loss within financial investments.

Associates and joint ventures

Associates are entities over which the Group has significant influence, but which it does not control. Generally, it is presumed that the Group has significant influence if it has between 20% and 50% of voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement. In a number of these, the Group's share of the underlying assets and liabilities may be greater than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly-controlled entities are referred to as joint ventures in these financial statements.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred between entities.

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in a given associate or joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated statement of financial position. As explained in policy N, the cost includes goodwill identified on acquisition. The Group's share of their post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Equity accounting is discontinued when the Group no longer has significant influence over the investment.

If the Group's share of losses in an associate or joint venture equals or exceeds its interest in the undertaking, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the entity.

The Company's investments

In the Company statement of financial position, subsidiaries and joint ventures are stated at their fair values, estimated using applicable valuation models underpinned by the Company's market capitalisation. These investments are classified as available for sale (AFS) financial assets, with changes in their fair value being recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity.

(E) Foreign currency translation

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year end exchange rates. Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates and joint ventures, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and taken to the currency translation reserve within equity. On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on sale. The cumulative translation differences were deemed to be zero at the transition date to IFRS.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit or loss (FV) (see policy S) are included in foreign exchange gains and losses in the income statement. For monetary financial assets designated as AFS, translation differences are calculated as if they were carried at amortised cost and so are recognised in the income statement, whilst foreign exchange differences arising from fair value gains and losses are recognised in other comprehensive income and included in the investment valuation reserve within equity. Translation differences on non-monetary items, such as equities which are designated as FV, are reported as part of the fair value gain or loss, whereas such differences on AFS equities are included in the investment valuation reserve.

(F) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

Some insurance and investment contracts contain a discretionary participating feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts.

As noted in policy A above, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the later of the date of transition to IFRS or the date of the acquisition of the entity, in accordance with IFRS 4. Accounting for insurance contracts in UK companies is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers, the most recent version of which was issued in December 2005 and amended in December 2006. In certain businesses, the accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed, and adjustments to the measurement basis have occurred, the financial statements of that year will have disclosed the impacts accordingly.

One such example is our adoption of Financial Reporting Standard 27, *Life Assurance*, (FRS 27) which was issued by the UK's Accounting Standards Board (ASB) in December 2004. Aviva, along with other major insurance companies and the ABI, signed a

Memorandum of Understanding with the ASB, under which we voluntarily agreed to adopt in full the standard from 2005 in the Group's IFRS financial statements. FRS 27 adds to the requirements of IFRS but does not vary them in any way. The additional requirements of FRS 27 are detailed in policy K below and in note 55.

(G) Premiums earned

Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are taken at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

Deposits collected under investment contracts without a discretionary participating feature (non-participating contracts) are not accounted for through the income statement, except for the fee income (covered in policy H) and the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

(H) Other investment contract fee revenue

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance. The fees are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided.

Initiation and other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment and investment fund management contracts. Where the investment contract is recorded at amortised cost, these fees are deferred and recognised over the expected term of the policy by an adjustment to the effective yield. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided.

(I) Other fee and commission income

Other fee and commission income consists primarily of fund management fees, income from the RAC's non-insurance activities, distribution fees from mutual funds, commissions on reinsurance ceded, commission revenue from the sale of mutual fund shares, and transfer agent fees for shareholder record keeping. Reinsurance commissions receivable are deferred in the same way as acquisition costs, as described in policy W. All other fee and commission income is recognised as the services are provided.

(J) Net investment income

Investment income consists of dividends, interest and rents receivable for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on FV investments (as defined in policy S). Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year. Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property.

(K) Insurance and participating investment contract liabilities

Claims

Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of bonus declarations.

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Long-term business provisions

Under current IFRS requirements, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices, with the exception of liabilities remeasured to reflect current market interest rates and those relating to UK with-profit and non-profit contracts, to be consistent with the value of the backing assets. For liabilities relating to UK with-profit contracts, the Group has adopted FRS 27, *Life Assurance*, as described in policy F above, in addition to the requirements of IFRS.

In the United States, shadow adjustments are made to the liabilities or related deferred acquisition costs and are recognised directly in other comprehensive income. This means that the measurement of these items is adjusted for unrealised gains or losses on the backing assets such as AFS financial investments (see policy S), that are recognised directly in other comprehensive income, in the same way as if those gains or losses had been realised.

The long-term business provisions are calculated separately for each life operation, based either on local regulatory requirements or existing local GAAP at the later of the date of transition to IFRS or the date of the acquisition of the entity, and actuarial principles consistent with those applied in the UK. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the circumstances prevailing in each life operation. The principal assumptions are disclosed in note 38(b). For liabilities of the UK with-profit funds, FRS 27 requires liabilities to be calculated as the realistic basis liabilities as set out by the UK's Financial Services Authority, adjusted to remove the shareholders' share of future bonuses. For UK non-profit insurance contracts, the Group applies the realistic regulatory basis as set out in the FSA Policy Statement 06/14, *Prudential Changes for Insurers*, where applicable.

Present value of future profits (PVFP) on non-participating business written in a with-profit fund

For UK with-profit life funds falling within the scope of the FSA realistic capital regime, and hence FRS 27, an amount may be recognised for the present value of future profits on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value. This amount is recognised as a reduction in the liability rather than as an asset in the statement of financial position, and is then apportioned between the amounts that have been taken into account in the measurement of liabilities and other amounts which are shown as an adjustment to the unallocated divisible surplus.

Unallocated divisible surplus

In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation to either policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus.

If the aggregate carrying value of liabilities for a particular participating business fund is in excess of the aggregate carrying value of its assets, then the difference is held as a negative unallocated divisible surplus balance, subject to recoverability from margins in that fund's participating business. Any excess of this difference over the recoverable amount is charged to net income in the reporting period.

Embedded derivatives

Embedded derivatives that meet the definition of an insurance contract or correspond to options to surrender insurance contracts for a set amount (or based on a fixed amount and an interest rate) are not separately measured. All other embedded derivatives are separated and measured at fair value, if they are not considered as closely related to the host insurance contract or do not meet the definition of an insurance contract. Fair value reflects own credit risk to the extent the embedded derivative is not fully collateralised.

Liability adequacy

At each reporting date, an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up an additional provision in the statement of financial position.

General insurance and health provisions

(i) Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 38(c).

Provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected below operating profit as an economic assumption change. The range of discount rates used is described in note 38(c). Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

(ii) Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement as recognition of revenue over the period of risk.

(iii) Liability adequacy
At each reporting date, the Group reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up a provision in the statement of financial position.

Other assessments and levies
The Group is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance liabilities but are included under "Provisions" in the statement of financial position.

(L) Non-participating investment contract liabilities

Claims
For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released.

Contract liabilities
Deposits collected under non-participating investment contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

The majority of the Group's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value. Certain liabilities for non-linked non-participating contracts are measured at amortised cost.

The fair value liability is determined in accordance with IAS 39, using a valuation technique to provide a reliable estimate of the amount for which the liability could be settled between knowledgeable willing parties in an arm's length transaction. For unit-linked contracts, the fair value liability is equal to the current unit fund value, plus additional non-unit reserves if required based on a discounted cash flow analysis. For non-linked contracts, the fair value liability is based on a discounted cash flow analysis, with allowance for risk calibrated to match the market price for risk.

Amortised cost is calculated as the fair value of consideration received at the date of initial recognition, less the net effect of payments such as transaction costs and front-end fees, plus or minus the cumulative amortisation (using the effective interest rate method) of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate is the one that equates the discounted cash payments to the initial amount. At each reporting date, the amortised cost liability is determined as the value of future best estimate cash flows discounted at the effective interest rate.

(M) Reinsurance
The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

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

(N) Goodwill, AVIF and intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at its book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated. Goodwill arising on the Group's investments in subsidiaries since that date is shown as a separate asset, whilst that on associates and joint ventures is included within the carrying value of those investments.

Acquired value of in-force business (AVIF)

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset. If the AVIF results from the acquisition of an investment in a joint venture or an associate, it is held within the carrying amount of that investment. In all cases, the AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. The value of the acquired in-force long-term business is reviewed annually for any impairment in value and any reductions are charged as expenses in the income statement.

Intangible assets

Intangibles consist primarily of brands, certain of which have been assessed as having indefinite useful lives, and contractual relationships such as access to distribution networks and customer lists. The economic lives of the latter are determined by considering relevant factors such as usage of the asset, typical product life cycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position, and the period of control over the assets. These intangibles are amortised over their useful lives, which range from five to 30 years, using the straight-line method.

The amortisation charge for the year is included in the income statement under "Other operating expenses". For intangibles with finite lives, a provision for impairment will be charged where evidence of such impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

Impairment testing

For impairment testing, goodwill and intangibles with indefinite useful lives have been allocated to cash-generating units. The carrying amount of goodwill and intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on goodwill allocation and impairment testing are given in note 16(b).

(O) Property and equipment

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are recognised in other comprehensive income and taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives. All other items classed as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Investment properties under construction are included within property and equipment until completion, and are stated at cost less any provision for impairment in their values.

Depreciation is calculated on the straight-line method to write-down the cost of other assets to their residual values over their estimated useful lives as follows:

— Land	No depreciation
— Properties under construction	No depreciation
— Owner-occupied properties, and related mechanical and electrical equipment	25 years
— Motor vehicles	Three-years, or lease term if longer
— Computer equipment	Three to five years
— Other assets	Three to five years

The assets' residual values, useful lives and method of depreciation are reviewed regularly, and at least at each financial year end, and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

Until 1 January 2009, borrowing costs directly attributable to the acquisition and construction of property and equipment were expensed as incurred. With effect from 1 January 2009, such costs are capitalised. All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(P) Investment property

Investment property is held for long-term rental yields and is not occupied by the Group. Completed investment property is stated at its fair value, which is supported by market evidence, as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations. Changes in fair values are recorded in the income statement in net investment income.

(Q) Impairment of non-financial assets

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

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

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:
— The rights to receive cash flows from the asset have expired.
— The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement;.
— The Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

(S) Financial investments

The Group classifies its investments as either financial assets at fair value through profit or loss (FV) or financial assets available for sale (AFS). The classification depends on the purpose for which the investments were acquired, and is determined by local management at initial recognition. The FV category has two subcategories – those that meet the definition as being held for trading and those the Group chooses to designate as FV (referred to in this accounting policy as "other than trading").

In general, the FV category is used as, in most cases, the Group's investment or risk management strategy is to manage its financial investments on a fair value basis. Debt securities and equity securities, which the Group buys with the intention to resell in the short term, are classified as trading, as are non-hedge derivatives (see policy T below). All other securities in the FV category are classified as other than trading. The AFS category is used where the relevant long-term business liability (including shareholders' funds) is passively managed, as well as in certain fund management and non-insurance operations.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading, other than trading and AFS are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise. Changes in the fair value of securities classified as AFS are recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity.

Investments carried at fair value are measured using a fair value hierarchy, described in note 24(b), with values based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

When securities classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve to the income statement with a corresponding movement through other comprehensive income.

Financial guarantees are recognised initially at their fair value and are subsequently amortised over the duration of the contract. A liability is recognised for amounts payable under the guarantee if it is more likely than not that the guarantee will be called upon.

Impairment

The Group reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policies are used to determine the level of any impairment, some of which involve considerable judgement:

AFS debt securities: An AFS debt security is impaired if there is objective evidence that a loss event has occurred which has impaired the expected cash flows, ie where all amounts due according to the contractual terms of the security are not considered collectible. An impairment charge, measured as the difference between the security's fair value and amortised cost, is recognised when the issuer is known to be either in default or in financial difficulty. Determining when an issuer is in financial difficulty requires the use of judgement, and we consider a number of factors including industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, credit rating declines and a breach of contract. A decline in fair value below amortised cost due to changes in risk-free interest rates does not necessarily represent objective evidence of a loss event.

AFS equity securities: An AFS equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, such evidence includes a significant or prolonged decline in fair value below cost. Unless there is evidence to the contrary, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 20% for a continuous six month period or more than 40% at the end of the reporting period. Evidence to the contrary may include a significant rise in value of the equity security, for example as a result of a merger announced after the period end. We also review our largest equity holdings for evidence of impairment, as well as individual equity holdings in industry sectors known to be in difficulty. Where there is objective evidence that impairment exists, the security is written down regardless of the size of the unrealised loss.

For both debt and equity AFS securities identified as being impaired, the cumulative unrealised net loss previously recognised within the investment valuation reserve is transferred to realised losses for the year with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve, unless this increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement. In such an event, the reversal of the impairment loss is recognised as a gain in the income statement.

Mortgages and securitised loans: Impairment is measured based on the present value of expected future cash flows discounted at the effective rate of interest of the loan, subject to the fair value of the underlying collateral. When a loan is considered to be impaired, the income statement is charged with the difference between the carrying value and the estimated recoverable amount. Interest income on impaired loans is recognised based on the estimated recoverable amount.

Reversals of impairments are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

(T) Derivative financial instruments and hedging

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 57.

Interest rate and currency swaps

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Both types of swap contracts may include the net exchange of principal. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Interest rate futures, forwards and options contracts

Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC contracts in which two parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending what rate in fact prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the potential obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to gain or loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate.

Foreign exchange contracts

Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates.

Exposure to gain or loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

Derivative instruments for hedging

On the date a derivative contract is entered into, the Group designates certain derivatives as either:
(i) a hedge of the fair value of a recognised asset or liability (fair value hedge)
(ii) a hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction or a firm commitment (cash flow hedge); or
(iii)a hedge of a net investment in a foreign operation (net investment hedge)

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

Changes in the fair value of derivatives that are designated and qualify as net investment or cash flow hedges, and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income and a separate reserve within equity. Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant investment or occurrence of the cash flow as appropriate.

The Group discontinues hedge accounting if the hedging instrument expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

For a variety of reasons, certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in other trading income.

(U) Loans

Loans with fixed maturities, including policyholder loans, mortgage loans on investment property, securitised mortgages and collateral loans, are recognised when cash is advanced to borrowers. The majority of these loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances or cost.

For certain mortgage loans, the Group has taken advantage of the revised fair value option under IAS 39 to present the mortgages, associated borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these three items. The fair values of mortgages classified as FV are estimated using discounted cash flow forecasts, based on a risk-adjusted discount rate which reflects the risks associated with these products, calibrated using the margins available on new lending or with reference to the rates offered by competitors. They are revalued at each period end, with movements in their fair values being taken to the income statement.

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

(V) Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, as well as certain derivative contracts and loans, in order to reduce the credit risk of these transactions. Collateral is also pledged as security for bank letters of credit. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities (note 49). Non-cash collateral received is not recognised in the statement of financial position unless the Group either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability.

Collateral pledged in the form of cash, which is legally segregated from the Group, is derecognised from the statement of financial position with a corresponding receivable for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Group defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

(W) Deferred acquisition costs and other assets

The costs directly attributable to the acquisition of new business for insurance and participating investment contracts (excluding those written in the UK) are deferred to the extent that they are expected to be recoverable out of future margins in revenues on these contracts. For participating contracts written in the UK, acquisition costs are generally not deferred as the liability for these contracts is calculated in accordance with the FSA's realistic capital regime and FRS 27. For non-participating investment and investment fund management contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are also deferred.

Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these future margins. Deferrable acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided. General insurance and health deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written-off where they are no longer considered to be recoverable.

Other assets include vehicles which are subject to repurchase agreements and inventories of vehicle parts. The former are carried at the lower of their agreed repurchase price or net realisable value, whilst the latter are carried at the lower of cost and net realisable value, where cost is arrived at on the weighted average cost formula or "first in first out" (FIFO) basis. Provision is made against inventories which are obsolete or surplus to requirements.

(X) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

Operating cash flows

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

(Y) Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Assets held for use in such leases are included in property and equipment, and are depreciated to their residual values over their estimated useful lives. Rentals from such leases are credited to the income statement on a straight-line basis over the period of the relevant leases. Payments made as lessee under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the relevant leases.

(Z) Provisions and contingent liabilities

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

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(AA) Employee benefits

Annual leave and long service leave

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the statement of financial position date.

Pension obligations

The Group operates a large number of pension schemes around the world, whose members receive benefits on either a defined benefit basis (generally related to a member's final salary and length of service) or a defined contribution basis (generally related to the amount invested, investment return and annuity rates), the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant Group companies.

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees. The pension obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The resulting pension scheme surplus or deficit appears as an asset or liability in the consolidated statement of financial position.

Costs charged to the income statement comprise the current service cost (the increase in pension obligation resulting from employees' service in the current period, together with the schemes' administration expenses), past service cost (resulting from changes to benefits with respect to previous years' service), and gains or losses on curtailment (when the employer materially reduces the number of employees covered by the scheme) or on settlements (when a scheme's obligations are transferred outside the Group). In addition, the difference between the expected return on scheme assets, less investment expenses, and the interest cost of unwinding the discount on the scheme liabilities (to reflect the benefits being one period closer to being paid out) is credited to investment income. All actuarial gains and losses, being the difference between the actual and expected returns on scheme assets, changes in assumptions underlying the liability calculations and experience gains or losses on the assumptions made at the beginning of the period, are recognised immediately in other comprehensive income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the income statement in the year to which they relate and are included in staff costs.

Other post-employment obligations

Some Group companies provide post-employment healthcare or other benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. Unlike the pension schemes, no assets are set aside in separate funds to provide for the future liability but none of these schemes is material to the Group. The costs of the Canadian scheme are included within those for the defined benefit pension schemes in that country. For such schemes in other countries, provisions are calculated in line with local regulations, with movements being charged to the income statement within staff costs.

Equity compensation plans

The Group offers share award and option plans over the Company's ordinary shares for certain employees, including a Save As You Earn plan (SAYE plan), details of which are given in the Directors' remuneration report and in note 29.

The Group accounts for options and awards under equity compensation plans, which were granted after 7 November 2002, until such time as they are fully vested, using the fair value based method of accounting (the 'fair value method'). Under this method, the cost of providing equity compensation plans is based on the fair value of the share awards or option plans at date of grant, which is recognised in the income statement over the expected vesting period of the related employees and credited to the equity compensation reserve, part of shareholders' funds.

Shares purchased by employee share trusts to fund these awards are shown as a deduction from shareholders' funds at their original cost.

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (par value) and the balance to share premium. Where the shares are already held by employee trusts, the net proceeds are credited against the cost of these shares, with the difference between cost and proceeds being taken to retained earnings. In both cases, the relevant amount in the equity compensation reserve is then credited to retained earnings.

(AB) Income taxes

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

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 consolidated financial statements.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively 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. In countries 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.

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

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill, or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments, owner-occupied properties and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability. Current tax on interest paid on Direct Capital instruments is credited directly in equity.

In addition to paying tax on shareholders' profits, the Group's life businesses in the UK, Ireland, Singapore and Australia (prior to its disposal) pay tax on policyholders' investment returns ('policyholder tax') on certain products at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total tax expense. The Group has decided to show separately the amounts of policyholder tax to provide a more meaningful measure of the tax the Group pays on its profits. In the pro forma reconciliations, operating profit has been calculated after charging policyholder tax.

(AC) Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, most borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred except where they are directly attributable to the acquisition or construction of property and equipment as described in policy O above.

Where loan notes have been issued in connection with certain securitised mortgage loans, the Group has taken advantage of the revised fair value option under IAS 39 to present the mortgages, associated liabilities and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch which would otherwise arise from using different measurement bases for these three items.

(AD) Share capital and treasury shares

Equity instruments

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

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

(ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Group exchanging a fixed amount of cash or other assets for a fixed number of the Group's own equity instruments.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

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. Dividends on preference shares are recognised in the period in which they are declared and appropriately approved.

Treasury shares

Where the Company or its subsidiaries purchase the Company's share capital or obtain rights to purchase its share capital, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity. Gains and losses on sales of own shares are charged or credited to the treasury share account in equity.

(AE) Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these financial statements where the Group has no contractual rights in the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

(AF) Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as Treasury shares.

Earnings per share has also been calculated on the operating profit before impairment of goodwill and other adjusting items, after tax, attributable to ordinary shareholders, as the directors believe this figure provides a better indication of operating performance. Details are given in note 14.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

(AG) Operations held for sale

Assets and liabilities held for disposal as part of operations which are held for sale are shown separately in the consolidated statement of financial position. The relevant assets are recorded at the lower of their carrying amount and their fair value, less the estimated selling costs.

Consolidated income statement

For the year ended 31 December 2009

2009 €m		Note	2009 £m	2008 £m
	Income	5		
39,420	Gross written premiums		**34,690**	36,206
(2,927)	Premiums ceded to reinsurers		**(2,576)**	(1,841)
36,493	Premiums written net of reinsurance		**32,114**	34,365
635	Net change in provision for unearned premiums		**559**	277
37,128	Net earned premiums	G	**32,673**	34,642
2,033	Fee and commission income	H & I	**1,789**	1,885
28,377	Net investment income/(expense)	J	**24,972**	(16,043)
(572)	Share of loss after tax of joint ventures and associates		**(504)**	(1,128)
174	Profit on the disposal of subsidiaries and associates		**153**	7
67,140			**59,083**	19,363
	Expenses	6		
(31,306)	Claims and benefits paid, net of recoveries from reinsurers		**(27,549)**	(29,353)
(6,457)	Change in insurance liabilities, net of reinsurance		**(5,682)**	3,885
(12,710)	Change in investment contract provisions		**(11,185)**	10,629
(1,758)	Change in unallocated divisible surplus		**(1,547)**	4,482
(4,995)	Fee and commission expense		**(4,396)**	(4,411)
(6,098)	Other expenses		**(5,366)**	(5,416)
(1,518)	Finance costs	7	**(1,336)**	(1,547)
(64,842)			**(57,061)**	(21,731)
2,298	**Profit/(loss) before tax**		**2,022**	(2,368)
(247)	Tax attributable to policyholders' returns	13	**(217)**	1,068
2,051	**Profit/(loss) before tax attributable to shareholders' profits**		**1,805**	(1,300)
(804)	Tax (expense)/credit	AB & 13	**(707)**	1,483
247	Less: tax attributable to policyholders' returns	13	**217**	(1,068)
(557)	Tax attributable to shareholders' profits		**(490)**	415
1,494	**Profit/(loss) for the year**		**1,315**	(885)
	Attributable to:			
1,233	Equity shareholders of Aviva plc		**1,085**	(915)
261	Minority interests	36b	**230**	30
1,494			**1,315**	(885)
	Earnings per share	AF & 14		
43.0c	Basic (pence per share)		**37.8p**	(36.8)p
42.6c	Diluted (pence per share)		**37.5p**	(36.8)p

The accounting policies (identified alphabetically) on pages 130 to 142 and notes (identified numerically) on pages 151 to 274 are an integral part of these financial statements.

Pro forma reconciliation of Group operating profit to profit before tax

For the year ended 31 December 2009

2009 €m		Note	2009 £m	2008 £m
	Operating profit before tax attributable to shareholders' profits			
2,144	Long-term business		**1,887**	1,694
1,091	General insurance and health		**960**	1,198
151	Fund management		**133**	123
	Other			
(242)	Other operations and regional costs		**(214)**	(198)
(123)	Corporate centre		**(108)**	(141)
(723)	Group debt costs and other interest		**(636)**	(379)
2,298	**IFRS operating profit before adjusting items and tax attributable to shareholders' profits**		**2,022**	2,297
	Adjusted for the following:			
(86)	Investment return variances and economic assumption changes on long-term business	8	**(75)**	(1,631)
108	Short-term fluctuation in return on investments on non-long-term business	9a	**95**	(819)
65	Economic assumption changes on general insurance and health business	9a	**57**	(94)
(70)	Impairment of goodwill and other amounts expensed	16	**(62)**	(66)
(164)	Amortisation and impairment of intangibles (see below)		**(144)**	(117)
174	Profit on the disposal of subsidiaries and associates	3b	**153**	7
(325)	Integration and restructuring costs	6	**(286)**	(326)
51	Exceptional items	6	**45**	(551)
2,051	**Profit/(loss) before tax attributable to shareholders' profits**		**1,805**	(1,300)
	Tax attributable to shareholders' profits			
(622)	Operating profit	14a(i)	**(547)**	(487)
65	Other activities	14a(i)	**57**	902
(557)			**(490)**	415
1,494	**Profit/(loss) for the year**		**1,315**	(885)

2009 €m		Note	2009 £m	2008 £m
	Amortisation and impairment of intangibles arise in:			
(158)	Subsidiaries	17	**(139)**	(113)
(6)	Joint venture	18	**(4)**	—
—	Associates	19	**(1)**	(4)
(164)			**(144)**	(117)

Pro forma reconciliation of Group operating profit to profit before tax continued

Operating profit can be further analysed into the following segments:

Year ended 31 December 2009	Long-term business £m	General insurance and health £m	Fund manage-ment £m	Other operations £m	Total £m
UK	**672**	**535**	**(14)**	**(28)**	**1,165**
Aviva Europe	**761**	**132**	**3**	**(99)**	**797**
Delta Lloyd	**277**	**143**	**28**	**(49)**	**399**
North America	**85**	**144**	**—**	**(16)**	**213**
Asia Pacific	**92**	**6**	**1**	**(22)**	**77**
Aviva Investors	**—**	**—**	**115**	**—**	**115**
	1,887	**960**	**133**	**(214)**	**2,766**
Corporate centre					**(108)**
Group debt costs and other interest					**(636)**
					2,022

Year ended 31 December 2008	Long-term business £m	General insurance and health £m	Fund manage-ment £m	Other operations £m	Total £m
UK	751	656	(18)	(12)	1,377
Aviva Europe	685	220	4	(78)	831
Delta Lloyd	196	177	10	(73)	310
North America	16	145	—	(12)	149
Asia Pacific	46	—	13	(23)	36
Aviva Investors	—	—	114	—	114
	1,694	1,198	123	(198)	2,817
Corporate centre					(141)
Group debt costs and other interest					(379)
					2,297

Consolidated statement of comprehensive income

For the year ended 31 December 2009

2009 €m		Note	2009 £m	2008 £m
1,494	**Profit/(loss) for the year**		**1,315**	(885)
	Other comprehensive income			
	Investments classified as available for sale			
1,149	Fair value gains/(losses)	34	**1,011**	(2,344)
(352)	Fair value gains transferred to profit on disposals	34	**(310)**	(126)
548	Impairment losses on assets previously revalued through other comprehensive income now taken to the income statement *	34	**482**	830
	Owner-occupied properties			
(28)	Fair value losses	34	**(25)**	(37)
139	Share of other comprehensive income of joint ventures and associates	34	**122**	(93)
(1,295)	Actuarial losses on pension schemes	47e(iv)	**(1,140)**	(929)
27	Actuarial losses on pension schemes transferred to unallocated divisible surplus	47c(i)	**24**	78
(1,081)	Foreign exchange rate movements	34 & 36b	**(951)**	2,684
(224)	Aggregate tax effect – shareholder tax	13b	**(196)**	219
(1,117)	**Other comprehensive income, net of tax**		**(983)**	282
377	**Total comprehensive income for the year**		**332**	(603)
	Attributable to:			
272	Equity shareholders of Aviva plc		**240**	(1,104)
105	Minority interests	36b	**92**	501
377			**332**	(603)

* In accordance with accounting policy S, all fair value gains and losses on available-for-sale investments are recorded in the investment valuation reserve. Where these investments are considered to be impaired, the relevant losses are then transferred from this reserve to the income statement.

Consolidated statement of changes in equity

For the year ended 31 December 2009

	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Shares held by employee trusts £m	Currency translation reserve £m	Owner-occupied properties reserve £m	Investment valuation reserve £m	Hedging instruments reserve £m	Equity compensation reserve £m	Retained earnings £m	**Equity attributable to shareholders of Aviva plc £m**	Direct capital instrument £m	Minority interests £m	**Total equity £m**
Balance at 1 January	**664**	**200**	**1,234**	**3,271**	**(33)**	**3,685**	**157**	**(711)**	**(1,103)**	**113**	**3,902**	**11,379**	**990**	**2,204**	**14,573**
Profit for the year	—	—	—	—	—	—	—	—	—	—	**1,085**	**1,085**	—	**230**	**1,315**
Other comprehensive income	—	—	—	—	—	**(1,110)**	**(26)**	**1,030**	**332**	—	**(1,071)**	**(845)**	—	**(138)**	**(983)**
Total comprehensive income for the year	—	—	—	—	—	**(1,110)**	**(26)**	**1,030**	**332**	—	**14**	**240**	—	**92**	**332**
Owner-occupied properties	—	—	—	—	—	—	**(1)**	—	—	—	**1**	—	—	—	—
Dividends and appropriations	—	—	—	—	—	—	—	—	—	—	**(853)**	**(853)**	—	—	**(853)**
Issues of share capital	**1**	—	—	—	—	—	—	—	—	—	—	**1**	—	—	**1**
Shares issued in lieu of dividends	**27**	—	**(27)**	—	—	—	—	—	—	—	**299**	**299**	—	—	**299**
Capital contributions from minority shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—	**6**	**6**
Transfers to minority interests following Delta Lloyd IPO	—	—	—	—	—	**(351)**	**(26)**	**(156)**	—	—	**3**	**(530)**	—	**1,460**	**930**
Minority share of dividends declared in the year	—	—	—	—	—	—	—	—	—	—	—	—	—	**(109)**	**(109)**
Minority interests in acquired subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	**(2)**	**(2)**
Changes in minority interests in existing subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	**(111)**	**(111)**
Shares acquired by employee trusts	—	—	—	—	**(53)**	—	—	—	—	—	—	**(53)**	—	—	**(53)**
Shares distributed by employee trusts	—	—	—	—	**18**	—	—	—	—	—	**(18)**	—	—	—	—
Reserves credit for equity compensation plans	—	—	—	—	—	—	—	—	—	**56**	—	**56**	—	—	**56**
Shares issued under equity compensation plans	—	—	—	—	—	—	—	—	—	**(60)**	**60**	—	—	—	—
Aggregate tax effect – shareholder tax (note 13(c))	—	—	—	—	—	—	—	—	—	—	**17**	**17**	—	—	**17**
Balance at 31 December	**692**	**200**	**1,207**	**3,271**	**(68)**	**2,224**	**104**	**163**	**(771)**	**109**	**3,425**	**10,556**	**990**	**3,540**	**15,086**

The accounting policies (identified alphabetically) on pages 130 to 142 and notes (identified numerically) on pages 151 to 274 are an integral part of these financial statements.

Consolidated statement of changes in equity continued

For the year ended 31 December 2008

	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Shares held by employee trusts £m	Currency translation reserve £m	Owner-occupied properties reserve £m	Investment valuation reserve £m	Hedging instruments reserve £m	Equity compensation reserve £m	Retained earnings £m	Equity attributable to shareholders of Aviva plc £m	Direct capital instrument £m	Minority interests £m	Total equity £m
At 1 January 2008 as reported	655	200	1,223	3,271	(10)	432	192	819	(63)	89	6,338	13,146	990	1,795	15,931
Prior year adjustment (see note 2b(ii))	—	—	—	—	—	—	—	—	—	—	96	96	—	—	96
At 1 January 2008 as restated	655	200	1,223	3,271	(10)	432	192	819	(63)	89	6,434	13,242	990	1,795	16,027
Loss for the year	—	—	—	—	—	—	—	—	—	—	(915)	(915)	—	30	(885)
Other comprehensive income	—	—	—	—	—	3,253	(36)	(1,530)	(1,040)	—	(836)	(189)	—	471	282
Total comprehensive income for the year	—	—	—	—	—	3,253	(36)	(1,530)	(1,040)	—	(1,751)	(1,104)	—	501	(603)
Owner-occupied properties – Fair value losses transferred to retained earnings on disposals	—	—	—	—	—	—	1	—	—	—	(1)	—	—	—	—
Dividends and appropriations	—	—	—	—	—	—	—	—	—	—	(975)	(975)	—	—	(975)
Issues of share capital	2	—	18	—	—	—	—	—	—	—	—	20	—	—	20
Shares issued in lieu of dividends	7	—	(7)	—	—	—	—	—	—	—	170	170	—	—	170
Capital contributions from minority shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—	36	36
Minority share of dividends declared in the year	—	—	—	—	—	—	—	—	—	—	—	—	—	(106)	(106)
Minority interests in acquired subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	43	43
Changes in minority interests in existing subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	—	(65)	(65)
Shares acquired by employee trusts	—	—	—	—	(29)	—	—	—	—	—	—	(29)	—	—	(29)
Shares distributed by employee trusts	—	—	—	—	6	—	—	—	—	—	(6)	—	—	—	—
Reserves credit for equity compensation plans	—	—	—	—	—	—	—	—	—	39	—	39	—	—	39
Shares issued under equity compensation plans	—	—	—	—	—	—	—	—	—	(15)	15	—	—	—	—
Aggregate tax effect – shareholder tax (note 13(c))	—	—	—	—	—	—	—	—	—	—	16	16	—	—	16
Balance at 31 December	664	200	1,234	3,271	(33)	3,685	157	(711)	(1,103)	113	3,902	11,379	990	2,204	14,573

The accounting policies (identified alphabetically) on pages 130 to 142 and notes (identified numerically) on pages 151 to 274 are an integral part of these financial statements.

Consolidated statement of financial position

As at 31 December 2009

2009 €m		Note	2009 £m	Restated 2008 £m	Restated 2007 £m
	Assets				
3,842	Goodwill	N & 16	**3,381**	3,578	3,082
3,250	Acquired value of in-force business and intangible assets	N & 17	**2,860**	4,038	3,197
1,933	Interests in, and loans to, joint ventures	C & 18	**1,701**	1,737	2,576
1,456	Interests in, and loans to, associates	C & 19	**1,281**	1,246	1,206
856	Property and equipment	O & 20	**753**	964	942
14,116	Investment property	P & 21	**12,422**	14,426	15,391
46,681	Loans	U & 22	**41,079**	42,237	36,193
	Financial investments	R,S & 24			
182,398	Debt securities		**160,510**	150,398	121,511
49,253	Equity securities		**43,343**	43,351	58,829
39,575	Other investments		**34,826**	36,511	36,500
271,226			**238,679**	230,260	216,840
8,605	Reinsurance assets	M & 41	**7,572**	7,894	8,054
248	Deferred tax assets	AB & 45b	**218**	2,642	590
408	Current tax assets	45a	**359**	622	376
10,945	Receivables and other financial assets	25	**9,632**	9,816	8,619
6,388	Deferred acquisition costs and other assets	W & 26	**5,621**	6,147	4,487
4,095	Prepayments and accrued income	26d	**3,604**	3,762	2,986
28,609	Cash and cash equivalents	X & 53d	**25,176**	23,643	15,659
60	Assets of operations classified as held for sale	AG & 3d	**53**	1,550	1,128
402,718	**Total assets**		**354,391**	354,562	321,326
	Equity				
	Capital	AD			
786	Ordinary share capital	28	**692**	664	655
227	Preference share capital	31	**200**	200	200
1,013			**892**	864	855
	Capital reserves				
1,372	Share premium	28b	**1,207**	1,234	1,223
3,717	Merger reserve	D & 33	**3,271**	3,271	3,271
5,089			**4,478**	4,505	4,494
(77)	Shares held by employee trusts	30	**(68)**	(33)	(10)
2,078	Other reserves	34	**1,829**	2,141	1,469
3,892	Retained earnings	35	**3,425**	3,902	6,434
11,995	**Equity attributable to shareholders of Aviva plc**		**10,556**	11,379	13,242
1,125	Direct capital instrument	32	**990**	990	990
4,023	Minority interests	36	**3,540**	2,204	1,795
17,143	**Total equity**		**15,086**	14,573	16,027
	Liabilities				
194,423	Gross insurance liabilities	K & 38	**171,092**	174,850	152,839
125,017	Gross liabilities for investment contracts	L & 39	**110,015**	107,559	98,244
4,393	Unallocated divisible surplus	K & 43	**3,866**	2,325	6,785
11,243	Net asset value attributable to unitholders	D	**9,894**	6,918	6,409
4,523	Provisions	Z, AA & 46	**3,980**	2,984	1,937
1,180	Deferred tax liabilities	AB & 45b	**1,038**	3,063	2,565
218	Current tax liabilities	45a	**192**	642	1,225
17,045	Borrowings	AC & 48	**15,000**	15,201	12,657
23,343	Payables and other financial liabilities	R & 49	**20,542**	20,840	18,060
4,152	Other liabilities	50	**3,653**	4,386	3,636
38	Liabilities of operations classified as held for sale	AG & 3c	**33**	1,221	942
385,575	**Total liabilities**		**339,305**	339,989	305,299
402,718	**Total equity and liabilities**		**354,391**	354,562	321,326

Approved by the Board on 3 March 2010.

Patrick Regan
Chief Financial Officer

The accounting policies (identified alphabetically) on pages 130 to 142 and notes (identified numerically) on pages 151 to 274 are an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2009

The cash flows presented in this statement cover all the Group's activities and include flows from both policyholder and shareholder activities. All cash and cash equivalents are available for use by the Group.

	Note	2009 £m	Restated 2008 £m
Cash flows from operating activities	53a		
Cash generated from operations		**3,286**	8,737
Tax paid		**(601)**	(642)
Net cash from operating activities		**2,685**	8,095
Cash flows from investing activities			
Acquisitions of subsidiaries, joint ventures and associates, net of cash acquired	53b	**(596)**	(336)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	53c	**1,131**	353
Purchase of minority interest in subsidiary		**—**	(65)
New loans to joint ventures and associates		**(145)**	(182)
Repayment of loans to joint ventures and associates		**99**	52
Net repayment loans to joint ventures and associates	18a & 19a	**(46)**	(130)
Purchases of property and equipment	20	**(149)**	(216)
Proceeds on sale of property and equipment		**188**	59
Purchases of intangible assets	17	**(30)**	(60)
Net cash from investing activities		**498**	(395)
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of transaction costs		**1**	20
Treasury shares purchased for employee trusts		**(53)**	(29)
New borrowings drawn down, net expenses		**4,260**	5,515
Repayment of borrowings		**(3,853)**	(5,217)
Net drawdown of borrowings	48e	**407**	298
Interest paid on borrowings		**(1,199)**	(1,537)
Preference dividends paid		**(17)**	(17)
Ordinary dividends paid		**(476)**	(732)
Coupon payments on direct capital instrument		**(61)**	(56)
Finance lease payments		**—**	(14)
Capital contributions from minority shareholders		**6**	36
Dividends paid to minority interests of subsidiaries		**(109)**	(106)
Net cash from financing activities		**(1,501)**	(2,137)
Net increase in cash and cash equivalents		**1,682**	5,563
Cash and cash equivalents at 1 January		**23,531**	15,134
Effect of exchange rate changes on cash and cash equivalents		**(962)**	2,834
Cash and cash equivalents at 31 December	53d	**24,251**	23,531

Of the total cash and cash equivalents, £nil was classified as held for sale *(2008: £493 million)*.

The accounting policies (identified alphabetically) on pages 130 to 142 and notes (identified numerically) on pages 151 to 274 are an integral part of these financial statements.

Notes to the consolidated financial statements

1 – Exchange rates

The Group's principal overseas operations during the year were located within the Eurozone and the United States. The results and cash flows of these operations have been translated into sterling at an average rate for the year of €1 = £0.88 *(2008: €1 = £0.80)* and £1 = US$1.57 *(2008: £1= US$1.85)*. Assets and liabilities have been translated at the year end rate of €1 = £0.88 *(2008: €1 = £0.97, 2007: €1 = £0.73)* and £1 = US$1.61 *(2008: £1= US$1.44, 2007: £1 = US$1.99)*.

Total foreign currency movements during 2009 resulted in a gain recognised in the income statement of £154 million *(2008: £327 million loss)*.

2 – Presentation changes

(a) Changes to presentation

(i) The Group has adopted IAS 1 (Revised), *Presentation of Financial Statements*, as of 1 January 2009. The principal impact of this has been in the following areas:

(a) The titles of some of the prime statements have changed, so that the consolidated statement of recognised gains and losses is now called the consolidated statement of comprehensive income; the reconciliation of movements in consolidated shareholders' equity is now called the consolidated statement of changes in equity; the consolidated balance sheet is renamed the consolidated statement of financial position; and the consolidated cash flow statement is renamed the consolidated statement of cash flows.

(b) The standard requires the income tax effect of each component of comprehensive income to be disclosed. This information is given in note 13.

(c) Changes in the year in each element of equity must now be shown on the face of the consolidated statement of changes in equity, rather than in the notes.

(d) The standard requires entities to present a comparative consolidated statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements. As we have restated certain prior year figures, explained in section (b) below, we have presented three consolidated statements of financial position and supporting notes in these financial statements.

(ii) The Group has also adopted Amendments to IFRS 7, *Improving Disclosures about Financial Instruments*, as of 1 January 2009. The principal impact of these amendments is to require the following additional disclosures:

(a) An analysis of financial assets and liabilities carried at fair value using a fair value hierarchy that reflects the significance of inputs used in making the fair value measurements.

(b) An analysis of transfers of financial assets and liabilities between different levels of the fair value hierarchy.

(c) A reconciliation from beginning to end of period of financial assets and liabilities whose fair value is based on unobservable inputs.

(d) An enhanced discussion and analysis of liquidity risk, including a maturity analysis of financial assets held for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk.

Comparative information for the disclosures required by the IFRS 7 amendments is not needed in the first year of application. However, the Group has provided comparatives for the analysis of financial assets according to a fair value hierarchy, which we had previously reported.

(iii) As explained in note 3(c), the Group completed the Initial Public Offering (IPO) of its subsidiary, Delta Lloyd NV (Delta Lloyd), in November 2009. Although the Group has remained the majority shareholder after the IPO, Delta Lloyd is now managed separately from our other European operations, reflecting the change in shareholder base. For this reason, the segmental information given in note 4(a) has been modified to show Delta Lloyd and the Aviva Europe operations separately, with comparatives analysed in the same way for consistency.

(b) Restatement of prior year figures

(i) During 2009, the Group undertook a review of our accounting policy for cash and cash equivalents. Previously, we defined these as normally having a maturity of three months or less from date of acquisition. To avoid ambiguity, our accounting policy has been refined to impose a cut-off date of exactly three months, allowing us to delete 'normally' from the policy wording. This refinement of policy has resulted in a reclassification of certain short-dated instruments between cash and cash equivalents and financial investments.

The impact of this refinement has been to increase financial investments and reduce cash and cash equivalents in 2008 by £538 million *(2007: £430 million)* compared to the amounts previously stated. As a consequence of this, cash flows from operating activities in 2008 have decreased by £58 million, with the effect of exchange rate movements accounting for the remaining £50 million.

(ii) During 2009, the Group's Dutch subsidiary, Delta Lloyd, carried out a review of the way it had been applying IAS 19, Employee Benefits, in its own financial statements where the corridor method of smoothing actuarial gains and losses in its pension schemes is followed; in accounting for its self-insured pension obligations and intercompany eliminations; and in its reporting to Group where the corridor accounting is reversed. The review concluded that errors had been made locally in applying IAS 19 on the transition to IFRS and in subsequent years, such that gains on certain assets had been reported in provisions, to be released over time, rather than through other comprehensive income. The impact of correcting these errors is to reduce other liabilities by £129 million as at 1 January 2008, increase deferred tax liabilities by £33 million and increase retained earnings at that date by £96 million.

3 – Subsidiaries

This note provides details of the acquisitions and disposals of subsidiaries that the Group has made during the year, together with details of businesses held for sale at the year end. The principal Group subsidiaries are listed on pages 33 to 34.

(a) Acquisitions

(i) Material acquisitions

There were no material acquisitions in the year ended 31 December 2009.

(ii) Other goodwill arising

As disclosed in the 2008 financial statements, on 30 June 2008 the Group acquired Swiss Life Belgium (SLB). At 30 June 2009, the fair values of the assets and liabilities were updated from their provisional values to reflect decreases in the value of acquired in-force business and deferred acquisition costs, and increases in insurance and investment contract liabilities. This has given rise to an increase in goodwill of €72 million (£64 million) to €132 million (£117 million).

Other goodwill of £5 million has arisen on smaller acquisitions and increases in shareholdings in existing subsidiaries, together with a £16 million reduction for changes in contingent consideration payable on previous acquisitions. None of these is considered material for separate disclosure.

(iii) Non-adjusting subsequent event

Acquisition of River Road Asset Management

On 5 January 2010, the Group announced that it had agreed to acquire 100% of River Road Asset Management, a US equity manager, to support the expansion of Aviva Investors' third party institutional asset management business. Completion took place on 24 February 2010 for an estimated total consideration of £79 million (US$122 million), of which £37 million (US$57 million) was paid in cash on completion. The balance comprises contingent consideration.

The contingent consideration arrangement requires the Group to pay amounts over the next five years, based on a multiple of the earnings during that period, up to a maximum total purchase price of £70 million (US$108 million). The potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is between £26 million (US$41 million) and £53 million (US$82 million).

In view of the recent timing of this transaction, accounting for this acquisition is not yet complete and it is currently impractical to comply with the requirements of IFRS 3, *Business Combinations* and to state with any certainty the fair values of the assets and liabilities acquired, and therefore to estimate the goodwill arising on the transaction.

(b) Disposal of subsidiaries, joint ventures and associates

The profit on the disposal of subsidiaries, joint ventures and associates comprises:

	2009 £m	2008 £m
United Kingdom	**—**	(38)
Netherlands (see (i) below)	**31**	—
Australia (see (ii) below)	**122**	—
Offshore operations	**—**	14
Other small operations	**—**	31
Profit on disposal before tax	**153**	7
Tax on profit on disposal	**—**	—
Profit on disposal after tax	**153**	7

3 – Subsidiaries continued

(i) Dutch health insurance business

On 1 January 2009, the Group's Dutch subsidiary, Delta Lloyd, sold its health insurance business to OWM CZ Groep Zorgverkeraar UA (CZ), a mutual health insurer, for £246 million, realising a profit of £31 million, calculated as shown below. Under the terms of the agreement, CZ purchased the Delta Lloyd health insurance business and took on its underwriting risk and policy administration. Delta Lloyd continues to market and distribute health insurance products from CZ to its existing customers and continues to provide asset management for the transferred business. Delta Lloyd also has exclusive rights to market life, general insurance and income protection products to CZ's customers.

	£m
Assets	
Investments and property and equipment	396
Receivables and other financial assets	359
Prepayments and accrued income	158
Cash and cash equivalents	483
Total assets	**1,396**
Liabilities	
Gross insurance liabilities	(709)
Pension obligations and other provisions	(7)
Other liabilities	(467)
Total liabilities	**(1,183)**
Net assets disposed of	**213**
Cash consideration	246
Less: transaction costs	(2)
Total consideration	**244**
Profit on disposal before tax	**31**

(ii) Australian life and pensions business

On 1 October 2009, the Group sold its Australian life and pensions business and wealth management platform to National Australia Bank for cash of A$902 million (£443 million). The total sale proceeds were fixed by reference to the net assets of the businesses at 31 December 2008, adjusted to reflect the results in the period from 1 January 2009 to completion. The profit on disposal of these wholly-owned subsidiaries was £122 million, calculated as follows:

	£m
Assets	
Goodwill and intangible assets	1
Investments and property and equipment	2,530
Receivables and other financial assets	60
Deferred acquisition costs and other assets	20
Tax assets	26
Cash and cash equivalents	175
Total assets	**2,812**
Liabilities	
Gross insurance liabilities and liabilities for investment contracts	(2,083)
Payables and financial liabilities	(59)
Other liabilities	(249)
Tax liabilities and other provisions	(45)
Total liabilities	**(2,436)**
Net assets disposed of	**376**
Cash consideration *	443
Less: transaction costs	(16)
Less: other costs of disposal **	(25)
Total consideration	**402**
Transfer from currency translation reserve	96
Profit on disposal before tax	**122**

* The Group hedged its exposure to A$900 million of the sale proceeds through the purchase of foreign currency forward contracts.
**Other costs of disposal have arisen from the agreement of a call option to purchase the shares of an associate of the Australian businesses in 2010.

(iii) UK non-core operations

On 11 February 2009, the Group sold The British School of Motoring Limited and its subsidiaries to Arques Consulting GmbH for a consideration of £4 million. The resultant loss on disposal of £9 million was provided for in the 2008 financial statements.

(iv) Non-adjusting subsequent event

On 17 February 2010, the Group sold its 35% holding in Sogessur SA to that company's main shareholder, Société Générale, for a consideration of £35 million, realising a profit on disposal of £24 million.

3 – Subsidiaries continued

(c) Listing of minority shareholding in Delta Lloyd

On 3 November 2009, Aviva plc and Delta Lloyd completed the Initial Public Offering ("IPO") of Delta Lloyd, which commenced trading on Euronext Amsterdam on that date. The IPO consisted of a public offering to institutional and retail investors of Delta Lloyd's ordinary shares, including the over-allotment option (also referred to as a "greenshoe") taken up on 24 November 2009. The Group has remained the majority shareholder after the IPO, retaining 58% of the ordinary share capital in Delta Lloyd. The transaction has been treated as an equity transaction with minorities, resulting in the following transfers between reserves:

Transfers (from)/to	£m
Currency translation reserve (note 34)	(351)
Owner-occupied property reserve (note 34)	(26)
Investment valuation reserve (note 34)	(156)
Retained earnings (note 35)	3
Minority interests (note 36)	1,460
Net cash proceeds	**930**

(d) Operations and assets classified as held for sale

Assets held for sale as at 31 December 2009 comprise:

	2009 £m	2008 £m	2007 £m
Property and equipment held for sale (see (i) below)	**—**	102	—
Assets of operations classified as held for sale (see (ii) below)	**53**	1,448	1,128
Total assets classified as held for sale	**53**	1,550	1,128

(i) Property and equipment held for sale

Property and equipment held for sale at 31 December 2008 related to the UK data centres which were sold during 2009.

(ii) Assets and liabilities of operations classified as held for sale

The assets and liabilities of operations classified as held for sale as at 31 December 2009 relate to RAC France and an Australian associate, and are as follows:

	2009 £m	2008 £m	2007 £m
Goodwill and intangible assets	**—**	14	—
Investments and property and equipment	**32**	396	316
Receivables and other financial assets	**20**	386	554
Deferred acquisition costs and other assets	**—**	1	—
Prepayments and accrued income	**1**	158	145
Tax assets	**—**	—	17
Cash and cash equivalents	**—**	493	96
Total assets	**53**	1,448	1,128
Gross insurance liabilities	**(20)**	(709)	(627)
Borrowings	**—**	—	(12)
Payables and financial liabilities	**—**	(22)	(72)
Other liabilities	**(13)**	(478)	(220)
Tax liabilities and other provisions	**—**	(12)	(11)
Total liabilities	**(33)**	(1,221)	(942)
Net assets	**20**	227	186

On 2 December 2009, the Group announced that it had agreed to sell RAC France SA to its existing management team. The sale remains subject to regulatory approval and, as a result, the assets and liabilities of the business have been classified as held for sale, at their carrying values, in the consolidated statement of financial position as at 31 December 2009.

The operations disclosed as held for sale at 31 December 2008 comprised the Dutch health insurance business and certain UK non-core operations, both of which were sold during 2009. Details are given in section (b) above.

4 – Segmental information

The Group's results can be segmented, either by activity or by geography. Our primary reporting format is on regional reporting lines, with supplementary information being given by business activity. This note provides segmental information on the consolidated income statement and statement of financial position.

(a) Operating segments

The Group has determined its operating segments along regional lines. These reflect the management structure whereby a member of the Executive Management team is accountable to the Group Chief Executive for the operating segment for which he is responsible. The activities of each operating segment are described below:

United Kingdom

The United Kingdom comprises two operating segments – UK Life and UK General Insurance (UK GI). The principal activities of UK Life are life insurance, long-term health and accident insurance, savings, pensions and annuity business, whilst UK GI provides insurance cover to individuals and to small and medium-sized businesses, for risks associated mainly with motor vehicles, property and liability, such as employers' liability and professional indemnity liability, and medical expenses. UK GI also includes the RAC motor recovery business, the group reinsurance result and the results of run off agency business.

Aviva Europe

Activities reported in the Aviva Europe operating segment exclude operations in the UK and include those in Russia and Turkey. Principal activities are long-term business in France, Ireland, Italy, Poland and Spain, and general insurance in France, Ireland and Italy.

Delta Lloyd

The activities of Delta Lloyd comprise long-term business operations in the Netherlands, Belgium and Germany and general insurance, fund management and banking operations in the Netherlands.

North America

Our activities in North America principally comprise our long-term business operations in the US and general insurance business operation in Canada.

Asia Pacific

Our activities in Asia Pacific principally comprise our long-term business operations in Australia (prior to its sale on 1 October 2009), China, India, Singapore, Hong Kong, Sri Lanka, Taiwan, Malaysia, and South Korea.

Aviva Investors

Aviva Investors operates in most of the regions in which the Group operates, in particular the UK, France, the US and Canada and other international businesses, managing policyholders' and shareholders' invested funds, providing investment management services for institutional pension fund mandates and managing a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs. Fund management activities of Delta Lloyd are included in the separate operating segment above.

Other Group activities

Investment return on centrally held assets and head office expenses, such as Group treasury and finance functions, together with certain taxes and financing costs arising on central borrowings are included in 'Other Group activities'. Similarly, central core structural borrowings and certain tax balances are included in 'Other Group activities' in the segmental statement of financial position. Also included here are consolidation and elimination adjustments.

Measurement basis

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are on normal commercial terms and market conditions. The Group evaluates performance of operating segments on the basis of:

(i) profit or loss from operations before tax attributable to shareholders
(ii) profit or loss from operations before tax attributable to shareholders, adjusted for non-operating items outside the segment management's control, including investment market performance and fiscal policy changes

4 – Segmental information continued

(i) Segmental income statement for the year ended 31 December 2009

	United Kingdom		Europe						
	Life £m	GI# £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Total £m
Gross written premiums	6,086	4,239	12,936	4,482	6,413	534	—	—	34,690
Premiums ceded to reinsurers	(1,311)	(355)	(468)	(134)	(231)	(77)	—	—	(2,576)
Internal reinsurance revenue	—	28	(13)	(7)	(6)	(2)	—	—	—
Net written premiums	4,775	3,912	12,455	4,341	6,176	455	—	—	32,114
Net change in provision for unearned premiums	2	607	(16)	6	(35)	(5)	—	—	559
Net earned premiums	4,777	4,519	12,439	4,347	6,141	450	—	—	32,673
Fee and commission income	261	272	558	226	55	121	296	—	1,789
	5,038	4,791	12,997	4,573	6,196	571	296	—	34,462
Net investment income	8,199	553	10,184	3,172	2,242	586	157	(121)	24,972
Inter-segment revenue	—	—	—	—	—	—	202	—	202
Share of loss of joint ventures and associates	(416)	—	(36)	(41)	—	(11)	—	—	(504)
Profit on the disposal of subsidiaries and associates	—	—	—	31	—	122	—	—	153
Segmental income*	12,821	5,344	23,145	7,735	8,438	1,268	655	(121)	59,285
Claims and benefits paid, net of recoveries from reinsurers	(7,313)	(3,409)	(8,871)	(3,567)	(4,110)	(279)	—	—	(27,549)
Change in insurance liabilities, net of reinsurance	663	531	(2,321)	(1,448)	(2,895)	(212)	—	—	(5,682)
Change in investment contract provisions	(4,008)	—	(6,451)	(239)	(128)	(148)	(211)	—	(11,185)
Change in unallocated divisible surplus	872	—	(2,280)	(68)	—	(71)	—	—	(1,547)
Amortisation of deferred acquisition costs and acquired value of in-force business	(46)	—	(47)	(3)	(149)	(4)	—	—	(249)
Depreciation and other amortisation expense	(45)	(72)	(60)	(35)	(77)	(6)	(5)	—	(300)
Other operating expenses	(1,804)	(1,893)	(2,107)	(1,248)	(653)	(246)	(348)	(306)	(8,605)
Impairment losses**	—	(42)	(17)	(445)	(104)	—	—	—	(608)
Inter-segment expenses	(119)	(6)	(15)	—	(60)	(1)	—	(1)	(202)
Finance costs	(254)	(19)	(13)	(672)	(18)	—	—	(360)	(1,336)
Segmental expenses	(12,054)	(4,910)	(22,182)	(7,725)	(8,194)	(967)	(564)	(667)	(57,263)
Profit/(loss) before tax	767	434	963	10	244	301	91	(788)	2,022
Tax attributable to policyholders' returns	(156)	—	(32)	—	—	(29)	—	—	(217)
Profit/(loss) before tax attributable to shareholders	611	434	931	10	244	272	91	(788)	1,805
Adjusted for non-operating items:									
Reclassification of corporate costs and unallocated interest	1	(10)	13	29	10	—	1	(44)	—
Investment return variances and economic assumption changes on long-term business	83	—	(194)	348	(87)	(75)	—	—	75
Short-term fluctuation in return on investments backing non-long-term business	—	(62)	(92)	23	(79)	—	—	115	(95)
Economic assumption changes on general insurance and health business	—	(55)	2	—	(4)	—	—	—	(57)
Impairment of goodwill	35	—	26	1	—	—	—	—	62
Amortisation and impairment of intangibles	3	18	31	19	69	2	2	—	144
(Profit)/loss on the disposal of subsidiaries and associates	—	—	—	(31)	—	(122)	—	—	(153)
Exceptional items	(163)	42	16	—	60	—	—	—	(45)
Integration and restructuring costs	89	114	64	—	—	—	21	(2)	286
Operating profit/(loss) before tax attributable to shareholders	659	481	797	399	213	77	115	(719)	2,022

* Total reported income, excluding inter-segment revenue, is split United Kingdom £18,165 million, France £12,890 million, Netherlands £7,335 million, USA £6,350 million and Rest of the World £14,545 million. Income is attributed on the basis of geographical origin which does not materially differ from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

** Impairment losses, and reversal of such losses, recognised directly in other comprehensive income were £482 million and £nil respectively.

\# United Kingdom General Insurance includes the Group Reinsurance business, agency run off business and the non-insurance business for the RAC.

4 – Segmental information continued

(ii) Segmental income statement for the year ended 31 December 2008

	United Kingdom		Europe						
	Life £m	GI# £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Total £m
Gross written premiums	8,108	5,496	9,550	5,979	6,486	587	—	—	36,206
Premiums ceded to reinsurers	(612)	(498)	(350)	(92)	(214)	(75)	—	—	(1,841)
Internal reinsurance revenue	—	26	(17)	(4)	(4)	(1)	—	—	—
Net written premiums	7,496	5,024	9,183	5,883	6,268	511	—	—	34,365
Net change in provision for unearned premiums	6	344	(3)	(18)	(50)	(2)	—	—	277
Net earned premiums	7,502	5,368	9,180	5,865	6,218	509	—	—	34,642
Fee and commission income	310	362	505	206	40	168	294	—	1,885
	7,812	5,730	9,685	6,071	6,258	677	294	—	36,527
Net investment income	(8,844)	326	(7,820)	1,652	444	(626)	(407)	(768)	(16,043)
Inter-segment revenue	—	—	—	—	—	—	203	—	203
Share of loss of joint ventures and associates	(1,058)	—	(11)	(27)	—	(32)	—	—	(1,128)
Profit/(loss) on the disposal of subsidiaries and associates	—	(38)	9	15	—	—	—	21	7
Segmental income*	(2,090)	6,018	1,863	7,711	6,702	19	90	(747)	19,566
Claims and benefits paid, net of recoveries from reinsurers	(8,620)	(3,944)	(9,280)	(4,131)	(2,912)	(464)	—	(2)	(29,353)
Change in insurance liabilities, net of reinsurance	2,674	280	4,253	(844)	(2,774)	296	—	—	3,885
Change in investment contract provisions	7,240	—	2,643	122	(126)	401	349	—	10,629
Change in unallocated divisible surplus	2,151	—	2,301	30	—	—	—	—	4,482
Amortisation of deferred acquisition costs and acquired value of in-force business	—	—	(39)	(5)	(285)	(4)	—	—	(333)
Depreciation and other amortisation expense	(70)	(108)	(43)	(77)	(51)	(5)	(5)	—	(359)
Other operating expenses	(1,787)	(2,599)	(1,444)	(1,526)	(633)	(296)	(362)	552	(8,095)
Impairment losses**	—	(26)	(17)	(797)	(200)	—	—	—	(1,040)
Inter-segment expenses	(137)	(2)	(18)	—	(42)	(3)	—	(1)	(203)
Finance costs	(541)	(10)	(20)	(683)	(17)	—	—	(276)	(1,547)
Segmental expenses	910	(6,409)	(1,664)	(7,911)	(7,040)	(75)	(18)	273	(21,934)
(Loss)/profit before tax	(1,180)	(391)	199	(200)	(338)	(56)	72	(474)	(2,368)
Tax attributable to policyholders' returns	1,031	—	49	—	—	(12)	—	—	1,068
(Loss)/profit before tax attributable to shareholders	(149)	(391)	248	(200)	(338)	(68)	72	(474)	(1,300)
Adjusted for non-operating items:									
Reclassification of corporate costs and unallocated interest	7	(71)	54	—	15	—	—	(5)	—
Investment return variances and economic assumption changes on long-term business	694	—	472	(72)	433	104	—	—	1,631
Short-term fluctuation in return on investments backing non-long-term business	—	334	37	352	(47)	—	—	143	819
Economic assumption changes on general insurance and health business	—	91	3	—	—	—	—	—	94
Impairment of goodwill	—	—	16	50	—	—	—	—	66
Amortisation and impairment of intangibles	3	33	12	22	44	—	3	—	117
(Profit)/loss on the disposal of subsidiaries and associates	—	38	(9)	(15)	—	—	—	(21)	(7)
Exceptional items	108	312	7	126	42	—	6	(50)	551
Integration and restructuring costs	60	195	15	23	—	—	33	—	326
Operating profit/(loss) before tax attributable to shareholders	723	541	855	286	149	36	114	(407)	2,297

* Total reported income, excluding inter-segment revenue, is split United Kingdom £3,928 million, France £1,005 million, Netherlands £7,711 million, USA £4,954 million and Rest of the World £1,968 million. Income is attributed on the basis of geographical origin which does not materially differ from revenue by geographical destination, as most risks are located in the countries where the contracts were written.

** Impairment losses, and reversal of such losses, recognised directly in other comprehensive income were £830 million and £nil respectively.

\# United Kingdom General Insurance includes the Group Reinsurance business, agency run off business and the non-insurance business for the RAC.

4 – Segmental information continued

(iii) Segmental statement of financial position as at 31 December 2009

	United Kingdom		Europe						
	Life £m	GI £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Total £m
Goodwill	31	1,208	959	319	812	50	2	—	3,381
Acquired value of in-force business and intangible assets	17	249	1,190	71	1,302	19	12	—	2,860
Interests in, and loans to, joint ventures and associates	1,957	—	348	379	2	277	15	4	2,982
Property and equipment	112	127	105	282	111	5	10	1	753
Investment property	7,369	89	1,342	2,183	6	—	698	735	12,422
Loans	18,348	600	992	18,797	2,177	35	5	125	41,079
Financial investments	73,788	2,477	95,086	32,009	27,371	2,169	1,095	4,684	238,679
Deferred acquisition costs	1,313	717	732	198	2,348	8	—	—	5,316
Other assets	14,942	3,847	19,169	4,364	3,030	379	654	534	46,919
Total assets	**117,877**	**9,314**	**119,923**	**58,602**	**37,159**	**2,942**	**2,491**	**6,083**	**354,391**
Insurance liabilities									
Long-term business and outstanding claims provisions	62,043	5,410	38,422	30,818	27,201	2,062	—	—	165,956
Unearned premiums	173	2,240	956	347	1,040	25	—	—	4,781
Other insurance liabilities	—	79	116	63	98	(1)	—	—	355
Liability for investment contracts	39,322	—	62,477	3,335	2,911	—	1,970	—	110,015
Unallocated divisible surplus	1,849	—	1,787	150	—	80	—	—	3,866
Net asset value attributable to unitholders	875	—	5,257	721	—	—	—	3,041	9,894
External borrowings	2,518	10	141	6,830	183	—	—	5,318	15,000
Other liabilities, including inter-segment liabilities	6,668	(585)	4,282	12,529	2,450	140	320	3,634	29,438
Total liabilities	**113,448**	**7,154**	**113,438**	**54,793**	**33,883**	**2,306**	**2,290**	**11,993**	**339,305**
Total equity									**15,086**
Total equity and liabilities									**354,391**
Capital expenditure (excluding business combinations)	38	23	40	24	65	3	4	—	197

External borrowings by holding companies within the Group which are not allocated to operating companies are included in 'Other Group activities'.

(iv) Segmental statement of financial position as at 31 December 2008

	United Kingdom		Europe						
	Life £m	GI £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Restated Total £m
Goodwill	52	1,208	1,078	279	903	55	3	—	3,578
Acquired value of in-force business and intangible assets	65	265	1,355	115	2,196	28	14	—	4,038
Interests in, and loans to, joint ventures and associates	2,080	—	414	190	2	296	—	1	2,983
Property and equipment	123	173	153	366	106	32	10	1	964
Investment property	8,872	148	1,632	2,288	7	21	655	803	14,426
Loans	20,156	833	1,142	17,919	2,130	56	1	—	42,237
Financial investments	69,060	2,501	92,331	33,393	24,621	3,865	1,454	3,035	230,260
Deferred acquisition costs	1,221	994	855	225	2,626	40	3	1	5,965
Other assets	13,925	4,956	17,255	6,391	5,538	630	661	755	50,111
Total assets	115,554	11,078	116,215	61,166	38,129	5,023	2,801	4,596	354,562
Insurance liabilities									
Long-term business and outstanding claims provisions	62,070	6,103	39,666	32,798	26,939	2,120	—	—	169,696
Unearned premiums	173	2,966	287	383	959	22	—	—	4,790
Other insurance liabilities	—	91	106	76	91	—	—	—	364
Liability for investment contracts	35,109	—	61,890	3,216	3,403	1,643	2,298	—	107,559
Unallocated divisible surplus	2,727	—	(548)	143	—	3	—	—	2,325
Net asset value attributable to unitholders	986	—	2,713	591	—	175	—	2,453	6,918
External borrowings	2,716	11	184	6,786	163	—	—	5,341	15,201
Other liabilities, including inter-segment liabilities	8,164	(972)	4,707	13,801	4,041	190	324	2,881	33,136
Total liabilities	111,945	8,199	109,005	57,794	35,596	4,153	2,622	10,675	339,989
Total equity									14,573
Total equity and liabilities									354,562
Capital expenditure (excluding business combinations)	36	93	40	32	70	4	5	—	280

4 – Segmental information continued

(v) Segmental statement of financial position as at 31 December 2007

	United Kingdom		Europe						
	Life £m	GI £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Aviva Investors £m	Other Group activities £m	Restated Total £m
Goodwill	71	1,276	841	212	642	40	—	—	3,082
Acquired value of in-force business and intangible assets	65	349	1,073	91	1,579	28	12	—	3,197
Interests in, and loans to, joint ventures and associates	2,972	—	342	252	1	215	—	—	3,782
Property and equipment	177	317	110	264	28	37	7	2	942
Investment property	10,415	252	1,469	1,592	—	25	966	672	15,391
Loans	20,153	900	807	13,088	1,206	39	—	—	36,193
Financial investments	83,504	3,714	77,984	25,677	17,227	3,934	1,993	2,807	216,840
Deferred acquisition costs	1,477	1,188	658	124	828	42	4	—	4,321
Other assets	10,520	5,146	12,645	3,342	2,806	503	667	1,949	37,578
Total assets	129,354	13,142	95,929	44,642	24,317	4,863	3,649	5,430	321,326
Insurance liabilities									
Long-term business and outstanding claims provisions	65,017	6,429	33,394	23,111	17,335	1,820	—	—	147,106
Unearned premiums	179	3,468	700	273	815	15	—	—	5,450
Other insurance liabilities	—	92	22	91	78	—	—	—	283
Liability for investment contracts	41,845	—	47,517	2,034	1,756	1,952	3,140	—	98,244
Unallocated divisible surplus	4,944	—	1,702	136	—	3	—	—	6,785
Net asset value attributable to unitholders	758	—	1,567	1,113	—	189	—	2,782	6,409
External borrowings	2,184	12	132	6,021	133	—	6	4,169	12,657
Other liabilities, including inter-segment liabilities	10,474	(320)	4,060	8,973	1,615	160	294	3,109	28,365
Total liabilities	125,401	9,681	89,094	41,752	21,732	4,139	3,440	10,060	305,299
Total equity									16,027
Total equity and liabilities									321,326
Capital expenditure (excluding business combinations)	30	140	56	50	10	5	6	2	299

(b) Further analysis by products and services

The Group's results can be further analysed by products and services which comprise long-term business, general insurance and health, fund management and other activities.

Long-term business

Our long-term business comprises life insurance, long-term health and accident insurance, savings, pensions and annuity business written by our life insurance subsidiaries, including managed pension fund business and our share of the other life and related business written in our associates and joint ventures, as well as lifetime mortgage business written in the UK.

General insurance and health

Our general insurance and health business provides insurance cover to individuals and to small and medium sized businesses, for risks associated mainly with motor vehicles, property and liability, such as employers' liability and professional indemnity liability, and medical expenses.

Fund management

Our fund management business invests policyholders' and shareholders' funds, provides investment management services for institutional pension fund mandates and manages a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs. Clients include Aviva Group businesses and third-party financial institutions, pension funds, public sector organisations, investment professionals and private investors.

Other

Other includes the RAC non-insurance operations, our banking businesses, service companies, head office expenses, such as Group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

4 – Segmental information continued

(i) Segmental income statement – products and services for the year ended 31 December 2009

	Long-term business £m	General insurance and health** £m	Fund management £m	Other £m	Total £m
Gross written premiums*	24,722	9,968	—	—	34,690
Premiums ceded to reinsurers	(1,801)	(775)	—	—	(2,576)
Net written premiums	22,921	9,193	—	—	32,114
Net change in provision for unearned premiums	—	559	—	—	559
Net earned premiums	22,921	9,752	—	—	32,673
Fee and commission income	703	131	548	407	1,789
	23,624	9,883	548	407	34,462
Net investment income	23,126	1,272	6	568	24,972
Inter-segment revenue	—	—	189	—	189
Share of (loss)/profit of joint ventures and associates	(449)	2	(16)	(41)	(504)
Profit on the disposal of subsidiaries and associates	(4)	—	—	157	153
Segmental income	**46,297**	**11,157**	**727**	**1,091**	**59,272**
Claims and benefits paid, net of recoveries from reinsurers	(20,442)	(7,107)	—	—	(27,549)
Change in insurance liabilities, net of reinsurance	(6,229)	547	—	—	(5,682)
Change in investment contract provisions	(11,185)	—	—	—	(11,185)
Change in unallocated divisible surplus	(1,547)	—	—	—	(1,547)
Amortisation of deferred acquisition costs and acquired value of in-force business	(249)	—	—	—	(249)
Depreciation and other amortisation expense	(147)	(53)	(7)	(93)	(300)
Other operating expenses	(3,192)	(3,465)	(554)	(1,394)	(8,605)
Impairment losses	(429)	(85)	—	(94)	(608)
Inter-segment expenses	(178)	(11)	—	—	(189)
Finance costs	(278)	(24)	(58)	(976)	(1,336)
Segmental expenses	**(43,876)**	**(10,198)**	**(619)**	**(2,557)**	**(57,250)**
Tax attributable to policyholder returns	(217)	—	—	—	(217)
Profit/(loss) before tax attributable to shareholders	**2,204**	**959**	**108**	**(1,466)**	**1,805**
Adjusted for non-operating items	(317)	1	25	508	217
Operating profit/(loss) before tax attributable to shareholders' profits	**1,887**	**960**	**133**	**(958)**	**2,022**

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £207 million, of which £51 million relates to property and liability insurance and £156 million relates to long-term business.

** General insurance and health business segment includes gross written premiums of £841 million relating to health business. The remaining business relates to property and liability insurance.

4 – Segmental information continued

(ii) Segmental income statement – products and services for the year ended 31 December 2008

	Long-term business £m	General Insurance and health** £m	Fund management £m	Other £m	Total £m
Gross written premiums*	24,272	11,934	—	—	36,206
Premiums ceded to reinsurers	(1,044)	(797)	—	—	(1,841)
Net written premiums	23,228	11,137	—	—	34,365
Net change in provision for unearned premiums	—	277	—	—	277
Net earned premiums	23,228	11,414	—	—	34,642
Fee and commission income	753	160	567	405	1,885
	23,981	11,574	567	405	36,527
Net investment (expense)/income	(16,671)	425	3	200	(16,043)
Inter-segment revenue	—	—	185	—	185
Share of loss of joint ventures and associates	(1,089)	(5)	(12)	(22)	(1,128)
Profit on the disposal of subsidiaries and associates	—	—	—	7	7
Segmental income	6,221	11,994	743	590	19,548
Claims and benefits paid, net of recoveries from reinsurers	(21,024)	(8,329)	—	—	(29,353)
Change in insurance liabilities, net of reinsurance	3,560	325	—	—	3,885
Change in investment contract provisions	10,629	—	—	—	10,629
Change in unallocated divisible surplus	4,482	—	—	—	4,482
Amortisation of deferred acquisition costs and acquired value of in-force business	(333)	—	—	—	(333)
Depreciation and other amortisation expense	(159)	(49)	(6)	(145)	(359)
Other operating expenses	(3,194)	(3,914)	(599)	(388)	(8,095)
Impairment losses	(796)	(123)	—	(121)	(1,040)
Inter-segment expenses	(167)	(8)	—	(10)	(185)
Finance costs	(530)	(2)	(57)	(958)	(1,547)
Segmental expenses	(7,532)	(12,100)	(662)	(1,622)	(21,916)
Tax attributable to policyholder returns	1,068	—	—	—	1,068
(Loss)/profit before tax attributable to shareholders	(243)	(106)	81	(1,032)	(1,300)
Adjusted for non-operating items	1,937	1,304	42	314	3,597
Operating profit/(loss) before tax attributable to shareholders' profits	1,694	1,198	123	(718)	2,297

* Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £255 million, of which £89 million relates to property and liability insurance, £131 million to long-term business and the remainder to health business.
** General insurance and health business segment includes gross written premiums of £1,924 million and premiums ceded to other companies of £35 million relating to health business. The remaining business relates to property and liability insurance.

(iii) Segmental statement of financial position – products and services as at 31 December 2009

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	**1,616**	**462**	**2**	**1,301**	**3,381**
Acquired value of in-force business and intangible assets	**2,396**	**382**	**12**	**70**	**2,860**
Interests in, and loans to, joint ventures and associates	**2,851**	**5**	**44**	**82**	**2,982**
Property and equipment	**397**	**48**	**12**	**296**	**753**
Investment property	**11,138**	**191**	**—**	**1,093**	**12,422**
Loans	**26,915**	**769**	**5**	**13,390**	**41,079**
Financial investments	**220,660**	**11,548**	**65**	**6,406**	**238,679**
Deferred acquisition costs	**4,069**	**1,227**	**20**	**—**	**5,316**
Other assets	**38,469**	**7,014**	**523**	**913**	**46,919**
Total assets	**308,511**	**21,646**	**683**	**23,551**	**354,391**
Gross insurance liabilities	**153,628**	**17,464**	**—**	**—**	**171,092**
Gross liabilities for investment contracts	**110,015**	**—**	**—**	**—**	**110,015**
Unallocated divisible surplus	**3,866**	**—**	**—**	**—**	**3,866**
Net asset value attributable to unit holders	**6,841**	**13**	**—**	**3,040**	**9,894**
Borrowings	**3,780**	**89**	**—**	**11,131**	**15,000**
Other liabilities, including inter-segment liabilities	**13,064**	**(606)**	**414**	**16,566**	**29,438**
Total liabilities	**291,194**	**16,960**	**414**	**30,737**	**339,305**
Total equity					**15,086**
Total equity and liabilities					**354,391**

4 – Segmental information continued

(iv) Segmental statement of financial position – products and services as at 31 December 2008

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Restated Total £m
Goodwill	1,827	477	3	1,271	3,578
Acquired value of in-force business and intangible assets	3,542	402	14	80	4,038
Interests in, and loans to, joint ventures and associates	2,810	4	44	125	2,983
Property and equipment	507	118	13	326	964
Investment property	12,953	278	—	1,195	14,426
Loans	28,916	914	1	12,406	42,237
Financial investments	213,379	11,632	73	5,176	230,260
Deferred acquisition costs	4,455	1,489	21	—	5,965
Other assets	39,539	9,876	563	133	50,111
Total assets	307,928	25,190	732	20,712	354,562
Gross insurance liabilities	155,693	19,157	—	—	174,850
Gross liabilities for investment contracts	107,559	—	—	—	107,559
Unallocated divisible surplus	2,325	—	—	—	2,325
Net asset value attributable to unit holders	4,449	16	—	2,453	6,918
Borrowings	4,368	—	—	10,833	15,201
Other liabilities, including inter-segment liabilities	16,953	379	392	15,412	33,136
Total liabilities	291,347	19,552	392	28,698	339,989
Total equity					14,573
Total equity and liabilities					354,562

(v) Segmental statement of financial position – products and services as at 31 December 2007

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Restated Total £m
Goodwill	1,414	418	3	1,247	3,082
Acquired value of in-force business and intangible assets	2,628	424	12	133	3,197
Interests in, and loans to, joint ventures and associates	3,509	4	47	222	3,782
Property and equipment	435	70	9	428	942
Investment property	14,701	360	—	330	15,391
Loans	26,600	960	—	8,633	36,193
Financial investments	201,694	10,501	41	4,604	216,840
Deferred acquisition costs	2,711	1,583	27	—	4,321
Other assets	26,683	10,021	611	263	37,578
Total assets	280,375	24,341	750	15,860	321,326
Gross insurance liabilities	135,014	17,825	—	—	152,839
Gross liabilities for investment contracts	98,244	—	—	—	98,244
Unallocated divisible surplus	6,785	—	—	—	6,785
Net asset value attributable to unit holders	3,935	46	—	2,428	6,409
Borrowings	3,947	12	—	8,698	12,657
Other liabilities, including inter-segment liabilities	17,811	698	397	9,459	28,365
Total liabilities	265,736	18,581	397	20,585	305,299
Total equity					16,027
Total equity and liabilities					321,326

5 – Details of income

This note gives further detail on the items appearing in the first section of the consolidated income statement.

	2009 £m	2008 £m
Gross written premiums (note 4a & 4b)		
Long-term:		
Insurance contracts	**16,692**	19,388
Participating investment contracts	**8,030**	4,884
General insurance and health	**9,968**	11,934
	34,690	36,206
Less: premiums ceded to reinsurers (note 4a & 4b)	**(2,576)**	(1,841)
Gross change in provision for unearned premiums (note 38e)	**645**	388
Reinsurers' share of change in provision for unearned premiums (note 41c(iii))	**(86)**	(111)
Net change in provision for unearned premiums	**559**	277
Net earned premiums	**32,673**	34,642
Fee and commission income		
Fee income from investment contract business	**456**	487
Fund management fee income	**536**	556
Other fee income	**473**	577
Reinsurance commissions receivable	**180**	176
Other commission income	**138**	110
Net change in deferred revenue	**6**	(21)
	1,789	1,885
Total revenue	**34,462**	36,527
Net investment income		
Interest and similar income		
From financial instruments designated as trading and other than trading	**7,258**	7,302
From AFS investments and financial instruments at amortised cost	**2,150**	2,012
	9,408	9,314
Dividend income	**1,753**	2,444
Other income from investments designated as trading		
Realised gains on disposals	**693**	1,039
Unrealised gains and losses (policy J)		
Gains/(losses) arising in the year	**(1,184)**	1,147
(Gains)/losses recognised in prior periods and now realised	**(693)**	(1,039)
	(1,877)	108
	(1,184)	1,147
Other income from investments designated as other than trading		
Realised losses on disposals	**(2,561)**	(1,181)
Unrealised gains and losses (see policy J)		
Gains/(losses) arising in the year	**14,481**	(26,394)
(Gains)/losses recognised previously and now realised	**2,561**	1,181
	17,042	(25,213)
	14,481	(26,394)
Realised gains and losses on AFS investments		
Gains recognised previously as unrealised in equity (see policy S and note 34)	**310**	126
Net income from investment properties		
Rent	**908**	959
Expenses relating to these properties	**(47)**	(33)
Realised gains on disposal	**339**	14
Fair value (losses) on investment properties (note 21)	**(1,084)**	(3,137)
	116	(2,197)
Realised gains on loans	**24**	7
Foreign exchange gains and losses on investments other than trading	**238**	(395)
Other investment expenses	**(174)**	(95)
Net investment income	**24,972**	(16,043)
Share of (loss) after tax of joint ventures (note 18a)	**(409)**	(1,038)
Share of loss after tax of associates (note 19a)	**(95)**	(90)
Share of (loss) after tax of joint ventures and associates	**(504)**	(1,128)
Profit on disposal of subsidiaries and associates (note 3b)	**153**	7
Total income	**59,083**	19,363

6 – Details of expenses

This note gives further detail on the items appearing in the second section of the consolidated income statement.

	2009 £m	2008 £m
Claims and benefits paid		
Claims and benefits paid to policyholders on long-term business		
Insurance contracts	**16,973**	16,986
Participating investment contracts	**4,264**	5,085
Non-participating investment contracts	**67**	115
Claims and benefits paid to policyholders on general insurance and health business	**7,444**	8,696
	28,748	30,882
Less: Claim recoveries from reinsurers		
Insurance contracts	**(1,083)**	(1,447)
Participating investment contracts	**(116)**	(82)
Claims and benefits paid, net of recoveries from reinsurers	**27,549**	29,353
Change in insurance liabilities		
Change in insurance liabilities	**5,755**	(4,792)
Change in reinsurance asset for insurance provisions	**(73)**	907
Change in insurance liabilities, net of reinsurance	**5,682**	(3,885)
Change in investment contract provisions		
Investment income allocated to investment contracts	**5,136**	(6,957)
Other changes in provisions		
Participating investment contracts (note 39)	**5,764**	(3,088)
Non-participating investment contracts	**(5,425)**	(591)
Change in reinsurance asset for investment contract provisions	**5,710**	7
Change in investment contract provisions	**11,185**	(10,629)
Change in unallocated divisible surplus (note 43)	**1,547**	(4,482)
Fee and commission expense		
Acquisition costs		
Commission expenses for insurance and participating investment contracts	**2,953**	3,521
Change in deferred acquisition costs for insurance and participating investment contracts	**(536)**	(513)
Deferrable costs for non-participating investment contracts	**112**	160
Other acquisition costs	**1,137**	1,337
Change in deferred acquisition costs for non-participating investment contracts	**(31)**	185
Investment income attributable to unitholders	**331**	(679)
Reinsurance commissions and other fee and commission expense	**430**	400
	4,396	4,411
Other expenses		
Other operating expenses		
Staff costs (note 10)	**2,659**	2,873
Central costs and sharesave schemes	**108**	141
Depreciation (note 20)	**115**	131
Impairment losses on property and equipment (note 20)	**2**	—
Impairment of goodwill on subsidiaries (note 16a)	**30**	48
Amortisation of acquired value of in-force business on insurance contracts (note 17)	**249**	333
Amortisation of intangible assets (note 17)	**142**	113
Net impairment of acquired value of in-force business (note 17)	**13**	2
Impairment of intangible assets (note 17)	**12**	13
Integration and restructuring costs (see below)	**286**	326
Exceptional items (see below)	**776**	247
Other expenses	**299**	217
	4,691	4,444
Impairments		
Net impairment on loans	**53**	50
Net impairment on financial investments	**538**	973
Net impairment on receivables and other financial assets	**2**	17
Net impairment on non-financial assets	**(1)**	—
	592	1,040
Other net foreign exchange losses/(gains)	**83**	(68)
Finance costs (note 7)	**1,336**	1,547
Total expenses	**57,061**	21,731

6 – Details of expenses continued

Integration and restructuring costs

Integration and restructuring costs incurred in the year amounted to £286 million *(2008: £326 million)*. This includes £210 million for the cost savings initiatives in the UK life and general insurance businesses and Europe, which have delivered £170 million annualised cost savings in the year.

Exceptional items

Exceptional items totalled £45 million net profit *(2008: £551 million net expense)* in the year.

For the year ended 31 December 2009, this comprised:

- A net exceptional profit before tax of £207 million as a result of the reattribution of the inherited estate (see note 44), of which £674 million is included in "other expenses" and £881 million credit is included in changes in "unallocated divisible surplus";
- A £60 million expense for the strengthening of reserves in respect of several specific discontinued commercial liability risks written in Canada a significant number of years ago, which is included in "change in insurance liabilities"; and
- A £102 million expense for the migration of all remaining local brands, except Delta Lloyd and RAC, to the single global Aviva brand, which has been implemented over the two year period 2008 to 2009. The cost is included in "other expenses".

For the year ended 31 December 2008, this comprised:

- A £142 million expense for closing or exiting non-core business operations such as the lifetime wrap platform and The British School of Motoring in the UK and the structured settlement business in the United States;
- A £304 million expense after reinsurance for the discounted cost of strengthening latent claims provisions, mainly in the UK (see note 38);
- A £126 million expense for the settlement agreed by our Netherlands life business for its unit-linked policyholders, following an industry-wide challenge on the level of fees;
- Brand migration costs of £37 million (referred to above); and
- A £58 million credit from settlement of a disputed Australian tax liability and the consequent release of a provision for interest charges.

The table below sets out the lines of the income statement that the exceptional items have been included in:

	2009 £m	2008 £m
Change in unallocated divisible surplus (note 43)	**881**	—
Change in insurance liabilities, net of reinsurance (note 38)	**(60)**	(304)
Other expenses (as in the table above)	**(776)**	(247)
	45	(551)

Impairment of financial investments

Group policy is to recognise an impairment on available for sale (AFS) equity securities when there has been a prolonged or significant decline in their fair value below their cost, irrespective of general market movements. Although management believes that these equity securities will ultimately recover their value, there can be no certainty that this will happen as, unlike fixed maturity securities, the value of an equity security cannot be recovered in full by holding it to maturity.

7 – Finance costs

This note analyses the interest costs on our borrowings (which are described in note 48) and similar charges.

Finance costs comprise:

	2009 £m	2008 £m
Interest expense on core structural borrowings		
Subordinated debt	**293**	229
Debenture loans	**29**	21
Commercial paper	**13**	36
	335	286
Interest expense on operational borrowings		
Amounts owed to credit institutions	**113**	82
Securitised mortgage loan notes		
At amortised cost	**77**	125
At fair value	**185**	325
	262	450
	375	532
Interest on banking customer deposits	**390**	250
Interest on reinsurance deposits	**12**	11
Interest on collateral received	**47**	321
Other similar charges	**177**	147
Total finance costs	**1,336**	1,547

8 – Long-term business economic volatility

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business. This note explains the methodology behind this.

(a) Definitions

Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, such as market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

(b) Economic volatility

The investment variances and economic assumption changes excluded from the long-term business operating profit are as follows:

	Long-term business	
	2009 £m	2008 £m
Investment variances and economic assumption changes	**(75)**	(1,631)

The limited economic variance in 2009 reflects the recovery in investment markets, with positive variances on fixed interest assets in Europe and the United States driven by the narrowing of credit spreads towards the end of the year, offset by losses from equity derivatives in the Netherlands. Investment variances include the reversal of £160 million of losses incurred in 2008 relating to assets backing participating business in Spain. Additional credit default provisions for corporate bonds and commercial mortgages were maintained at £550 million in the UK and increased by £97 million in Europe. This compares to a significantly negative impact in 2008 driven by the global financial crisis.

(c) Methodology

The expected investment returns and corresponding expected movements in long-term business liabilities are calculated separately for each principal long-term business unit.

The expected return on investments for both policyholder and shareholders funds is based on opening economic assumptions applied to the expected funds under management over the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each financial year. The same margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties. Expected funds under management are equal to the opening value of funds under management, adjusted for sales and purchases during the period arising from expected operating experience.

The actual investment return is affected by differences between the actual and expected funds under management and changes in asset mix, as well as movements in interest rates. To the extent that these differences arise from the operating experience of the long-term business, or management decisions to change asset mix, the effect is included in the operating profit. The residual difference between actual and expected investment return is included in investment variances, outside operating profit but included in profit before tax.

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items.

The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit-linked and with-profits funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

(d) Assumptions

The expected rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return and asset classification under IFRS.

Within the 2008 results, the expected rate of investment return was calculated by reference to the one year swap rate in the relevant currency plus an appropriate risk premium for equities and properties. For 2009, the Group considers that the return over the typical duration of the assets held is more appropriate and is more consistent with our expectation of long-term rates of return. The expected return on equities and properties has therefore been calculated by reference to the 10 year swap rate in the relevant currency plus an appropriate risk premium.

If the IFRS operating profit had been calculated by reference to the one year swap rate, this profit would have been £200 million lower. There is no impact on IFRS profit before tax.

8 – Long-term business economic volatility continued

The principal assumptions underlying the calculation of the expected investment return for equities and properties are:

	Equities		Properties	
	2009 %	2008 %	**2009 %**	2008 %
United Kingdom	**7.0**	9.2	**5.5**	7.7
Eurozone	**7.3**	8.3	**5.8**	6.8

For fixed interest securities classified as fair value through profit or loss, the expected investment returns are based on average prospective yields for the actual assets held. Where such securities are classified as available for sale, such as in the United States, the expected investment return comprises the expected interest or dividend payments and amortisation of the premium or discount at purchase.

The Group has applied the same economic assumptions for equities and properties as are used under MCEV principles to calculate the longer-term investment return for its long-term business in 2008 and 2009.

9 – Longer-term investment return and economic assumption changes for non-long-term business

For non-long-term business, the total investment income, including realised and unrealised gains, is split between a calculated longer-term return and short-term fluctuations from this. This note gives details of the longer-term return calculation and the relevant assumptions, as well as the economic assumption changes on our general insurance and health business.

(a) The short-term fluctuations in investment return and economic assumption changes attributable to the non-long-term business result and reported outside operating profit were as follows:

	Non-long-term business	
	2009 £m	2008 £m
Short-term fluctuation in investment return (see (b) below)	**95**	(819)
Economic assumption changes (see (g) below)	**57**	(94)
	152	(913)

(b) The longer-term investment return and short-term fluctuation are as follows:

	Non-long-term business	
	2009 £m	2008 £m
Net investment income	**1,373**	522
Internal charges included under other headings	**(193)**	(73)
	1,180	449
Analysed between:		
Longer-term investment return, reported within operating profit	**1,085**	1,268
Short-term fluctuation in investment return, reported outside operating profit	**95**	(819)
	1,180	449

(c) The longer-term investment return is calculated separately for each principal non-long-term business unit. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of investment return.

The longer-term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer term return for other investments is the actual income receivable for the year.

(d) The total assets supporting the general insurance and health business, which contribute towards the longer-term return, were £22,844 million *(2008 restated: £23,398 million)*. For other operations, the longer-term return reflects interest income earned in the Netherlands bank and retail mortgage divisions.

9 – Longer-term investment return and economic assumption changes for non-long-term business continued

The principal assumptions underlying the calculation of the longer-term investment return are:

	Longer-term rates of return Equities		Longer-term rates of return Properties	
	2009 %	2008 %	**2009 %**	2008 %
United Kingdom	**7.0**	9.2	**5.5**	7.7
France	**7.3**	8.3	**5.8**	6.8
Ireland	**7.3**	8.3	**5.8**	6.8
Netherlands	**7.3**	8.3	**5.8**	6.8
Canada	**6.1**	7.7	**4.6**	6.2

The Group has applied the same economic assumptions for equities and properties as are used under MCEV principles to calculate the longer-term investment return for its non-long-term business in 2008 and 2009. In 2007, rates were based on EEV.

(e) The table below compares the actual return on investments attributable to the non-long-term business, after deducting investment management expenses and charges, with the aggregate longer-term return over a five-year period.

	2005 – 2009 £m	Restated 2004 – 2008 £m
Actual return attributable to shareholders	**5,547**	5,516
Longer-term return credited to operating results	**(5,789)**	(5,692)
Excess of longer term returns over actual returns	**(242)**	(176)

(f) The table below shows the sensitivity of the Group's non-long-term business operating profit before tax to changes in the longer term rates of return:

Movement in investment return for	By	Change in	**2009 £m**	2008 £m
Equities	1% higher/lower	Group operating profit before tax	**11**	17
Properties	1% higher/lower	Group operating profit before tax	**3**	3

(g) The economic assumption changes arise from movements in the rate used to discount latent claims.

As explained in accounting policy K, provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the duration of the expected settlement of the claims. The discount rate is set at the start of the accounting period, with any change in rates between the start and end of the accounting period being reflected below operating profit as an economic assumption change. The range of discount rates used is disclosed in note 38(c).

10 – Employee information

This note shows where our staff are employed throughout the world and analyses the total staff costs. The note excludes staff employed by our joint ventures or associates.

(a) Employee numbers

The number of persons employed by the Group was:

	At 31 December			Average for the year	
	2009 Number	2008 Number	2007 Number	**2009 Number**	2008 Number
United Kingdom operations*	**21,663**	28,424	32,872	**24,068**	29,996
Aviva Europe	**9,741**	9,827	9,583	**9,755**	9,761
Delta Lloyd	**6,297**	6,674	6,406	**6,486**	6,522
North America	**5,247**	5,627	4,634	**5,498**	4,990
Asia Pacific	**1,599**	2,376	2,052	**1,595**	2,220
Aviva Investors	**1,311**	1,298	967	**1,313**	1,061
Corporate centre	**469**	532	497	**467**	507
	46,327	54,758	57,011	**49,182**	55,057

* 2007 employee numbers include staff in the offshore operations in Sri Lanka and India. These operations were sold in 2008 and therefore these are not included in the 2008 closing numbers.

10 – Employee information continued

(b) Staff costs

Total staff costs were:

	2009 £m	2008 £m
Wages and salaries	**1,860**	2,107
Social security costs	**272**	258
Post-retirement obligations		
Defined benefit schemes (note 47d)	**187**	175
Defined contribution schemes (note 47d)	**73**	65
Profit sharing and incentive plans	**135**	172
Equity compensation plans (note 29d)	**56**	39
Termination benefits	**76**	57
	2,659	2,873

These costs are charged within:

	2009 £m	2008 £m
Acquisition costs	**491**	584
Claims handling expenses	**270**	291
Central costs and sharesave schemes	**53**	83
Other operating expenses	**1,845**	1,915
	2,659	2,873

11 – Directors

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' remuneration report on pages 99 to 116 in the "Corporate Governance" section of this report. For the purposes of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the directors in respect of 2009 was £6.7 million *(2008: £5.2 million*). Employer contributions to pensions for Executive Directors' for qualifying periods was £123,000 *(2008: £234,000*). This is only for one ED as the others in the qualifying periods were not receiving any pension contributions by Aviva. The aggregate net value of share awards granted to the directors in the period was £5.256 million *(2008: £4.348 million)*. The net value has been calculated by reference to the market price at the date of grant. During the year, no share options were exercised by directors *(2008: nil options exercised)*.

12 – Auditors' remuneration

This note shows the total remuneration payable by the Group to our auditors.

The total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, to its principal auditors, Ernst & Young LLP, and its associates is shown below.

2009	Audit fees £m	Audit-related fees £m	Tax services £m	Other services £m	Total fees £m
Fees payable to Ernst & Young LLP for the statutory audit of the Aviva Group and Company financial statements	**1.5**	**—**	**—**	**—**	**1.5**
Fees payable to Ernst & Young LLP and its associates for other services to Group companies:					
Audit of Group subsidiaries pursuant to legislation	**11.9**	**—**	**—**	**—**	**11.9**
Additional fees related to the prior year audit of Group subsidiaries pursuant to legislation	**1.5**	**—**	**—**	**—**	**1.5**
Other services pursuant to legislation	**3.0**	**—**	**—**	**—**	**3.0**
Audit of Group pension scheme	**—**	**0.1**	**—**	**—**	**0.1**
Supplementary reporting	**—**	**2.1**	**—**	**—**	**2.1**
Tax services	**—**	**—**	**0.1**	**—**	**0.1**
All other fees:					
Services relating to corporate finance transactions	**—**	**1.2**	**—**	**1.8**	**3.0**
Services relating to information technology	**—**	**—**	**—**	**—**	**—**
Other supplementary services	**—**	**7.9**	**—**	**2.9**	**10.8**
	17.9	**11.3**	**0.1**	**4.7**	**34.0**

2008	Audit fees £m	Audit-related fees £m	Tax services £m	Other services £m	Total fees £m
Fees payable to Ernst & Young LLP for the statutory audit of the Aviva Group and Company financial statements	1.5	—	—	—	1.5
Fees payable to Ernst & Young LLP and its associates for other services to Group companies:					
Audit of Group subsidiaries pursuant to legislation	10.0	—	—	—	10.0
Additional fees related to the prior year audit of Group subsidiaries pursuant to legislation	0.5	—	—	—	0.5
Other services pursuant to legislation	2.4	—	—	—	2.4
Audit of Group pension scheme	—	0.1	—	—	0.1
Supplementary reporting	—	3.5	—	—	3.5
Tax services	—	—	0.2	—	0.2
All other fees:					
Services relating to corporate finance transactions	—	0.1	—	0.4	0.5
Services relating to information technology	—	—	—	0.1	0.1
Other supplementary services	—	4.7	—	1.5	6.2
	14.4	8.4	0.2	2.0	25.0

Fees payable for the audit of the Group's subsidiaries pursuant to legislation include fees for the statutory audit of the subsidiaries, both inside and outside the UK, and for the work performed by Ernst & Young LLP in respect of the subsidiaries for the purpose of the consolidated financial statements of the Group.

Other services pursuant to legislation comprise services in relation to statutory and regulatory filings. These include audit services for the audit of FSA returns in the UK and review of interim financial information under the Listing Rules of the UK Listing Authority.

Fees for Supplementary reporting are in respect of the audit of the Group's MCEV reporting. Although embedded value is a primary management reporting basis and our disclosures require a full audit, the relevant fees are not classified as being for statutory audit. These fees have reduced in 2009 to £2.1 million *(2008: £3.5 million)*, as the 2008 fee includes the work undertaken on the Group's MCEV restatement.

Fees for Other supplementary services include £5.7 million *(2008: £3.5 million)* for assurance services in connection with the Group's Financial Reporting Control Framework; £1.2 million *(2008: £1.2 million)* for examination of the Group's Individual Capital Assessment (ICA); and £3.9 million *(2008: £1.5 million)* for other services which includes work undertaken on the listing on the New York Stock Exchange and the reattribution of the inherited estate in the UK.

Services relating to corporate finance transactions mainly reflect work undertaken on the partial IPO of Delta Lloyd on Euronext Amsterdam.

13 – Tax

This note analyses the tax charge for the year and explains the factors that affect it.

(a) Tax charged/(credited) to the income statement

(i) The total tax charge/(credit) comprises:

	2009 £m	2008 £m
Current tax		
For this year	**617**	527
Prior year adjustments	**(164)**	(284)
Total current tax	**453**	243
Deferred tax		
Origination and reversal of temporary differences	**231**	(1,814)
Changes in tax rates or tax laws	**2**	(7)
Write-down of deferred tax assets	**21**	95
Total deferred tax	**254**	(1,726)
Total tax charged/(credited) to income statement (note 13d)	**707**	(1,483)

(ii) The Group, as a proxy for policyholders in the UK, Ireland, Singapore and Australia (prior to disposal), is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish, Singapore and Australian life insurance policyholder returns is included in the tax charge. The tax charge attributable to policyholders' returns included in the charge above is £217 million (*2008: £1,068 million credit*).

(iii) The tax charge/(credit) can be analysed as follows:

	2009 £m	2008 £m
UK tax	**225**	(1,482)
Overseas tax	**482**	(1)
	707	(1,483)

(iv) Unrecognised tax losses and temporary differences of previous years were used to reduce current tax expense and deferred tax expense by £59 million and £10 million respectively *(2008: £139 million and £19 million respectively)*.

(v) Deferred tax charged/(credited) to the income statement represents movements on the following items:

	2009 £m	2008 £m
Long-term business technical provisions and other insurance items	**(876)**	591
Deferred acquisition costs	**261**	224
Unrealised gains/(losses) on investments	**963**	(1,706)
Pensions and other post-retirement obligations	**(72)**	16
Unused losses and tax credits	**(182)**	(413)
Subsidiaries, associates and joint ventures	**12**	(199)
Intangibles and additional value of in-force long-term business	**(21)**	30
Provisions and other temporary differences	**169**	(269)
Total deferred tax charged/(credited) to income statement	**254**	(1,726)

13 – Tax continued

(b) Tax charged/(credited) to other comprehensive income

(i) The total tax charge/(credit) comprises:

	2009 £m	2008 £m
Current tax		
In respect of fair value (losses)/gains on owner-occupied properties	—	(1)
Deferred tax		
In respect of pensions and other post-retirement obligations	**(45)**	(15)
In respect of unrealised gains/(losses) on investments	**241**	(203)
	196	(218)
Total tax charged/(credited) to other comprehensive income	**196**	(219)

(ii) The tax charge attributable to policyholders' returns included above is £nil *(2008: £nil)*.

(c) Tax credited to equity

Tax credited directly to equity in the year amounted to £17 million *(2008: £16 million)*, and is wholly in respect of coupon payments on a direct capital instrument.

(d) Tax reconciliation

The tax on the Group's profit/(loss) before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2009 £m	2008 £m
Profit/(loss) before tax	**2,022**	(2,368)
Tax calculated at standard UK corporation tax rate of 28% *(2008: 28.5%)*	**566**	(675)
Different basis of tax – policyholders	**82**	(767)
Adjustment to tax charge in respect of prior years	**(113)**	(283)
Non-assessable income	**(105)**	(94)
Non-taxable profit on sale of subsidiaries and associates	**(44)**	(2)
Disallowable expenses	**279**	95
Different local basis of tax on overseas profits	**50**	(61)
Movement in deferred tax not recognised	**(15)**	292
Other	**7**	12
Total tax charged/(credited) to income statement (note 13a)	**707**	(1,483)

14 – Earnings per share

This note shows how we calculate earnings per share, based both on the present shares in issue (the basic earnings per share) and the potential future shares in issue, including conversion of share options granted to employees (the diluted earnings per share). We have also shown the same calculations based on our operating profit as we believe this gives a better indication of operating performance.

(a) Basic earnings per share

(i) The profit/(loss) attributable to ordinary shareholders is:

			2009
	Operating profit £m	Adjusting items £m	Total £m
Profit before tax attributable to shareholders' profits	**2,022**	**(217)**	**1,805**
Tax attributable to shareholders' (loss)/profits	**(547)**	**57**	**(490)**
Profit for the year	**1,475**	**(160)**	**1,315**
Amount attributable to minority interests	**(193)**	**(37)**	**(230)**
Cumulative preference dividends for the year	**(17)**	**—**	**(17)**
Coupon payments in respect of direct capital instruments (DCI) (net of tax)	**(44)**	**—**	**(44)**
Profit attributable to ordinary shareholders	**1,221**	**(197)**	**1,024**

14 – Earnings per share continued

	2008		
	Operating profit £m	Adjusting items £m	Total £m
Profit/(loss) before tax attributable to shareholders' profits	2,297	(3,597)	(1,300)
Tax attributable to shareholders' (loss)/profits	(487)	902	415
Profit/(loss) for the year	1,810	(2,695)	(885)
Amount attributable to minority interests	(91)	61	(30)
Cumulative preference dividends for the year	(17)	—	(17)
Coupon payments in respect of direct capital instruments (DCI) (net of tax)	(40)	—	(40)
Profit/(loss) attributable to ordinary shareholders	1,662	(2,634)	(972)

(ii) Basic earnings per share is calculated as follows:

	2009		
	Before tax £m	**Net of tax, minorities, preference dividends and DCI £m**	**Per share p**
Operating profit attributable to ordinary shareholders	**2,022**	**1,221**	**45.1**
Non-operating items:			
Investment return variances and economic assumption changes on long-term business (note 8)	**(75)**	**(120)**	**(4.4)**
Short-term fluctuation in return on investments backing non-long-term business (note 9b)	**95**	**158**	**5.8**
Economic assumption changes on general insurance and health business (note 9b)	**57**	**41**	**1.5**
Impairment of goodwill and other amounts expensed (note 16a)	**(62)**	**(62)**	**(2.3)**
Amortisation and net impairment of intangibles (note 17)	**(144)**	**(38)**	**(1.4)**
Profit on the disposal of subsidiaries and associates (note 3b)	**153**	**153**	**5.7**
Integration and restructuring costs and exceptional items (note 6)	**(241)**	**(329)**	**(12.2)**
Profit attributable to ordinary shareholders	**1,805**	**1,024**	**37.8**

	2008		
	Before tax £m	Net of tax, minorities, preference dividends and DCI £m	Per share p
Operating profit attributable to ordinary shareholders	2,297	1,662	62.9
Non-operating items:			
Investment return variances and economic assumption changes on long-term business (note 8)	(1,631)	(1,280)	(48.4)
Short-term fluctuation in return on investments backing non-long-term business (note 9b)	(819)	(553)	(20.9)
Economic assumption changes on general insurance and health business	(94)	(67)	(2.5)
Impairment of goodwill and other amounts expensed (note 16a)	(66)	(66)	(2.5)
Amortisation and net impairment of intangibles (note 17)	(117)	(89)	(3.4)
Profit on the disposal of subsidiaries and associates (note 3b)	7	7	0.3
Integration and restructuring costs and exceptional items (note 6)	(877)	(586)	(22.3)
Loss attributable to ordinary shareholders	(1,300)	(972)	(36.8)

(iii) The calculation of basic earnings per share uses a weighted average of 2,705 million *(2008: 2,643 million)* ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 31 December 2009 was 2,767 million *(2008: 2,658 million)*.

14 – Earnings per share continued

(b) Diluted earnings per share

(i) Diluted earnings per share is calculated as follows:

			2009
	Total £m	Weighted average number of shares m	Per share p
Profit attributable to ordinary shareholders	**1,024**	**2,705**	**37.8**
Dilutive effect of share awards and options	**—**	**25**	**(0.3)**
Diluted earnings per share	**1,024**	**2,730**	**37.5**

			2008
	Total £m	Weighted average number of shares m	Per share p
Loss attributable to ordinary shareholders	(972)	2,643	(36.8)
Dilutive effect of share awards and options	—	24	—
Diluted loss per share	(972)	2,667	(36.8)

(ii) Diluted earnings per share on operating profit attributable to ordinary shareholders is calculated as follows:

			2009
	Total £m	Weighted average number of shares m	Per share p
Operating profit attributable to ordinary shareholders	**1,221**	**2,705**	**45.1**
Dilutive effect of share awards and options	**—**	**25**	**(0.3)**
Diluted earnings per share	**1,221**	**2,730**	**44.8**

			2008
	Total £m	Weighted average number of shares m	Per share p
Operating profit attributable to ordinary shareholders	1,662	2,643	62.9
Dilutive effect of share awards and options	—	24	(0.6)
Diluted earnings per share	1,662	2,667	62.3

15 – Dividends and appropriations

This note analyses the total dividends and other appropriations we have paid during the year. The table below does not include the final dividend proposed after the year end because it is not accrued in these financial statements. The impact of shares issued in lieu of dividends is shown separately in note 35.

	2009 £m	2008 £m
Ordinary dividends declared and charged to equity in the year		
Final 2008 – 19.91 pence per share, paid on 15 May 2009	**527**	—
(Final 2007 – 21.10 pence per share, paid on 16 May 2008)	**—**	554
Interim 2009 – 9.00 pence per share, paid on 17 November 2009	**248**	—
(Interim 2008 – 13.09 pence per share, paid on 17 November 2008)	**—**	348
	775	902
Preference dividends declared and charged to equity in the year	**17**	17
Coupon payments on direct capital instrument	**61**	56
	853	975

Subsequent to 31 December 2009, the directors proposed a final dividend for 2009 of 15.0 pence per ordinary share *(2008: 19.91 pence)*, amounting to £415 million *(2008: £527 million)* in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 17 May 2010 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2010.

Interest on the direct capital instrument issued in November 2004 is treated as an appropriation of retained profits and, accordingly, it is accounted for when paid. Tax relief is obtained at a rate of 28.0% *(2008: 28.5%)*.

16 – Goodwill

This note analyses the changes to the carrying amount of goodwill during the year, and details the results of our impairment testing on both goodwill and intangible assets with indefinite lives.

(a) Carrying amount

	2009 £m	2008 £m
Gross amount		
At 1 January	**3,898**	3,273
Acquisitions (note 3a)	**5**	106
Fair value adjustments and movements in contingent consideration (note 3a)	**48**	(59)
Disposals	**(9)**	(84)
Transfers from other intangibles	**—**	11
Amounts expensed in the year (see (b)(i) below)	**(30)**	—
Foreign exchange rate movements	**(245)**	651
At 31 December	**3,667**	3,898
Accumulated impairment		
At 1 January	**(315)**	(191)
Impairment losses charged to exceptional items	**—**	(20)
Other impairment losses charged to expenses	**—**	(48)
Write back of impairment related to disposals	**3**	9
Foreign exchange rate movements	**26**	(65)
At 31 December	**(286)**	(315)
Carrying amount at 1 January	**3,583**	3,082
Carrying amount at 31 December	**3,381**	3,583
Less: Amounts classified as held for sale	**—**	(5)
	3,381	3,578

As explained in (b)(i) below, an amount of £30 million related to the recognition of a deferred tax asset previously recognised in goodwill has been expensed in the year. Together with impairment charges of £32 million recognised in respect of goodwill within interests in associates (note 19), the total goodwill write down for the year is £62 million.

Movements in contingent consideration relate to contingent consideration paid/received in respect of past acquisitions of subsidiaries. Goodwill arising on acquisitions completed before 1 January 1998 was charged directly to reserves. Goodwill arising on the Group's acquisition of joint ventures and associates is included within the carrying value of those investments (see notes 18 and 19).

16 – Goodwill continued

(b) Goodwill allocation and impairment testing

A summary of the goodwill and intangibles with indefinite useful lives allocated to cash-generating units is presented below.

	Carrying amount of goodwill			Carrying amount of intangibles with indefinite useful lives (detailed in note 17)			Total		
	2009 £m	2008 £m	2007 £m	**2009 £m**	2008 £m	2007 £m	**2009 £m**	2008 £m	2007 £m
United Kingdom									
Long-term business (see (i) below)	**31**	52	71	**—**	—	—	**31**	52	71
General insurance, RAC and health (see (ii) below)	**1,208**	1,208	1,276	**201**	201	221	**1,409**	1,409	1,497
Europe									
France (long-term business) (see (iii) below)	**—**	—	—	**55**	60	45	**55**	60	45
Ireland									
Long-term business (see (iv) below)	**122**	133	101	**—**	—	—	**122**	133	101
General insurance and health (see (v) below)	**121**	134	81	**—**	—	—	**121**	134	81
Italy									
Long-term business (see (vi) below)	**65**	74	46	**—**	334	254	**65**	408	300
General insurance and health (see (vii) below)	**58**	64	42	**—**	137	132	**58**	201	174
Delta Lloyd (see (viii) below)	**319**	279	212	**—**	—	—	**319**	279	212
Spain (long-term business) (see (ix) below)	**580**	652	552	**—**	—	—	**580**	652	552
Other	**15**	24	19	**—**	—	—	**15**	24	19
North America									
United States (long-term business) (see (x) below)	**770**	865	624	**—**	—	—	**770**	865	624
Canada	**42**	43	17	**—**	—	—	**42**	43	17
Asia Pacific									
Various	**50**	55	41	**—**	—	—	**50**	55	41
	3,381	3,583	3,082	**256**	732	652	**3,637**	4,315	3,734

As explained in accounting policy N, the carrying amount of goodwill and intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. The tests led to impairment of goodwill of £nil in 2009 *(2008: £68 million)*.

Goodwill and intangibles with indefinite useful lives have been tested for impairment in these businesses as follows:

United Kingdom

(i) Long-term business

The United Kingdom long-term business goodwill balance is split across four cash generating units, with no individual balance exceeding £22 million.

The Group acquired Hamilton Life Assurance Company Limited from HFC Bank Limited (HFC) in 2007, and identified £20 million of the purchase price as goodwill in respect of unrecognised deferred tax assets which could not be utilised or recognised at the time. The Group is now able to recognise value for these assets and further consideration of £9 million, included in the "Movements in contingent consideration", is payable to HFC in this respect. As required by paragraph 65 of IFRS 3, Business Combinations, the total £29 million has been charged to expenses, together with £1 million of transaction costs representing the balance of acquired goodwill. Deferred tax assets have increased to recognise this new asset (see note 45(b)(iii)).

(ii) General insurance, RAC and health

The recoverable amount of the UK general insurance, RAC and health unit has been determined based on a value in use calculation. The calculation uses cash flow projections based on business plans approved by management covering a three year period and a risk adjusted discount rate of 9.5%. Cash flows beyond that three year period have been extrapolated using a steady 2.5% growth rate. This growth rate is set with regards to past experience and historical statistics of UK premium growth published by the Association of British Insurers.

Key assumptions used for the calculation were:

- Budgeted operating profit represents the operating profit in the business plans, approved by management, and as such reflects the best estimate of future profits based on both historical experience and expected growth rates for the relevant UK industry sectors
- Some of the assumptions that underline the budgeted operating profit include market share, customer numbers, premium rate and fee income changes, claims inflation and commission rates; and
- Growth rates represent the rates used to extrapolate future cash flows beyond the business plan period and have been based upon latest information available regarding future and past growth rates, including external sources of data such as ABI Annual Market Statistics.

16 – Goodwill continued

Europe

Long-term business

The recoverable amount of long-term business cash generating units in the Europe region, has been determined based on a value in use calculation. The first step of the test was to compare the carrying value of each cash generating unit, including goodwill, to the Market Consistent Embedded Value (MCEV) of that cash generating unit. If the MCEV is less than the carrying value of a cash generating unit the present value of profits from expected new business for that cash generating unit is considered. If the value of profits from expected new business for a cash generating unit is expected to grow beyond the period of the initial plan, this growth rate is set with regard to past experience in each market and market expectations of future growth in each country.

For European long-term business cash generating units a key assumption used for the calculation was the embedded value which represents the shareholder interest in the life business and is calculated in accordance with the Market Consistent Embedded Value (MCEV) principles. The embedded value is the total of the net worth and the value of the in-force life business.

General insurance, health and other

The recoverable amount of general insurance, health and other non-life cash generating units in the Europe region has been determined based on a value in use calculation. Value in use is calculated for each cash generating unit using a discounted cash flow projection based on business plans and growth assumptions approved by management for each cash generating unit and discounted at a risk discount rate appropriate for each cash generating unit. If the cash flows are expected to grow beyond the period of the initial plan, this growth rate is set with regard to past experience in each market and market expectations of future growth in each country.

(iii) France (long-term business)

The recoverable amount of the indefinite life intangible asset has been assessed as part of the recoverable amount of the French long-term business cash generating unit. The MCEV of the French long-term business was significantly greater than its carrying value, including indefinite life intangible assets.

(iv) Ireland (long-term business)

The MCEV of the Irish long-term business is greater than its carrying value so the recoverable value will be significantly in excess of its carrying value, including goodwill.

(v) Ireland (general insurance and health)

The recoverable amount of the Irish general insurance and health business exceeds the carrying value of the cash generating unit including goodwill.

Key assumptions used for the calculation were:

— Budgeted operating profit for an initial three year period which represents the operating profit in the business plans, approved by management and reflecting the best estimate of future profits based on both historical experience and expected growth rates for the Irish economy. The assumptions that underline the budgeted operating profit include market share, premium rate changes, claims inflation and commission rates;
— Future cash flows are extrapolated beyond the three year business plan period assuming nil growth for general insurance business and a 7% growth rate for the health business; and
— A risk adjusted discount rate of 10.8%.

(vi) Italy (long-term business)

This calculation is an actuarially-determined appraisal value and is based on the embedded value of the business together with the present value of expected profits from future new business.

Key assumptions (in addition to MCEV principles) used for the calculation were:

— New business contribution represents the present value of projected future distributable profits generated from business written in a period. This is initially based on the most recent three year business plans approved by management;
— Growth rate represents the rate used to extrapolate new business contributions beyond the business plan period, and is based on management's estimate of future growth of 2.0%; and
— Risk adjusted discount rate of 10.2% represents the rate used to discount expected profits from future new business. The discount rate includes a risk-free rate and a risk margin to make prudent allowance for the risk that experience in future years for new business may differ from that assumed.

(vii) Italy (non-life)

The recoverable amount exceeds the carrying value of the cash generating unit including goodwill.

Key assumptions used for the calculation were:

— Budgeted operating profit for an initial three year period represents the operating profit in the most recent business plans, approved by management and as such reflects the best estimate of future profits based on both historical experience and expected growth rates for the Italian economy;
— Growth rate of 3.0% represents the rate used to extrapolate future cash flows beyond the business plan period; and
— A risk adjusted discount rate of 10.2%.

16 – Goodwill continued

(viii) Delta Lloyd (long-term, general insurance, health and fund management)

The recoverable amount of the Delta Lloyd life and general insurance and health cash generating units has been determined on the basis of a value in use calculation. This calculation is an appraisal value and is based on the discounted expected future cash flows from the operations over their expected useful life. Expected cash flows for future periods have been obtained from the plan figures for a three to five year period, depending on the management plan period of the unit. Expected cash flows for later periods have been extrapolated, taking into account the growth rate.

Key assumptions used for the calculation were:

— Expected cash flows for future periods have been obtained from the plan figures for a three to five year period;
— For the year following the end of the management plan period cash flows are extrapolated at a growth rate of nil to 2.6% depending on the particular circumstances of each unit; and
— Risk-adjusted discount rate of 10.1% to 10.6% depending on management's assessment of the specific risks of each unit, represents the rate used to discount expected profits from future new business.

(ix) Spain (long-term business)

This calculation is based on the embedded value of the business together with the present value of expected profits from future new business. The recoverable amount exceeds the carrying value of the cash generating unit including goodwill.

Key assumptions (in addition to MCEV principles) used for the calculation were:

— New business contribution represents the present value of projected future distributable profits generated from business written in a period. This is initially based on the most recent three year business plans approved by management;
— Growth rate represents the rate used to extrapolate new business contributions beyond the business plan period, and is based on management's conservative estimate of future growth of 3.0%. This growth rate is in line with industry expectations; and
— Risk adjusted discount rate of 6.5% represents the rate used to discount expected profits from future new business. The discount rate is a combination of a risk-free rate and a risk margin to make prudent allowance for the risk that experience in future years for new business may differ from that assumed. The test performed in the current year estimates the value of future new business on an MCEV basis. This methodology incorporates more of the risk of future new business into the underlying cash flows, and so consequently a lower risk discount rate is applied relative to the prior period.

(x) United States (long-term business)

The recoverable amount of the United States long-term cash generating unit has been determined based on a value in use calculation.

This calculation is an actuarially-determined appraisal value and is based on an embedded value of the business (the total of the net worth of the life business and the value of the in-force business) together with the present value of expected profits from future new business. The value in use exceeds the carrying value of the cash generating unit including goodwill.

Key assumptions used for the calculation were:

— Embedded value represents the shareholder interest in the life business and is based on projected cash flows of the business including expected investment returns.
— Risk adjusted discount rate of 8.0% is used to calculate the embedded value;
— New business contribution represents the present value of projected future distributable profits generated from business written in a period. This is initially based on the most recent three year business plans approved by management;
— Growth rate represents the rate used to extrapolate new business contributions beyond the business plan period, and is based on management's estimate of future growth of 5.0% for life and annuity business, which is set with regard to past experience in these markets; and
— Risk adjusted discount rate of 10.0% represents the rate used to discount expected profits from future new business. The discount rate includes an additional margin to make prudent allowance for the risk that experience in future years for new business may differ from that assumed.

The recoverable amount for the cash generating unit exceeds its carrying value by £332 million. An increase in the risk adjusted discount rates applied to calculate the embedded value and the present value of future profits from future new business of 60 basis points would result in the recoverable amount being equal to the carrying value.

Cash flow projections

To comply with paragraph 33(c) of IAS 36, cash flow projections for the period beyond the three year plan period are extrapolated from the position in the final year of the three year plan period. In all cases we have assumed a steady growth rate for subsequent years, not an increasing growth rate. The steady growth rate in each case is a positive or nil growth rate. The steady growth rate selected for each cash generating unit reflects long-term expectations for the markets in which each cash generating unit participates.

17 – Acquired value of in-force business (AVIF) and intangible assets

This note shows the movements in cost and amortisation of the in-force business and intangible assets acquired when we have purchased subsidiaries.

	AVIF on insurance contracts* £m	AVIF on investment contracts** £m	Other intangible assets with finite useful lives £m	Intangible assets with indefinite useful lives (a) £m	Total £m
Gross amount					
At 1 January 2008	2,273	110	1,005	709	4,097
Additions	4	—	60	—	64
Acquisition of subsidiaries	59	—	24	—	83
Disposals	(4)	(5)	(79)	—	(88)
Movement in shadow adjustment	327	—	—	—	327
Transfers	(4)	67	(63)	—	—
Transfers to goodwill and other assets	—	—	—	(31)	(31)
Foreign exchange rate movements	869	44	277	149	1,339
At 31 December 2008	3,524	216	1,224	827	5,791
Additions	**17**	**—**	**30**	**—**	**47**
Acquisition of subsidiaries (note (b))	**(20)**	**—**	**3**	**—**	**(17)**
Disposals	**—**	**—**	**(33)**	**(20)**	**(53)**
Movement in shadow adjustment	**(484)**	**—**	**—**	**—**	**(484)**
Transfers (note (c))	**—**	**—**	**431**	**(431)**	**—**
Transfers from property and equipment (note 20)	**—**	**—**	**23**	**—**	**23**
Foreign exchange rate movements	**(329)**	**(17)**	**(71)**	**(50)**	**(467)**
At 31 December 2009	**2,708**	**199**	**1,607**	**326**	**4,840**
Accumulated amortisation					
At 1 January 2008	(498)	(18)	(242)	—	(758)
Amortisation for the year	(333)	(13)	(100)	—	(446)
Disposals	—	—	39	—	39
Transfers	(1)	(43)	44	—	—
Foreign exchange rate movements	(230)	(18)	(85)	—	(333)
At 31 December 2008	(1,062)	(92)	(344)	—	(1,498)
Amortisation for the year	**(249)**	**(15)**	**(127)**	**—**	**(391)**
Disposals	**—**	**—**	**21**	**—**	**21**
Transfers from property and equipment (note 20)	**—**	**—**	**(3)**	**—**	**(3)**
Foreign exchange rate movements	**105**	**7**	**24**	**—**	**136**
At 31 December 2009	**(1,206)**	**(100)**	**(429)**	**—**	**(1,735)**
Accumulated impairment					
At 1 January 2008	(77)	—	(8)	(57)	(142)
Impairment losses charged to exceptional item	—	—	(32)	(20)	(52)
Other impairment losses charged to expenses	(2)	—	(13)	—	(15)
Foreign exchange rate movements	(17)	—	(2)	(18)	(37)
At 31 December 2008	(96)	—	(55)	(95)	(246)
Disposals	**—**	**—**	**—**	**20**	**20**
Impairment losses charged to expenses	**(13)**	**—**	**(12)**	**—**	**(25)**
Foreign exchange rate movements	**1**	**—**	**—**	**5**	**6**
At 31 December 2009	**(108)**	**—**	**(67)**	**(70)**	**(245)**
Carrying amount					
At 1 January 2008	1,698	92	755	652	3,197
At 31 December 2008	2,366	124	825	732	4,047
At 31 December 2009	**1,394**	**99**	**1,111**	**256**	**2,860**

* On insurance and participating investment contracts.
** On non-participating investment contracts.

(a) Intangible assets with indefinite useful lives comprise the RAC brand, and the value of the Union Financière de France Banque distribution channel, where the existing lives of the assets and their competitive position in, and the stability of, their respective markets support this classification.
Impairment testing of these intangibles is covered in note 16(b).

(b) The negative figure of £20 million for AVIF on insurance contracts arises from the updating of fair values for Swiss Life Belgium, described in note 3(a)(ii).

(c) During the year, the Group reviewed the terms of its bancassurance agreement with Banco Popolare, signed in December 2008, which was initially for 10 years with five-year automatic renewal periods. This agreement is expected to be renewed indefinitely. Although this agreement had originally been classified as an intangible asset with indefinite useful life, it is now considered more appropriate to reclassify it as having a finite useful life where the residual value is high, as a consequence of the terms of the put option, and amortisation immaterial and this is consistent with other similar contracts. This has resulted in a reallocation in the year of £431 million from intangible assets with indefinite useful lives to those with finite useful lives.

(d) Other intangible assets with finite useful lives consist primarily of the value of bancassurance and other distribution agreements.

18 – Interests in, and loans to, joint ventures

In several business units, Group companies and other parties jointly control certain entities. This note analyses these interests and describes the principal joint ventures in which we are involved.

(a) Carrying amount

(i) The movements in the carrying amount comprised:

	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
At 1 January 2008	197	2,212	167	2,576
Share of results before tax	—	(1,029)	—	(1,029)
Share of tax	—	(3)	—	(3)
Share of results after tax	—	(1,032)	—	(1,032)
Amortisation and impairment of goodwill and intangibles[1]	(6)	—	—	(6)
Share of loss after tax	(6)	(1,032)	—	(1,038)
Acquisitions and additions	25	150	182	357
Disposals and reduction in Group interests	—	(131)	—	(131)
Fair value losses taken to other comprehensive income	—	(12)	—	(12)
Loans repaid	—	—	(52)	(52)
Foreign exchange rate movements	7	30	—	37
At 31 December 2008	223	1,217	297	1,737
Share of results before tax	**—**	**(398)**	**—**	**(398)**
Share of tax	**—**	**(4)**	**—**	**(4)**
Share of results after tax	**—**	**(402)**	**—**	**(402)**
Amortisation of intangibles[1]	**(7)**	**—**	**—**	**(7)**
Share of loss after tax	**(7)**	**(402)**	**—**	**(409)**
Acquisitions and additions	**—**	**415**	**145**	**560**
Disposals and reduction in Group interests	**—**	**(59)**	**—**	**(59)**
Fair value gains taken to other comprehensive income	**—**	**8**	**—**	**8**
Loans repaid	**—**	**—**	**(99)**	**(99)**
Foreign exchange rate movements	**(14)**	**(7)**	**(16)**	**(37)**
At 31 December 2009	**202**	**1,172**	**327**	**1,701**

1. Comprises of amortisation of AVIF on insurance contract of £3 million (2008: £6 million) and other intangibles of £4 million (2008: £nil).

(ii) The balances at 31 December comprised:

2009	**Goodwill and intangibles £m**	**Equity interests £m**	**Loans £m**	**Total £m**
Property management undertakings	**—**	**1,021**	**327**	**1,348**
Long-term business undertakings	**202**	**146**	**—**	**348**
General insurance undertakings	**—**	**5**	**—**	**5**
Total	**202**	**1,172**	**327**	**1,701**

2008	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
Property management undertakings	—	1,080	297	1,377
Long-term business undertakings	198	158	—	356
General insurance undertakings	—	4	—	4
Total	198	1,242	297	1,737

2007	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
Property management undertakings	—	2,124	167	2,291
Long-term business undertakings	197	88	—	285
Total	197	2,212	167	2,576

The loans are not secured and no guarantees were received in respect thereof. They are interest-bearing and are repayable on termination of the relevant partnership.

18 – Interests in, and loans to, joint ventures continued

(b) Property management undertakings

The principal joint ventures are as follows:

Company	GP proportion held	PLP proportion held
Airport Property Partnership	50.0%	50.0%
Ashtenne Industrial Fund Limited Partnership	66.7%	37.4%
The Junction Limited Partnership	25.0%	34.2%
The Mall Limited Partnership	50.0%	50.5%
Queensgate Limited Partnership	50.0%	50.0%
Quercus Healthcare Property Partnership Limited	50.0%	35.3%
The 20 Gracechurch Limited Partnership	50.0%	50.0%

All the above entities perform property ownership and management activities, and are incorporated and operate in the United Kingdom. All these investments are held by subsidiary entities.

(c) Long-term business undertakings

The principal joint ventures are as follows:

Company	Class of share	Proportion held	Country of incorporation and operation
Aviva-COFCO Life Insurance Co. Limited	Ordinary shares of RMB1 each	50.0%	China
AvivaSA Emeklilik ve Hayat A.S.	Ordinary shares of YTL1 each	49.8%	Turkey
CIMB Aviva Assurance Berhad	Ordinary shares of RM1 each	49.0%	Malaysia
CIMB Aviva Takaful Berhad	Ordinary shares of RM1 each	49.0%	Malaysia
First-Aviva Life Insurance Co., Ltd.	Ordinary shares of NT$10 each	49.0%	Taiwan
Woori Aviva Life insurance Co. Ltd	Ordinary shares of KRW 5000 each	46.8%	Korea

All investments in the above companies are unlisted and are held by subsidiaries except for the shares in Aviva-COFCO Life Insurance Co. Limited, which are held by the Company. The Group's share of net assets of that company is £55 million *(2008: £57 million)* and have a fair value of £72 million *(2008: £61 million)*.

(d) Impairment testing

CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad

The Group's investments in CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad have been tested for impairment by comparing their carrying values (which include goodwill which arose on their acquisition) with their recoverable amounts. The recoverable amounts for both the investments have been determined based on value in use calculations. This calculation is an actuarially-determined appraisal value and is based on the embedded value of the business together with the present value of expected profits from future new business. The recoverable amounts exceed the carrying values of both the investments.

Key assumptions used for the calculation were:

- Cash flow projections based on
  (i) the policy portfolio existing at the valuation date, and
  (ii) the future sales based on plans approved by management covering the subsequent three year period. The cash flows from existing policy portfolio is calculated using best estimate assumptions, which have been supported by experience investigation where available and prudent estimates typical for the market where experience investigations are not available;
- The calculations use a risk adjusted discount rate of 13.2%; and
- New sales beyond the three year period have been extrapolated using a growth rate of 11.0%.

18 – Interests in, and loans to, joint ventures continued

AvivaSA Emeklilik ve Hayat A.S.

The Group's investment in AvivaSA Emeklilik ve Hayat A.S. has been tested for impairment by comparing its carrying value (which includes goodwill which arose on its acquisition) with its recoverable amount.

The recoverable amount has been determined based on a value in use calculation.

This calculation is an actuarially-determined appraisal value and is based on the embedded value of the business together with the present value of expected profits from future new business. The recoverable amount exceeds the carrying value of the cash generating unit including goodwill.

Key assumptions used for the calculation were:

- Embedded value represents the shareholder interest in the life business and is calculated in accordance with the Market Consistent Embedded Value (MCEV) principles. The embedded value is the total of the net worth of the life business and the value of the in-force business. The underlying methodology and assumptions have been reviewed by a firm of actuarial consultants.
- New business contribution represents the present value of projected future distributable profits generated from business written in a period. This is initially based on the most recent three year business plans approved by management.
- Growth rate represents the rate used to extrapolate new business contributions beyond the business plan period, and is based on management's estimate of future growth of 5.0%.
- Risk adjusted discount rate of 15.0% represents the rate used to discount expected profits from future new business. The discount rate reflects a risk margin to make prudent allowance for the risk that experience in future years for new business may differ from that assumed.

(e) Additional information

Summarised aggregate financial information on the Group's interests in its joint ventures is as follows:

	2009 £m	2008 £m	2007 £m
Income, including unrealised (losses)/gains on investments	**(105)**	(876)	242
Expenses	**(293)**	(153)	(579)
Share of results before tax	**(398)**	(1,029)	(337)
Long-term assets	**2,885**	3,115	4,263
Current assets	**645**	529	395
Share of total assets	**3,530**	3,644	4,658
Long-term liabilities	**(1,982)**	(1,968)	(1,684)
Current liabilities	**(376)**	(434)	(762)
Share of total liabilities	**(2,358)**	(2,402)	(2,446)
Share of net assets	**1,172**	1,242	2,212

The joint ventures have no significant contingent liabilities to which the Group is exposed, nor has the Group any significant contingent liabilities in relation to its interests in them.

19 – Interests in, and loans to, associates

This note analyses our interests in entities which we do not control but where we have significant influence.

(a) Carrying amount

	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
At 1 January 2008	442	762	2	1,206
Share of results before tax	—	(54)	—	(54)
Share of tax	—	(9)	—	(9)
Share of results after tax	—	(63)	—	(63)
Impairment of goodwill and intangibles[1]	(16)	—	—	(16)
Amortisation of acquired value of in-force business	(11)	—	—	(11)
Share of profit after tax	(27)	(63)	—	(90)
Additions	26	44	—	70
Disposals	—	(12)	—	(12)
Fair value losses taken to other comprehensive income	—	(81)	—	(81)
Dividends received	—	(87)	—	(87)
Reclassification from investment in subsidiaries	—	55	—	55
Reclassification from financial investments	—	62	—	62
Foreign exchange rate movements	13	109	1	123
Movements in carrying amount	12	27	1	40
At 31 December 2008	454	789	3	1,246
Share of results before tax	**—**	**(53)**	**—**	**(53)**
Share of tax	**—**	**(1)**	**—**	**(1)**
Share of results after tax	**—**	**(54)**	**—**	**(54)**
Impairment of goodwill and intangibles[1]	**(32)**	**—**	**—**	**(32)**
Amortisation of acquired value of in-force business	**(9)**	**—**	**—**	**(9)**
Share of loss after tax	**(41)**	**(54)**	**—**	**(95)**
Acquisitions and additions	**—**	**175**	**—**	**175**
Disposals	**(26)**	**(7)**	**—**	**(33)**
Fair value gains taken to other comprehensive income	**—**	**114**	**—**	**114**
Dividends received	**—**	**(22)**	**—**	**(22)**
Reclassification from investment in subsidiaries	**—**	**(68)**	**—**	**(68)**
Foreign exchange rate movements	**(2)**	**(34)**	**—**	**(36)**
Movements in carrying amount	**(69)**	**104**	**—**	**35**
At 31 December 2009	**385**	**893**	**3**	**1,281**

1. Includes impairment of £1 million in other intangibles (2008: £4 million).

The loans are interest-bearing but are not secured, and no guarantees were received in respect thereof.

(b) Principal associates

The principal associates included above are:

Company	Type of business	Class of share	Proportion held	Country of incorporation and operation
Aviva Life Insurance Company India Limited	Insurance	Ordinary shares of RS1 each	26.0%	India
Banca Network Investimenti SpA	Product distribution	Ordinary shares of €1 each	49.92%	Italy
Cyrte Fund I CV	Investment fund	Partnership share	22.31%	Netherlands
Cyrte Fund II BV	Investment fund	Ordinary shares of €1 each	10.48%	Netherlands
Cyrte Fund III CV	Investment fund	Partnership share	13.93%	Netherlands
RBSG Collective Investments Limited	Investment	Ordinary shares of £1 each	49.99%	Great Britain
RBS Life Investments Limited	Insurance	Ordinary shares of £1 each	49.99%	Great Britain

All investments in principal associates are unlisted and are held by subsidiaries.

19 – Interests in, and loans to, associates continued

Although the Group's holding in two of the three Cyrte funds is less than 20%, it has significant influence through ownership of the fund manager, Cyrte Investments BV, a subsidiary of which acts as general partner to the funds, and through membership of its investment committee.

The Group's Dutch subsidiary owns 30.8% of the shares, and depositary receipts for shares, in Van Lanschot NV, a financial services company in the Netherlands. The Group is not able to appoint management representation on the board of this company and is therefore unable to exert significant influence over its affairs. Accordingly, this investment is treated as a financial investment rather than as an associate.

(c) Additional information

Summarised aggregate financial information on the Group's interests in its associates is as follows:

	2009 £m	2008 £m	2007 £m
Share of revenues	**216**	460	385
Share of results before tax	**(53)**	(54)	51
Share of assets	**3,013**	3,812	3,123
Share of liabilities	**(2,120)**	(2,974)	(2,324)
Share of net assets	**893**	838	799

The associates have no significant contingent liabilities to which the Group is exposed, nor has the Group any significant contingent liabilities in relation to its interest in them.

(d) Impairment testing

RBS Life Investments Limited and RBSG Collective Investments Limited

The Group's investments in RBS Life Investments Limited and RBSG Collective Investments Limited have been tested for impairment by comparing their carrying values (which include goodwill which arose on their acquisition) with their recoverable amounts.

The recoverable amounts for both investments have been determined based on value in use calculations, using an appraisal value methodology. The appraisal value comprises MCEV and a value of future new business. Future new business is valued using a similar approach as used for the in-force business. The value of 2010 planned new business is based on planned volumes, planned margins for manufactured business and current margins for collectives and adopted business all approved by management. This value is then multiplied by an annuity factor to give the value of 25 years of future new business and then discounted back to the valuation date. The annuity factor for Life business allows for new business growth of 2.8% in 2011 and 5.4% thereafter and a pattern of market-consistent time dependent risk discount rates equivalent to a single risk discount rate of 4.4%. For Collective Investments the new business growth assumptions are 7.7% in 2011 and 6.1% thereafter. This value is adjusted to allow for future expense over-runs and under-runs, based on the projected expenses and sales volumes.

The test performed in the current year estimates the value of future new business on an MCEV basis. This methodology incorporates more of the risk of future new business into the underlying cash flows and so consequently a lower risk discount rate is applied relative to the prior period.

The recoverable amounts exceed the carrying values of both the investments.

Banca Network Investimenti SpA

The Group's investment in Banca Network Investimenti SpA has been tested for impairment by comparing its carrying value (which includes goodwill which arose on its acquisition) with its recoverable amount.

The recoverable amount has been determined based on a value in use calculation prepared by an external valuation expert. Value in use was calculated using a discounted cash flow projection based on business plans and growth assumptions approved by management and discounted at an appropriate risk discount rate.

Key assumptions used for the calculation were:
— A cash flow project based on a five year plan period; and
— Risk adjusted discount rate of 10.3% based on the weighted average cost of capital of similar Italian listed companies.

As a result of the testing, an impairment of £26 million has been recognised. This reflects adverse developments in the business environment in which this associate operates.

(e) Non-adjusting subsequent event

On 17 February 2010, the Group sold its 35% holding in Sogessur SA to that company's main shareholder, Société Générale, for a consideration of £35 million, realising a profit on disposal of £24 million.

20 – Property and equipment

This note analyses our tangible fixed assets, which are primarily properties occupied by Group companies and computer equipment.

	Properties under construction £m	Owner occupied properties £m	Motor vehicles £m	Computer equipment £m	Other assets £m	Total £m
Cost or valuation						
At 1 January 2008	45	499	14	772	466	1,796
Additions	22	7	1	97	89	216
Acquisitions of subsidiaries	—	37	—	1	2	40
Disposals	(15)	(31)	(3)	(34)	(24)	(107)
Transfers	(4)	4	—	—	—	—
Fair value losses (see below)	—	(49)	—	—	—	(49)
Foreign exchange rate movements	13	106	2	40	72	233
At 31 December 2008	61	573	14	876	605	2,129
Additions	**62**	**11**	**—**	**40**	**36**	**149**
Transfer to investment properties (note 21)	**(16)**	**(47)**	**—**	**—**	**—**	**(63)**
Disposals	**(7)**	**(49)**	**(2)**	**(82)**	**(196)**	**(336)**
Transfers to intangibles (note 17)	**—**	**—**	**—**	**(23)**	**—**	**(23)**
Fair value losses (see below)	**—**	**(33)**	**—**	**—**	**—**	**(33)**
Foreign exchange rate movements	**(6)**	**(35)**	**(2)**	**(14)**	**(18)**	**(75)**
At 31 December 2009	**94**	**420**	**10**	**797**	**427**	**1,748**
Depreciation and impairment						
At 1 January 2008	—	(3)	(7)	(578)	(266)	(854)
Charge for the year	—	(1)	(2)	(93)	(35)	(131)
Disposals	—	1	1	33	14	49
Impairment losses charged to restructuring costs	—	(2)	—	(8)	(40)	(50)
Foreign exchange rate movements	—	—	—	(29)	(48)	(77)
At 31 December 2008	—	(5)	(8)	(675)	(375)	(1,063)
Charge for the year	**—**	**(1)**	**(1)**	**(76)**	**(37)**	**(115)**
Disposals	**—**	**2**	**1**	**60**	**92**	**155**
Transfers to intangibles (note 17)	**—**	**—**	**—**	**3**	**—**	**3**
Transfers	**—**	**—**	**—**	**(1)**	**—**	**(1)**
Impairment losses charged to restructuring costs	**—**	**—**	**—**	**(1)**	**(1)**	**(2)**
Foreign exchange rate movements	**—**	**—**	**1**	**13**	**15**	**29**
At 31 December 2009	**—**	**(4)**	**(7)**	**(677)**	**(306)**	**(994)**
Carrying amount						
At 1 January 2008	45	496	7	194	200	942
At 31 December 2008	61	568	6	201	230	1,066
At 31 December 2009	**94**	**416**	**3**	**120**	**121**	**754**
Less: Amounts classified as held for sale:						
Gross amount	—	—	—	—	(1)	(1)
Accumulated depreciation and impairment	—	—	—	—	—	—
	—	**—**	**—**	**—**	**(1)**	**(1)**
	94	**416**	**3**	**120**	**120**	**753**

Fair value losses of £26 million have been charged *(2008: £37 million)* to other comprehensive income (note 34), with the remainder being charged to the income statement.

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations, all with recent relevant experience. These values are assessed in accordance with the relevant parts of the current RICS Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment, on the basis of Existing Use Value and in accordance with UK Practice Statement 1.3, is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, *Property, Plant and Equipment*.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £328 million *(2008: £414 million)*.

The Group has no material finance leases for property and equipment.

21 – Investment property

This note gives details of the properties we hold for long-term rental yields or capital appreciation.

	Freehold £m	Leasehold £m	Total £m
Carrying value			
At 1 January 2008	12,603	2,788	15,391
Additions	1,744	2	1,746
Capitalised expenditure on existing properties	92	8	100
Acquisitions of subsidiaries	81	—	81
Fair value losses	(2,441)	(696)	(3,137)
Disposals	(852)	(297)	(1,149)
Transfers	(2)	2	—
Foreign exchange rate movements	1,276	118	1,394
At 31 December 2008	12,501	1,925	14,426
Additions	**319**	**49**	**368**
Capitalised expenditure on existing properties	**64**	**9**	**73**
Fair value losses	**(917)**	**(167)**	**(1,084)**
Disposals	**(785)**	**(143)**	**(928)**
Transfers from property and equipment (note 20)	**28**	**35**	**63**
Foreign exchange rate movements	**(453)**	**(35)**	**(488)**
At 31 December 2009	**10,757**	**1,673**	**12,430**
Less: Amounts classified as held for sale	**—**	**(8)**	**(8)**
	10,757	**1,665**	**12,422**

Investment properties are stated at their market values as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations, all with recent relevant experience. Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, assuming no future growth in rental income. This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties.

The fair value of investment properties leased to third parties under operating leases at 31 December 2009 was £11,750 million *(2008: £13,764 million, 2007: £14,616 million)*. Future contractual aggregate minimum lease rentals receivable under the non-cancellable portion of these leases are given in note 52(b)(i).

22 – Loans

This note analyses the loans our Group companies have made, the majority of which are mortgage loans.

(a) Carrying amounts

The carrying amounts of loans at 31 December 2009, 2008 and 2007 were as follows:

	2009			2008			2007		
	At fair value through profit or loss other than trading £m	**At amortised cost £m**	**Total £m**	At fair value through profit or loss other than trading £m	At amortised cost £m	Total £m	At fair value through profit or loss other than trading £m	At amortised cost £m	Total £m
Policy loans	**214**	**1,655**	**1,869**	265	1,861	2,126	215	1,316	1,531
Loans to banks	**—**	**5,339**	**5,339**	—	6,415	6,415	—	7,576	7,576
Securitised mortgage loans (see note 23)									
UK	**1,840**	**—**	**1,840**	1,861	—	1,861	1,777	—	1,777
Netherlands	**5,544**	**1,770**	**7,314**	4,936	2,262	7,198	3,699	1,911	5,610
	7,384	**1,770**	**9,154**	6,797	2,262	9,059	5,476	1,911	7,387
Non-securitised mortgage loans	**13,292**	**8,012**	**21,304**	14,406	7,266	21,672	12,849	4,747	17,596
Loans and advances to bank customers	**—**	**1,943**	**1,943**	—	1,886	1,886	—	1,307	1,307
Loans to brokers and other intermediaries	**—**	**92**	**92**	—	98	98	—	80	80
Other loans	**—**	**1,378**	**1,378**	—	981	981	—	716	716
Total	**20,890**	**20,189**	**41,079**	21,468	20,769	42,237	18,540	17,653	36,193

Loans to banks include cash collateral received under stock lending arrangements (see note 24(e)). The obligation to repay this collateral is included in payables and other financial liabilities (note 49).

Of the above loans, £33,241 million *(2008: £30,673 million, 2007: £25,666 million)* is expected to be recovered more than one year after the statement of financial position date.

Loans at fair value

Fair values have been calculated by discounting the future cash flows using appropriate current interest rates for each portfolio of mortgages. Further details of the fair value methodology are given in note 24(b).

The change in fair value of these loans during the year, attributable to a change in credit risk, was a gain of £338 million *(2008: £644 million loss)*. The cumulative change attributable to changes in credit risk to 31 December 2009 was a loss of £315 million *(2008: £854 million loss)*.

Loans at amortised cost

The fair value of these loans at 31 December 2009 was £19,786 million *(2008: £20,218 million, 2007: £17,588 million)*.

(b) Analysis of loans carried at amortised cost

	2009			2008			2007		
	Amortised cost £m	**Impairment £m**	**Carrying value £m**	Amortised cost £m	Impairment £m	Carrying value £m	Amortised cost £m	Impairment £m	Carrying value £m
Policy loans	**1,655**	**—**	**1,655**	1,861	—	1,861	1,316	—	1,316
Loans to banks	**5,339**	**—**	**5,339**	6,415	—	6,415	7,576	—	7,576
Securitised mortgage loans	**1,771**	**(1)**	**1,770**	2,263	(1)	2,262	1,911	—	1,911
Non-securitised mortgage loans	**8,115**	**(103)**	**8,012**	7,328	(62)	7,266	4,753	(6)	4,747
Loans and advances to bank customers	**1,986**	**(43)**	**1,943**	1,936	(50)	1,886	1,346	(39)	1,307
Loans to brokers and other intermediaries	**92**	**—**	**92**	98	—	98	80	—	80
Other loans	**1,379**	**(1)**	**1,378**	990	(9)	981	725	(9)	716
Total	**20,337**	**(148)**	**20,189**	20,891	(122)	20,769	17,707	(54)	17,653

22 – Loans continued

The movements in the impairment provisions on these loans for the years ended 31 December 2009 and 2008 were as follows:

	2009 £m	2008 £m
At 1 January	**(122)**	(54)
Increase during the year	**(58)**	(58)
Write back following sale or reimbursement	**17**	—
Write back following recovery in value	**5**	8
Other movements	**2**	3
Foreign exchange movements	**8**	(21)
At 31 December	**(148)**	(122)

(b) Collateral

The Group holds collateral in respect of loans where it is considered appropriate, in order to reduce the risk of non-recovery. This collateral generally takes the form of liens or charges over properties and, in the case of policy loans, the underlying policy, for the majority of the loan balances above. In all other situations, the collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts. Transfer of title for the collateral received always occurs in such cases, although no market risk or benefit is taken. In the event of a default, the Group is able to sell or repledge the collateral.

The amount of collateral received with respect to loans which the Group is permitted to sell or repledge in the absence of default was £3,685 million *(2008: £3,880 million, 2007: £6,282 million)*. No collateral was actually sold or repledged in the absence of default during the year *(2008: £nil)*.

23 – Securitised mortgages and related assets

The Group has loans receivable, secured by mortgages, which have then been securitised through non-recourse borrowings, in our UK Life and Dutch businesses. This note gives details of the relevant transactions.

(a) Description of arrangements

(i) United Kingdom

In a long-term business subsidiary Aviva Equity Release UK Limited (AER), the beneficial interest in certain portfolios of lifetime mortgages has been transferred to five special purpose securitisation companies (the ERF companies), in return for initial consideration and, at later dates, deferred consideration. The deferred consideration represents receipts accrued within the ERF companies after meeting all their obligations to the note holders, loan providers and other third parties in the priority of payments. The purchases of the mortgages were funded by the issue of fixed and floating rate notes by the ERF companies.

All the shares in the ERF companies are held by independent companies, whose shares are held on trust. Although AER does not own, directly or indirectly, any of the share capital of the ERF companies or their parent companies, it retains control of the majority of the residual or ownership risks and rewards related to the assets of the securitisation companies, and they have therefore been treated as subsidiaries in the consolidated financial statements. AER has no right to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where AER is in breach of warranty or loans are substituted in order to effect a further advance.

AER has purchased subordinated notes and granted subordinated loans to some of the ERF companies. These have been eliminated on consolidation through offset against the borrowings of the ERF companies in the consolidated statement of financial position.

(ii) Delta Lloyd

In three subsidiaries, Delta Lloyd Levensverzekering NV (DLL), Amstelhuys NV (AMS), and Delta Lloyd Bank (Belgium) NV/SA (DLB), the principal benefits of certain portfolios of mortgage loans have been transferred to a number of special purpose securitisation companies, which were funded primarily through the issue of fixed and floating rate notes.

All the shares in the securitisation companies are held by independent trustee companies. Although DLL, AMS and DLB do not own, directly or indirectly, any of the share capital of the securitisation companies or their parent companies, they retain control of the majority of the residual or ownership risks and rewards related to the assets of the securitisation companies, and these companies have therefore been treated as subsidiaries in the consolidated financial statements. DLL, AMS and DLB have no right, nor any obligation, to repurchase the benefit of any of the securitised mortgage loans before the optional call date, other than in certain circumstances where they are in breach of warranty.

Delta Lloyd companies have purchased notes in the securitisation companies, which have been eliminated on consolidation through offset against the borrowings of the securitisation companies in the consolidated statement of financial position.

(iii) General

In all of the above transactions, the Company and its subsidiaries are not obliged to support any losses that may be suffered by the note holders and do not intend to provide such support. Additionally, the notes were issued on the basis that note holders are only entitled to obtain payment, of both principle and interest, to the extent that the available resources of the respective special purpose securitisation companies, including funds due from customers in respect of the securitised loans, are sufficient and that note holders have no recourse whatsoever to other companies in the Aviva Group.

(b) Carrying values

The following table summarises the securitisation arrangements:

	2009		2008		2007	
	Securitised assets	**Securitised borrowings**	Securitised assets	Securitised borrowings	Securitised assets	Securitised borrowings
UK						
Securitised mortgage loans						
At fair value (note 22)	**1,840**	**(1,444)**	1,861	(1,614)	1,777	(1,691)
Other securitisation assets/(liabilities)	**—**	**(396)**	78	(325)	23	(109)
	1,840	**(1,840)**	1,939	(1,939)	1,800	(1,800)
Delta Lloyd						
Securitised mortgage loans						
At fair value (note 22)	**5,544**	**(4,441)**	4,936	(4,820)	3,699	(3,706)
At amortised cost (note 22)	**1,770**	**(2,656)**	2,262	(2,353)	1,911	(2,283)
	7,314	**(7,097)**	7,198	(7,173)	5,610	(5,989)
Other securitisation assets/(liabilities)	**—**	**(217)**	—	(25)	379	—
	7,314	**(7,314)**	7,198	(7,198)	5,989	(5,989)

Loan notes held by third parties are as follows:

	2009		2008		2007	
	UK £m	**Delta Lloyd £m**	UK £m	Delta Lloyd £m	UK £m	Delta Lloyd £m
Total loan notes issued, as above	**1,444**	**7,097**	1,614	7,173	1,691	5,989
Less: Loan notes held by Group companies	**—**	**(1,212)**	(24)	(978)	(17)	(369)
Loan notes held by third parties (note 48c)	**1,444**	**5,885**	1,590	6,195	1,674	5,620

24 – Financial investments

This note analyses our financial investments by type and shows their cost and fair value. These will change from one period to the next as a result of new business written, claims paid and market movements.

(a) Carrying amount

Financial investments comprise:

				2009				Restated 2008				Restated 2007
	At fair value through profit or loss				At fair value through profit or loss				At fair value through profit or loss			
	Trading £m	Other than trading £m	Available for sale £m	Total £m	Trading £m	Other than trading £m	Available for sale £m	Total £m	Trading £m	Other than trading £m	Available for sale £m	Total £m
Fixed maturity securities												
Debt securities												
UK government	—	21,423	—	21,423	—	18,854	—	18,854	—	18,767	—	18,767
UK local authorities	—	16	—	16	—	17	—	17	—	81	—	81
Non-UK government	11	45,655	1,810	47,476	9	40,029	756	40,794	35	28,278	936	29,249
Corporate bonds												
Public utilities	—	5,997	633	6,630	—	4,308	1,226	5,534	—	3,922	1,003	4,925
Other corporate	(28)	54,007	15,364	69,343	16	57,939	13,319	71,274	52	47,506	11,437	58,995
Convertibles and bonds with warrants attached	—	586	—	586	—	855	—	855	—	856	—	856
Other	36	6,870	5,065	11,971	31	6,556	5,049	11,636	92	4,417	839	5,348
	19	134,554	22,872	157,445	56	128,558	20,350	148,964	179	103,827	14,215	118,221
Certificates of deposit	—	2,802	8	2,810	—	1,301	10	1,311	—	3,341	26	3,367
Redeemable preference shares	—	255	—	255	—	349	110	459	—	3	—	3
	19	137,611	22,880	160,510	56	130,208	20,470	150,734	179	107,171	14,241	121,591
Equity securities												
Ordinary shares												
Public utilities	—	3,665	15	3,680	—	3,933	1	3,934	—	6,165	—	6,165
Banks, trusts and insurance companies	—	6,458	831	7,289	—	5,525	2,332	7,857	—	10,195	66	10,261
Industrial miscellaneous and all other	8	29,584	2,540	32,132	9	28,182	2,989	31,180	46	38,672	3,712	42,430
	8	39,707	3,386	43,101	9	37,640	5,322	42,971	46	55,032	3,778	58,856
Non-redeemable preference shares	—	125	117	242	—	345	95	440	—	209	—	209
	8	39,832	3,503	43,343	9	37,985	5,417	43,411	46	55,241	3,778	59,065
Other investments												
Unit trusts and other investment vehicles	—	29,825	119	29,944	—	28,850	139	28,989	4	31,221	181	31,406
Derivative financial instruments (note 57d)	2,078	—	—	2,078	2,910	—	—	2,910	1,609	—	—	1,609
Deposits with credit institutions	88	881	—	969	115	831	—	946	114	733	—	847
Minority holdings in property management undertakings	—	667	—	667	—	969	—	969	—	977	—	977
Other investments – long-term	—	1,187	4	1,191	—	2,686	4	2,690	—	1,640	17	1,657
Other investments – short-term	—	—	—	—	—	3	4	7	—	4	—	4
	2,166	32,560	123	34,849	3,025	33,339	147	36,511	1,727	34,575	198	36,500
Total financial investments												
Less assets classified as held for sale												
Fixed maturity securities	—	—	—	—	—	(336)	—	(336)	—	(80)	—	(80)
Equity securities	—	—	—	—	—	(60)	—	(60)	—	(236)	—	(236)
Other investments	(23)	—	—	(23)	—	—	—	—				
	(23)	—	—	(23)	—	(396)	—	(396)	—	(316)	—	(316)
	2,170	210,003	26,506	238,679	3,090	201,136	26,034	230,260	1,952	196,671	18,217	216,840

Of the above total, £174,292 million *(2008: £176,752 million, 2007: £154,732 million)* is expected to be recovered more than one year after the statement of financial position date.

Other debt securities of £11,906 million *(2008: £11,636 million, 2007: £5,348 million)* primarily include residential and commercial mortgage backed securities, as well as other structured credit securities.

24 – Financial investments continued

(b) Fair value methodology

(i) For financial assets carried at fair value, we have categorised the measurement basis into a "fair value hierarchy" as follows:

Quoted market prices in active markets – ('Level 1')

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

Modelled with significant observable market inputs – ('Level 2')

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

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

Examples of these are securities measured using discounted cash flow models based on market observable swap yields, and listed debt or equity securities in a market that is inactive. Valuations, whether sourced from internal models or third parties incorporate credit risk by adjusting the spread above the yield curve for government treasury securities for the appropriate amount of credit risk for each issuer, based on observed market transactions. To the extent observed market spreads are either not used in valuing a security, or do not fully reflect liquidity risk, our valuation methodology, whether sourced from internal models or third parties, reflects a liquidity premium.

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

Modelled with significant unobservable market inputs – ('Level 3')

Inputs to Level 3 fair values are unobservable inputs for the asset. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset. Examples are certain private equity investments and private placements.

The majority of the Group's financial assets are valued based on quoted market information or observable market data. A small percentage (4%) of total financial assets recorded at fair value, are based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The principal investments classified as Level 3 are:

- Structured bond type products held by our businesses in France and Italy amounting to £7.0 billion, for which there is no active market. These bonds are valued either using third party counterparty or broker quotes. These bonds are validated against internal or third party models. Most of these bonds have been classified as Level 3 because either, (i) the third party models included a significant unobservable liquidity adjustment or (ii) differences between the valuation provided by the counterparty and broker quotes and the validation model were sufficiently significant to result in a Level 3 classification. At 31 December 2009, the counterparty and broker quotes used to value these products were less than the modelled valuations.
- Notes issued by loan partnerships held by our UK Life business amounting to £1.0 billion, for which there is no active market. These are valued using counterparty quotes, corroborated against the prices of selected similar securities. In 2009 there was insufficient market observable transactions in the selected securities to provide a reliable proxy price to corroborate the counterparty price.
- Private equity investment funds held by our UK Life business amounting to £0.8 billion. In valuing our interest in these funds, we rely on investment valuation reports received from the fund manager, making adjustments for items such as subsequent draw downs and distributions between the date of the report and valuation date and the fund manager's carried interest.
- Certain direct private equity investments and private placements held by our business in the Netherlands and strategic interests in banking partners held by our Italian business amounting to £0.8 billion. Valuations are based on third-party independent appraisals, or where internally modelled, transactions in similar entities, discounted cash flow techniques and valuation multiples, using public and internal management information.
- Other Level 3 investments amount to £1.6 billion and relate to a diverse range of different types of securities held by a number of businesses throughout the Group.

24 – Financial investments continued

(ii) An analysis of investments according to fair value hierarchy is given below:

	Fair value hierarchy						2009
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Amortised cost £m	Less: Assets of operations classified as held for sale £m	Statement of financial position Total £m
Loans	**—**	**20,890**	**—**	**20,890**	**20,189**	**—**	**41,079**
Fixed maturity securities	**114,779**	**36,592**	**9,139**	**160,510**	**—**	**—**	**160,510**
Equity securities	**36,774**	**5,775**	**794**	**43,343**	**—**	**—**	**43,343**
Other investments (including derivatives)	**29,572**	**3.950**	**1,327**	**34,849**	**—**	**(23)**	**34,826**
Total	**181,125**	**67,207**	**11,260**	**259,592**	**20,189**	**(23)**	**279,758**

For the year to 31 December 2009 transfers from fair value hierarchy Level 1 to Level 2 amounted to £886 million, and from Level 2 to Level 1 amounted to £2,181 million. The transfers arose as a result of changes in levels of activity in the markets from which prices are sourced.

	Fair value hierarchy						Restated 2008
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Amortised cost £m	Less: Assets of operations classified as held for sale £m	Statement of financial position Total £m
Loans	—	21,468	—	21,468	20,769	—	42,237
Fixed maturity securities	108,087	40,797	1,850	150,734	—	(336)	150,398
Equity securities	36,607	5,873	931	43,411	—	(60)	43,351
Other investments (including derivatives)	24,655	11,792	64	36,511	—	—	36,511
Total	169,349	79,930	2,845	252,124	20,769	(396)	272,497

	Fair value hierarchy						Restated 2007
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Amortised cost £m	Less: Assets of operations classified as held for sale £m	Statement of financial position Total £m
Loans	—	18,540	—	18,540	17,653	—	36,193
Fixed maturity securities	101,621	18,710	1,260	121,591	—	(80)	121,511
Equity securities	54,124	4,309	632	59,065	—	(236)	58,829
Other investments (including derivatives)	27,286	8,895	319	36,500	—	—	36,500
Total	183,031	50,454	2,211	235,696	17,653	(316)	253,033

24 – Financial investments continued

(iii) The tables below show movements in the assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only).

	Fixed maturity securities £m	Equity securities £m	Other invest-ments £m	2009 Total £m
Total funds				
Balance at 1 January	**1,850**	**931**	**64**	**2,845**
Total net gains or losses recognised in the income statement	**2**	**(55)**	**1**	**(52)**
Total net gains or losses recognised in other comprehensive income	**107**	**1**	**(4)**	**104**
Purchases	**820**	**117**	**104**	**1,041**
Disposals	**(247)**	**(133)**	**(5)**	**(385)**
Settlements	**—**	**(73)**	**—**	**(73)**
Transfers into Level 3	**7,659**	**134**	**1,186**	**8,979**
Transfers out of Level 3	**(923)**	**(54)**	**(19)**	**(996)**
Foreign exchange rate movements	**(129)**	**(74)**	**—**	**(203)**
Balance at 31 December	**9,139**	**794**	**1,327**	**11,260**

The Group assesses the fair value hierarchy of its financial investments biannually at 30 June and 31 December. Transfers between fair value hierarchy levels are deemed to have occurred at the assessment date.

Transfers into and out of Level 3 arose for the following reasons:
— Changes in the market observability of valuation inputs.
— Changes in the market observability of inputs used to validate valuations.
— Significant differences between third party prices used for valuations and validation prices either sourced from third parties or internal models.

The transfers into Level 3 principally relate to certain debt securities held by our businesses in the UK, Italy and France and private equity investment funds in the UK. These investments were previously classified as Level 2. The single largest transfer was of £6.8 billion structured bond type products, whose valuation methodology is described earlier in this section.

Of the £52 million net losses recognised in the income statement during the year, £2 million gain relates to net investment income and £54 million loss relating to impairments is included in other expenses.

(c) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments:

	Cost/ amortised cost £m	Unrealised gains £m	Unrealised losses £m	Impairment losses £m	2009 Fair value £m
Fixed maturity securities	**159,287**	**5,872**	**(4,500)**	**(149)**	**160,510**
Equity securities	**44,188**	**4,173**	**(3,975)**	**(1,043)**	**43,343**
Other investments					
Unit trusts and specialised investment vehicles	**30,230**	**784**	**(484)**	**(15)**	**30,515**
Derivative financial instruments	**1,518**	**896**	**(337)**	**—**	**2,077**
Deposits with credit institutions	**969**	**—**	**—**	**—**	**969**
Minority holdings in property management undertakings	**635**	**69**	**(26)**	**(11)**	**667**
Other long-term investments	**729**	**191**	**(297)**	**(2)**	**621**
	237,556	**11,985**	**(9,619)**	**(1,220)**	**238,702**
These are further analysed as follows:					
At fair value through profit or loss	**210,635**	**10,506**	**(8,785)**	**(160)**	**212,196**
Available for sale	**26,921**	**1,479**	**(834)**	**(1,060)**	**26,506**
	237,556	**11,985**	**(9,619)**	**(1,220)**	**238,702**

24 – Financial investments continued

(c) Cost, unrealised gains and fair value continued

	Cost/ amortised cost £m	Unrealised gains £m	Unrealised losses £m	Impairment losses £m	Restated 2008 Fair value £m
Fixed maturity securities	156,240	7,634	(12,857)	(283)	150,734
Equity securities	54,518	2,685	(12,636)	(1,156)	43,411
Other investments					
Unit trusts and specialised investment vehicles	28,700	1,994	(1,704)	(1)	28,989
Derivative financial instruments	1,792	1,761	(643)	—	2,910
Deposits with credit institutions	946	—	—	—	946
Minority holdings in property management undertakings	758	279	(56)	(12)	969
Other long-term investments	2,883	209	(402)	—	2,690
Other short-term investments	8	—	(1)	—	7
	245,845	14,562	(28,299)	(1,452)	230,656
These are further analysed as follows:					
At fair value through profit or loss	216,551	13,658	(25,396)	(191)	204,622
Available for sale	29,294	904	(2,903)	(1,261)	26,034
	245,845	14,562	(28,299)	(1,452)	230,656

	Cost/ amortised cost £m	Unrealised gains £m	Unrealised losses £m	Impairment losses £m	Restated 2007 Fair value £m
Fixed maturity securities	122,172	1,970	(2,542)	(9)	121,591
Equity securities	50,635	9,052	(367)	(255)	59,065
Other investments					
Unit trusts and specialised investment vehicles	28,684	3,106	(382)	(2)	31,406
Derivative financial instruments	—	1,609	—	—	1,609
Deposits with credit institutions	847	—	—	—	847
Minority holdings in property management undertakings	977	—	—	—	977
Other long-term investments	1,465	249	(57)	—	1,657
Other short-term investments	4	—	—	—	4
	204,784	15,986	(3,348)	(266)	217,156
These are further analysed as follows:					
At fair value through profit or loss	187,179	14,720	(2,929)	(31)	198,939
Available for sale	17,605	1,266	(419)	(235)	18,217
	204,784	15,986	(3,348)	(266)	217,156

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

Unrealised gains and losses on financial investments classified as at fair value through profit or loss recognised in the income statement in the year were a net loss of £18,919 million (*2008: £25,105 million net loss*). Of this, £1,877 million net loss *(2008: £108 million net gain)* related to financial investments designated as trading and £17,042 million net loss *(2008: £25,213 million net loss)* related to investments designated as other than trading.

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes foreign exchange movements on the translation of unrealised gains and losses on financial investments held by foreign subsidiaries, which are recognised in other comprehensive income, as well as transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

Total impairments of financial investments recognised in the income statement in the year, disclosed in note 6, were £538 million *(2008: £973 million)*. This comprised impairments of financial investments classified as available-for-sale of £482 million *(2008: £830 million)* disclosed in the table below, and impairments of financial investments classified as fair value through profit or loss of £56 million *(2008: £143 million)*.

24 – Financial investments continued

(d) Impairment of financial investments

The movements in impairment provisions on available-for-sale financial investments for the years ended 31 December 2009 and 2008 were as follows:

	Fixed maturity securities £m	Equity securities £m	Other investments £m	Total £m
At 1 January 2008	(8)	(227)	—	(235)
Increase for the year charged to the income statement	(169)	(661)	—	(830)
Other movements	(11)	(9)	—	(20)
Foreign exchange rate movement	(37)	(139)	—	(176)
At 31 December 2008	(225)	(1,036)	—	(1,261)
Increase for the year charged to the income statement	**(93)**	**(384)**	**(5)**	**(482)**
Write back following sale or reimbursement	**174**	**401**	**—**	**575**
Foreign exchange rate movement	**25**	**85**	**(2)**	**108**
At 31 December 2009	**(119)**	**(934)**	**(7)**	**(1,060)**

(e) Financial investment arrangements

(i) Stock lending arrangements

The Group has entered into stock lending arrangements in the UK and overseas during the year in accordance with established market conventions. The majority of the Group's stock lending transactions occurs in the UK, where investments are lent to EEA-regulated, locally-domiciled counterparties and governed by agreements written under English law.

The Group receives collateral in order to reduce the credit risk of these arrangements. Collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts. Transfer of title always occurs for collateral received, although no market risk or economic benefit is taken. The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Group's risk exposure.

In certain markets, the Group or the Group's appointed stock lending managers obtain legal ownership of the collateral received and can re-pledge it as collateral elsewhere or sell outright in the absence of default. The carrying amounts of financial assets received and pledged in this manner at 31 December 2009 were £16,909 million and £703 million respectively *(2008: £18,486 million and £322 million respectively, 2007: £23,779 million and £4 million respectively)*. The value of collateral that was actually sold or re-pledged in the absence of default was £nil *(2008: £nil)*.

In addition to the above, the Group has received and pledged cash collateral under stock lending arrangement that has been recognised in the statement of financial position with a corresponding obligation or receivable for its return. These latter balances are shown separately in notes 49 and 25 respectively.

(ii) Stock repurchase arrangements

Included within financial investments are £664 million *(2008: £383 million, 2007: £358 million)* of debt securities and other fixed income securities which have been sold under stock repurchase arrangements. The obligations arising under these arrangements are shown in note 49.

(iii) Other arrangements

In carrying on its bulk purchase annuity business, the Group's UK Life operation is required to place certain investments in trust on behalf of the policyholders. Amounts become payable from the trust funds to the trustees if the Group were to be in breach of its payment obligations in respect of policyholder benefits. At 31 December 2009, £703 million *(2008: £474 million, 2007: £nil)* of financial investments were restricted in this way.

Certain financial investments are also required to be deposited under local laws in various overseas countries as security for the holders of policies issued in those countries. Other investments are pledged as security collateral for bank letters of credit.

25 – Receivables and other financial assets

This note analyses our total receivables.

	2009 £m	2008 £m	2007 £m
Amounts owed by contract holders	**2,435**	2,303	2,554
Amounts owed by intermediaries	**1,216**	1,649	1,417
Deposits with ceding undertakings	**1,670**	1,747	1,163
Amounts due from reinsurers	**680**	802	701
Amounts due from brokers for investment sales	**232**	120	326
Amounts receivable for collateral pledged (notes 24(e) and 57(c))	**15**	1	21
Reimbursements due from government health insurance	**141**	147	402
Corporate owned life insurance	**146**	162	112
Dividends receivable	**76**	183	152
Finance lease receivables	**162**	121	111
Other banking assets	**273**	237	50
Other financial assets	**2,606**	2,730	2,164
Total	**9,652**	10,202	9,173
Less: Amounts classified as held for sale	**(20)**	(386)	(554)
	9,632	9,816	8,619
Expected to be recovered in less than one year	**8,985**	9,116	8,261
Expected to be recovered in more than one year	**647**	700	358
	9,632	9,816	8,619

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

26 – Deferred acquisition costs and other assets

This note shows the products on which we are deferring some of our acquisition costs and details the movements in the balance during the year.

(a) Carrying amount

The carrying amount comprises:

	2009 £m	2008 £m	2007 £m
Deferred acquisition costs in respect of:			
Insurance contracts – Long-term business	**2,952**	3,306	1,473
Insurance contracts – General insurance and health business	**1,227**	1,489	1,583
Participating investment contracts – Long-term business	**85**	87	112
Non-participating investment contracts – Long-term business	**1,032**	1,062	1,126
Retail fund management business	**20**	21	27
Total deferred acquisition costs	**5,316**	5,965	4,321
Surpluses in the staff pension schemes (note 47(e)(vii))	**—**	—	27
Other assets	**305**	183	139
Total	**5,621**	6,148	4,487
Less: Amounts classified as held for sale	**—**	(1)	—
	5,621	6,147	4,487

Deferred acquisition costs on long-term business are generally recoverable in more than one year whereas such costs on general insurance and health business are generally recoverable within one year after the statement of financial position date.

26 – Deferred acquisition costs and other assets continued

(b) Movements in the year

The movements in deferred acquisition costs during the year were:

2009	Long-term business £m	General insurance and health business £m	Retail fund management business £m	Total £m
Carrying amount at 1 January	**4,455**	**1,489**	**22**	**5,966**
Acquisition costs deferred during the year	**1,123**	**2,209**	**8**	**3,340**
Amortisation	**(468)**	**(2,464)**	**(9)**	**(2,941)**
Impact of assumption changes	**94**	**—**	**(1)**	**93**
Effect of portfolio transfers, acquisitions and disposals	**(40)**	**—**	**—**	**(40)**
Foreign exchange rate movements	**(338)**	**(7)**	**—**	**(345)**
Shadow adjustment	**(757)**	**—**	**—**	**(757)**
Carrying amount at 31 December	**4,069**	**1,227**	**20**	**5,316**

2008	Long-term business £m	General insurance and health business £m	Retail fund management business £m	Total £m
Carrying amount at 1 January	2,711	1,583	27	4,321
Acquisition costs deferred during the year	1,513	2,660	4	4,177
Amortisation	(682)	(2,828)	(9)	(3,519)
Impairment losses	(100)	—	—	(100)
Impact of assumption changes	(281)	(4)	—	(285)
Effect of portfolio transfers, acquisitions and disposals	3	(1)	—	2
Foreign exchange rate movements	808	79	—	887
Shadow adjustment	483	—	—	483
Carrying amount at 31 December	4,455	1,489	22	5,966

The level of capitalised acquisition costs for new long-term business reduced by £390 million in 2009, reflecting lower new business in the US. The amortisation reduced by £214 million in 2009, mainly in the UK where improved asset values impacted on projected profits, particularly management charges on unit-linked funds, leading to lower amortisation.

Where amortisation of the DAC balance depends on projected profits, changes to economic conditions may lead to a movement in the DAC balance and a corresponding impact on profit. It is estimated that the movement in DAC balance would reduce profit by £5 million if market yields on fixed income investments were to reduce by 1% and reduce profit by £20 million if equity and property market values were to fall by 10% from year end 2009 levels.

The shadow adjustments relate to deferred acquisition costs on business in the United States backed by investments classified as available for sale. As explained in accounting policy K, unrealised gains and losses on the AFS investments and the shadow adjustments above are both recognised directly in other comprehensive income.

(c) Other assets

Other assets include £1 million *(2008: £1 million, 2007: £66 million)* that is expected to be recovered more than one year after the statement of financial position date.

(d) Prepayments and accrued income

Prepayments and accrued income of £3,604 million *(2008: £3,762 million, 2007: £2,986 million)*, include £148 million *(2008: £259 million, 2007: £111 million)* that is expected to be recovered more than one year after the statement of financial position date.

27 – Assets held to cover linked liabilities

Certain unit-linked products have been classified as investment contracts, while some are included within the definition of an insurance contract. The assets backing these unit-linked liabilities are included within the relevant balances in the consolidated statement of financial position, while the liabilities are included within insurance and investment contract provisions. This note analyses the carrying values of assets backing these liabilities.

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

	2009 £m	2008 £m	2007 £m
Loans	**1,468**	1,799	347
Debt securities	**17,595**	19,588	15,065
Equity securities	**28,638**	23,840	27,743
Other investments	**29,756**	28,799	33,171
Reinsurance assets	**1,014**	1,704	1,905
Cash and cash equivalents	**4,214**	4,125	3,939
	82,685	79,855	82,170

28 – Ordinary share capital

This note gives details of Aviva plc's ordinary share capital and shows the movements during the year.

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

	2009 £m	2008 £m
The authorised share capital of the Company at 31 December 2009 was:		
5,200,000,000 *(2008: 3,000,000,000)* ordinary shares of 25 pence each	**1,300**	750
The allotted, called up and fully paid share capital of the Company at 31 December 2009 was:		
2,766,611,374 *(2008: 2,657,701,624)* ordinary shares of 25 pence each	**692**	664

(b) During 2009, a total of 108,909,750 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	Number of shares	Share Capital £m	Share Premium £m
At 1 January 2008	2,621,792,828	655	1,223
Shares issued under the Group's Employee and Executive Share Option Schemes	8,429,587	2	18
Shares issued in lieu of dividends	27,479,209	7	(7)
At 31 December 2008	2,657,701,624	664	1,234
Shares issued under the Group's Employee and Executive Share Option Schemes	**951,455**	**1**	**—**
Shares issued in lieu of dividends	**107,958,295**	**27**	**(27)**
At 31 December 2009	**2,766,611,374**	**692**	**1,207**

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

The issue of shares in lieu of cash dividends is considered a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

29 – Equity compensation plans

This note describes the various equity compensation plans we use, and shows how we value the options and awards of shares in the Company.

(a) Description of the plans

The Group maintains a number of active stock option and award schemes. These are as follows:

(i) Savings-related options
These are options granted under the Inland Revenue-approved Save As You Earn (SAYE) share option schemes in the UK and in Ireland. Options are normally exercisable during the six month period following either the third, fifth or seventh anniversary of the start of the relevant savings contract.

(ii) Executive share options
These are options granted on various dates from 1999 to 2004, under the Aviva Executive Share Option Scheme or predecessor schemes. Options granted between 1999 and 2000 were subject to the satisfaction of conditions relating to either the Company's return on equity shareholders' funds (ROE) or its relative total shareholder return (TSR) against a chosen comparator group. In respect of options granted from 2000 the performance condition has been a mixture of both ROE and TSR measures. In all cases, performance is measured over a three-year performance period and the options are normally exercisable between the third and tenth anniversary of their grant.

(iii) Deferred bonus plan options
These are options granted in 2000 under the CGU Deferred Bonus Plan. Participants who deferred their annual cash bonus in exchange for an award of shares of equal value also received a matching award over an equal number of share options. The exercise of these options is not subject to the attainment of performance conditions. These options are exercisable up to the tenth anniversary of their grant.

(iv) Long-term incentive plan awards
These awards have been made under the Aviva Long Term Incentive Plan 2005 and are described in Section (b) below and in the Directors' remuneration report.

(v) Annual bonus plan awards
These awards have been made under the Aviva Annual Bonus Plan 2005, and are described in Section (b) below and in the Directors' remuneration report.

(vi) One Aviva, twice the value bonus plan awards
These are conditional awards first granted under the Aviva Annual Bonus Plan 2005 in 2008, and are described in section (b) below and in the Directors' remuneration report.

(b) Outstanding options and awards

(i) Share options
At 31 December 2009, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows:
Aviva Savings Related

Aviva Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	401	660,218	2009	593	1,128,769	2009, 2011 or 2013
	406	181,776	2010	563	1,414,950	2010, 2012 or 2014
	428	511,362	2009 or 2011	410	3,884,416	2011, 2013 or 2015
	491	613,103	2010 or 2012	316	13,417,632	2012, 2014 or 2016

Hibernian Savings Related Share Option Scheme (in euros)	Option price c	Number of shares	Normally exercisable	Option price c	Number of shares	Normally exercisable
	630	27,912	2009	830	103,800	2010 or 2012
	719	19,535	2010	509	321,194	2011 or 2013
	879	77,610	2009 or 2011	360	1,366,852	2012 or 2014

RAC Savings Related Share Option Scheme	Option price p	Number of shares	Normally exercisable
	354.94	24,210	2009

29 – Equity compensation plans continued

Aviva Executive Share Option Scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	822.00	20,442	2003 to 2010	516.00	692,183	2005 to 2012
	972.33	7,436	2003 to 2010	512.00	834,559	2006 to 2013
	960.00	22,336	2003 to 2010	526.00	608,487	2007 to 2014
	1,035.00	403,157	2004 to 2011			

CGU plc Deferred Bonus Plan	Option price p	Number of shares	Normally exercisable
	875.0	13,154	2003 to 2010

The following table summarises information about options outstanding at 31 December 2009:

Range of exercise prices	**Outstanding options Number**	**Weighted average remaining contractual life Years**	**Weighted average exercise price p**
£3.00 – £4.89	20,395,572	3	341.94
£4.90 – £8.04	5,492,996	2	543.53
£8.05 – £11.19	466,525	1	1016.57

The comparative figures as at 31 December 2008 were:

Range of exercise prices	Outstanding options Number	Weighted average remaining contractual life Years	Weighted average exercise price p
£3.00 – £4.89	15,038,581	3	408.74
£4.90 – £8.04	10,344,558	2	535.04
£8.05 – £11.19	895,084	1	976.99

(ii) Share awards

At 31 December 2009, awards issued under the Company's executive incentive plans over ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva Long Term Incentive Plan 2005	Number of shares	Vesting period	Number of shares	Vesting period
	2,483,286	2007 to 2009	11,619,840	2009 to 2011
	3,914,033	2008 to 2010		

One Aviva, twice the value Bonus Plan	Number of shares	Vesting period	Number of shares	Vesting period
	985,942	2008 to 2010	2,722,011	2009 to 2011

Aviva Annual Bonus Plan 2005	Number of shares	Vesting period	Number of shares	Vesting period
	2,094,687	2010	7,995,096	2012
	2,870,335	2011		

The vesting of awards under the Aviva Long Term Incentive Plan 2005 is subject to the attainment of performance conditions as described in the Directors' remuneration report. Shares which do not vest, lapse.

(iii) Shares to satisfy awards and options

Prior to March 2003, it was the practice to satisfy awards and options granted under the executive incentive plans through shares purchased in the market and held by employee share trusts which were established for the purpose of satisfying awards under the various executive incentive plans and funded by the Company.

From March 2003 to July 2008, it was generally the Company's practice to satisfy the awards granted after March 2003 by the issue of new shares at the time of vesting. However, since July 2008, it has been the Company's practice to satisfy all awards and options using shares purchased in the market and held by employee trusts except where local regulations make it necessary to issue new shares. Further details are given in note 30.

29 – Equity compensation plans continued

(c) Movements in the year

A summary of the status of the option plans as at 31 December 2009 and 2008, and changes during the years ended on those dates, is shown below.

	2009		2008	
	Number of options	Weighted average exercise price p	Number of options	Weighted average exercise price p
Outstanding at 1 January	**26,278,223**	**477.82**	22,999,532	534.70
Granted during the year	**14,863,272**	**316.00**	12,392,826	410.00
Exercised during the year	**(146,330)**	**359.55**	(2,344,424)	420.90
Forfeited during the year	**(1,149,764)**	**459.77**	(528,037)	497.32
Cancelled during the year	**(8,604,422)**	**433.40**	(3,980,590)	483.76
Expired during the year	**(4,885,886)**	**513.42**	(2,261,084)	561.62
Outstanding at 31 December	**26,355,093**	**395.90**	26,278,223	477.82
Exercisable at 31 December	**6,709,247**	**550.41**	6,709,247	550.41

(d) Expense charged to the income statement

The total expense recognised for the year arising from equity compensation plans was as follows:

	2009 £m	2008 £m
Equity-settled expense (note 10b)	**56**	39
Cash-settled expense	**—**	—
	56	39

(e) Fair value of options and awards granted after 7 November 2002

The weighted average fair values of options and awards granted during the year, estimated by using the Black-Scholes option pricing model, were £1.78 and £1.94 *(2008: £1.99 and £4.44)* respectively.

(i) Share options

The fair value of the options was estimated on the date of grant, based on the following weighted average assumptions:

Weighted average assumption	2009	2008
Share price	**480p**	518p
Exercise price	**316p**	410p
Expected volatility	**55%**	32.6%
Expected life	**5.00 years**	5.00 years
Expected dividend yield	**5.06%**	5.5%
Risk-free interest rate	**2.47%**	4.4%

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the options prior to its date of grant.

The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the options.

144,590 options granted after 7 November 2002 were exercised during the year *(2008: 1,112,282)*.

(ii) Share awards

The fair value of the awards was estimated on the date of grant, based on the following weighted average assumptions:

Weighted average assumption	2009	2008
Share price	**216.25p**	608p
Expected volatility*	**60%**	25%
Expected volatility of comparator companies' share price*	**61%**	26%
Correlation between Aviva and competitors' share price*	**55%**	65%
Expected life	**2.75 years**	2.78 years
Expected dividend yield	**8.23%**	4.5%
Risk-free interest rate*	**1.76%**	3.9%

* For awards with market-based performance conditions.

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the options prior to its date of grant.

The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the options.

30 – Shares held by employee trusts

We satisfy awards and options granted under the executive incentive plans primarily through shares purchased in the market and held by employees share trusts. This note gives details of the shares held in these trusts.

Movements in the carrying value of shares held by employee trusts comprise:

	2009		2008	
	Number	**£m**	Number	£m
Cost debited to shareholders' funds				
At 1 January	**8,635,582**	**33**	1,521,064	10
Acquired in the year	**14,000,000**	**54**	8,500,000	29
Distributed in the year	**(4,656,350)**	**(19)**	(1,385,482)	(6)
Balance at 31 December	**17,979,232**	**68**	8,635,582	33

The shares are owned by an employee share trust with an undertaking to satisfy awards of shares in the Company under the Group's equity compensation plans. Details of the features of the plans can be found in the Directors' remuneration report.

These shares were purchased in the market and are carried at cost less amounts charged to the income statement in prior years. At 31 December 2009, they had an aggregate nominal value of £4,494,808 *(2008: £2,158,896, 2007: £380,266)* and a market value of £71,539,364 *(2008: £33,678,770, 2007: £10,236,761)*. The trustees have waived their rights to dividends on the shares held in the trusts.

31 – Preference share capital

This note gives details of Aviva plc's preference share capital.

The preference share capital of the Company at 31 December 2009 was:

	2009 £m	2008 £m
Authorised		
200,000,000 cumulative irredeemable preference shares of £1 each	**200**	200
1,000,000,000 Sterling preference shares of £1 each	**1,000**	1,000
	1,200	1,200

	2009 €m	2008 €m
700,000,000 Euro preference shares of €1 each	**700**	700

	2009 £m	2008 £m
Issued and paid up		
100,000,000 $8^3/_8$% cumulative irredeemable preference shares of £1 each	**100**	100
100,000,000 $8^3/_4$% cumulative irredeemable preference shares of £1 each	**100**	100
	200	200

The Sterling preference shares, if issued and allotted, would rank, as to payment of a dividend and capital, ahead of the Company's ordinary share capital but behind the cumulative irredeemable preference shares currently in issue. The issued preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are altered. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares. The Company does not have a contractual obligation to deliver cash or other financial assets to the preference shareholders and therefore the directors may make dividend payments at their discretion.

32 – Direct capital instrument

This note gives details of the direct capital instrument issued in November 2004.

Notional amount	2009 £m	2008 £m	2007 £m
5.9021% £500 million direct capital instrument	**500**	500	500
4.7291% €700 million direct capital instrument	**490**	490	490
	990	990	990

The euro and sterling direct capital instruments (the DCIs) were issued on 25 November 2004. They have no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the euro and sterling DCIs at their principal amounts on 28 November 2014 and 27 July 2020 respectively, at which dates the interest rates change to variable rates, or on any respective coupon payment date thereafter.

In addition, under certain circumstances defined in the terms and conditions of the issue, the Company may at its sole option:

— substitute at any time not less than all of the DCIs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities;

— substitute not less than all of the DCIs for fully paid non-cumulative preference shares in the Company. These preference shares could only be redeemed on 28 November 2014 in the case of the euro DCIs and on 27 July 2020 in the case of the sterling DCIs, or in each case on any dividend payment date thereafter. The Company has the right to choose whether or not to pay any dividend on the new shares, and any such dividend payment will be non-cumulative.

The Company has the option to defer coupon payments on the DCIs on any relevant payment date. Deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

— Redemption; or

— Substitution by, or variation so they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities; or

— Substitution by preference shares.

No interest will accrue on any deferred coupon. Deferred coupons will be satisfied by the issue and sale of ordinary shares in the Company at their prevailing market value, to a sum as near as practicable to (and at least equal to) the relevant deferred coupons. In the event of any coupon deferral, the Company will not declare or pay any dividend on its ordinary or preference share capital.

33 – Merger reserve

This note analyses the movements in the merger reserve during the year.

Movements in the year comprised:

	2009 £m	2008 £m
Balance at 1 January	**3,271**	3,271
Movement in the year	**—**	—
Balance at 31 December	**3,271**	3,271

Prior to 1 January 2004, certain significant business combinations were accounted for using the "pooling of interests method" (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

The balance on the reserve has arisen through the mergers of Commercial Union, General Accident and Norwich Union companies, forming Aviva plc in 2000, together with the acquisition of RAC plc in 2005.

34 – Other reserves

This note gives details of the various reserves forming part of the Group's consolidated equity, and shows the movements during the year.

Movements in the year comprised:

	Currency translation reserve (see accounting policy E) £m	Owner occupied properties reserve (see accounting policy O) £m	Investment valuation reserve (see accounting policy S) £m	Hedging instruments reserve (see accounting policy T) £m	Equity compensation reserve (see accounting policy AA) £m	Restated Total £m
Balance at 1 January 2008	432	192	819	(63)	89	1,469
Arising in the year:						
Fair value losses	—	(37)	(2,344)	—	—	(2,381)
Fair value gains transferred to profit on disposals	—	—	(126)	—	—	(126)
Fair value gains transferred to retained earnings on disposals (note 35)	—	1	—	—	—	1
Share of fair value changes in joint ventures and associates taken to other comprehensive income (notes 18a & 19a)	—	—	(93)	—	—	(93)
Impairment losses on assets previously revalued directly through equity now taken to income statement*	—	—	830	—	—	830
Reserves credit for equity compensation plans (note 29d)	—	—	—	—	39	39
Shares issued under equity compensation plans (note 35)	—	—	—	—	(15)	(15)
Foreign exchange rate movements	3,253	—	—	(1,040)	—	2,213
Aggregate tax effect – shareholders' tax	—	1	203	—	—	204
Balance at 31 December 2008	3,685	157	(711)	(1,103)	113	2,141
Arising in the year:						
Fair value losses	**—**	**(26)**	**977**	**—**	**—**	**951**
Fair value gains transferred to profit on disposals	**—**	**—**	**(310)**	**—**	**—**	**(310)**
Transfer to profit on disposal of subsidiary (note 3b)	**(96)**	**—**	**—**	**—**	**—**	**(96)**
Fair value losses transferred to retained earnings on disposals (note 35)	**—**	**(1)**	**—**	**—**	**—**	**(1)**
Share of fair value changes in joint ventures and associates taken to other comprehensive income (notes 18a & 19a)	**—**	**—**	**122**	**—**	**—**	**122**
Impairment losses on assets previously revalued directly through equity now taken to income statement*	**—**	**—**	**482**	**—**	**—**	**482**
Reserves credit for equity compensation plans (note 29d)	**—**	**—**	**—**	**—**	**56**	**56**
Shares issued under equity compensation plans (note 35)	**—**	**—**	**—**	**—**	**(60)**	**(60)**
Transfer to minority interests following Delta Lloyd IPO (note 3c)	**(351)**	**(26)**	**(156)**	**—**	**—**	**(533)**
Foreign exchange rate movements	**(1,014)**	**—**	**—**	**332**	**—**	**(682)**
Aggregate tax effect – shareholders' tax	**—**	**—**	**(241)**	**—**	**—**	**(241)**
Balance at 31 December 2009	**2,224**	**104**	**162**	**(771)**	**109**	**1,829**

* In accordance with accounting policy S, all fair value gains and losses on available-for-sale investments are recorded in the investment valuation reserve. Where these investments are considered to be impaired, the relevant losses are then transferred from this reserve to the income statement.

The above reserves are shown net of minority interests.

35 – Retained earnings

This note analyses the movements in the consolidated retained earnings during the year.

	2009 £m	Restated 2008 £m
Balance at 1 January as reported	**3,902**	6,338
Prior year adjustment (see note 2b(ii))	**—**	96
Balance as 1 January restated	**3,902**	6,434
Profit/(loss) for the year attributable to equity shareholders	**1,085**	(915)
Actuarial (losses)/gains on pension schemes (note 47e(iv))	**(1,140)**	(929)
Actuarial losses/(gains) on pension schemes transferred to unallocated divisible surplus (note 43)	**24**	78
Dividends and appropriations (note 15)	**(853)**	(975)
Shares issued in lieu of dividends	**299**	170
Shares issued under equity compensation plans (note 34)	**60**	15
Shares distributed by employee trusts (note 30)	**(18)**	(6)
Fair value gains/(losses) realised from reserves (note 34)	**1**	(1)
Transfer to minority interests following Delta Lloyd IPO (note 3c)	**3**	—
Aggregate tax effect	**62**	31
Balance at 31 December	**3,425**	3,902

The shares issued in lieu of dividends are in respect of the transfer to retained earnings from the ordinary dividend account, arising from the treatment of these shares explained in note 28(b).

The Group's regulated subsidiaries are required to hold sufficient capital to meet acceptable solvency levels based on applicable local regulations. Their ability to transfer retained earnings to the UK parent companies is therefore restricted to the extent these earnings form part of local regulatory capital.

36 – Minority interests

This note gives details of the Group's minority interests and shows the movements during the year.

(a) Minority interests at 31 December comprised:

	2009 £m	2008 £m	2007 £m
Equity shares in subsidiaries	**2,098**	695	660
Share of earnings	**795**	673	429
Share of other reserves	**395**	577	450
	3,288	1,945	1,539
Preference shares in General Accident plc	**250**	250	250
Preference shares in other subsidiaries	**2**	9	6
	3,540	2,204	1,795

(b) Movements in the year comprised:

	2009 £m	2008 £m
Balance at 1 January	**2,204**	1,795
Profit for the year attributable to minority interests	**230**	30
Minority share of movements in other reserves	**35**	—
Foreign exchange rate movements	**(173)**	471
Total comprehensive income attributable to minority interests	**92**	501
Capital contributions from minority shareholders	**6**	36
Increase in minority interests following Delta Lloyd IPO (note 3c)	**1,460**	—
Minority share of dividends declared in the year	**(109)**	(106)
Minority interest in acquired subsidiaries	**(2)**	43
Changes in minority interest in existing subsidiaries	**11**	(65)
Reclassification to financial liabilities (see below)	**(122)**	—
Balance at 31 December	**3,540**	2,204

The minority shareholders in two subsidiaries in France and Italy hold options requiring the Group to purchase their shares. Both sets of minority shareholders have recently indicated that they intend to exercise these options in 2010. We have therefore classified their interest as at 31 December 2009 to financial liabilities in the consolidated statement of financial position.

37 – Contract liabilities and associated reinsurance

The following notes explain how we calculate our liabilities to our policyholders for insurance and investment products we have sold to them. Notes 38 and 39 cover these liabilities and note 40 details the financial guarantees and options given for some of these products. Note 41 details the reinsurance recoverables on these liabilities whilst note 42 shows the effects of the assumptions we have changed during the year.

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

	2009			2008			2007		
	Gross provisions £m	**Reinsurance assets £m**	**Net £m**	Gross provisions £m	Reinsurance assets £m	Net £m	Gross provisions £m	Reinsurance assets £m	Net £m
Long-term business									
Insurance contracts	**(154,058)**	**4,299**	**(149,759)**	(156,188)	4,466	(151,722)	(135,312)	4,298	(131,014)
Participating investment contracts	**(66,559)**	**—**	**(66,559)**	(65,278)	52	(65,226)	(53,609)	22	(53,587)
Non-participating investment contracts	**(43,456)**	**1,258**	**(42,198)**	(42,281)	1,047	(41,234)	(44,635)	1,461	(43,174)
	(264,073)	**5,557**	**(258,516)**	(263,747)	5,565	(258,182)	(233,556)	5,781	(227,775)
Outstanding claims provisions									
Long-term business	**(921)**	**40**	**(881)**	(907)	145	(762)	(727)	94	(633)
General insurance and health	**(9,977)**	**1,194**	**(8,783)**	(11,842)	1,737	(10,105)	(10,842)	1,634	(9,208)
	(10,898)	**1,234**	**(9,664)**	(12,749)	1,882	(10,867)	(11,569)	1,728	(9,841)
Provisions for claims incurred but not reported	**(2,719)**	**449**	**(2,270)**	(2,518)	29	(2,489)	(2,099)	29	(2,070)
	(277,690)	**7,240**	**(270,450)**	(279,014)	7,476	(271,538)	(247,224)	7,538	(239,686)
Provision for unearned premiums	**(4,781)**	**332**	**(4,449)**	(5,493)	418	(5,075)	(5,484)	511	(4,973)
Provision arising from liability adequacy tests	**(7)**	**—**	**(7)**	(13)	—	(13)	(24)	—	(24)
Other technical provisions	**—**	**—**	**—**	—	—	—	(3)	5	2
Totals	**(282,478)**	**7,572**	**(274,906)**	(284,520)	7,894	(276,626)	(252,735)	8,054	(244,681)
Less: Amounts classified as held for sale	**20**	**—**	**20**	709	—	709	627	—	627
	(282,458)	**7,572**	**(274,886)**	(283,811)	7,894	(275,917)		8,054	(244,054)

38 – Insurance liabilities

This note analyses our insurance contract liabilities by type of product and describes how we calculate these liabilities and what assumptions we have used.

(a) Carrying amount

Insurance liabilities at 31 December comprise:

	2009			2008			2007		
	Long-term business £m	**General insurance and health £m**	**Total £m**	Long-term business £m	General insurance and health £m	Total £m	Long-term business £m	General insurance and health £m	Total £m
Long-term business provisions									
Participating	**64,702**	**—**	**64,702**	66,863	—	66,863	66,093	—	66,093
Unit-linked non-participating	**23,158**	**—**	**23,158**	22,060	—	22,060	20,601	—	20,601
Other non-participating	**66,198**	**—**	**66,198**	67,265	—	67,265	48,618	—	48,618
	154,058	**—**	**154,058**	156,188	—	156,188	135,312	—	135,312
Outstanding claims provisions	**921**	**9,977**	**10,898**	907	11,842	12,749	727	10,842	11,569
Provision for claims incurred but not reported	**—**	**2,719**	**2,719**	—	2,518	2,518	—	2,099	2,099
	921	**12,696**	**13,617**	907	14,360	15,267	727	12,941	13,668
Provision for unearned premiums	**—**	**4,781**	**4,781**	—	5,493	5,493	—	5,484	5,484
Provision arising from liability adequacy tests	**—**	**7**	**7**	—	13	13	—	24	24
Other technical provisions	**—**	**—**	**—**	—	—	—	—	3	3
Total	**154,979**	**17,484**	**172,463**	157,095	19,866	176,961	136,039	18,452	154,491
Less: Obligations to staff pension schemes transferred to provisions (note 46a)	**(1,351)**	**—**	**(1,351)**	(1,402)	—	(1,402)	(1,025)	—	(1,025)
Amounts classified as held for sale	**—**	**(20)**	**(20)**	—	(709)	(709)	—	(627)	(627)
	153,628	**17,464**	**171,092**	155,693	19,157	174,850	135,014	17,825	152,839

(b) Long-term business liabilities

(i) Business description

The Group underwrites long-term business in a number of countries as follows:

— In the UK mainly in:
  – New With-Profits sub-fund (NWPSF) of Aviva Life & Pensions UK (UKLAP), where the with-profit policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance. Any surplus or deficit emerging in NWPSF that is not distributed as bonus will be transferred from this sub-fund to the Reattributed Inherited Estate External Support Account (RIEESA) (see below).
  – Old With-Profits sub-fund (OWPSF), With-Profits sub-fund (WPSF) and Provident Mutual sub-fund (PMSF) of UKLAP, where the with-profit policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance.
  – "Non-profit" funds of Aviva Annuity UK and UKLAP, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by WPSF and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.
  – The RIEESA of UKLAP, which is a non-profit fund where shareholders are entitled to 100% of the distributed profits, but these cannot be distributed until the "lock-in" criteria set by the Reattribution Scheme have been met. RIEESA will be used to write non-profit business and also to provide capital support to NWPSF.

— In France, where the majority of policyholders' benefits are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees. In addition, a substantial number of policies participate in investment returns, with the balance being attributable to shareholders.

— In the Netherlands, the balance of profits, after providing appropriate returns for policyholders and after tax, accrues for the benefit of the shareholders. The bases for determining returns for policyholders are complex, but are consistent with methods and criteria followed generally in the Netherlands. In addition, a substantial number of policies provide benefits that are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees.

— In the United States, there are two main types of business – protection products and accumulation products. Protection products include interest-sensitive whole life, term life, universal life and indexed life insurance policies. The accumulation product segment includes traditional fixed and indexed deferred annuities for individuals and funding agreements for business customers. In addition, there are two closed blocks of participating contracts arising from demutualisations of subsidiary companies. All products are classified as insurance contracts except for the funding agreements and term certain immediate annuities, which are classified as non-participating investment contracts.

— In other overseas operations.

38 – Insurance liabilities continued

(ii) Group practice

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, mainly using the net premium method, modified where necessary to reflect the requirements of the Companies Act.

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where discretion is permitted. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates.

Bonuses paid during the year are reflected in claims paid, whereas those allocated as part of the bonus declaration are included in the movements in the long-term business provision.

(iii) Methodology and assumptions

There are two main methods of actuarial valuation of liabilities arising under long-term insurance contracts – the net premium method and the gross premium method – both of which involve the discounting of projected premiums and claims.

Under the net premium method, the premium taken into account in calculating the provision is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder, and so no assumption is required for persistency. Explicit provision is made for vested bonuses (including those vesting following the most recent fund valuation), but no such provision is made for future regular or terminal bonuses. However, this method makes implicit allowance for future regular or terminal bonuses already earned, by margins in the valuation discount rate used.

The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience. Explicit provision is made for vested bonuses and explicit allowance is also made for future regular bonuses, but not terminal bonuses.

(a) UK

With-profit business

The valuation of with-profit business uses the methodology developed for the Realistic Balance Sheet, adjusted to remove the shareholders' share of future bonuses. The key elements of the Realistic Balance Sheet methodology are the with-profit benefit reserve (WPBR) and the present value of the expected cost of any payments in excess of the WPBR (referred to as the cost of future policy-related liabilities). The realistic liability for any contract is equal to the sum of the WPBR and the cost of future policy-related liabilities. The WPBR for an individual contract is generally calculated on a retrospective basis, and represents the accumulation of the premiums paid on the contract, allowing for investment return, taxation, expenses and any other charges levied on the contract.

For a small proportion of business, a prospective valuation approach is used, including allowance for anticipated future regular and final bonuses.

The items included in the cost of future policy-related liabilities include:

— Maturity Guarantees
— Guaranteed Annuity Options
— GMP underpin on Section 32 transfers
— Expected payments under Mortgage Endowment Promise

In the Provident Mutual and With-Profits sub-funds in UKLAP, this is offset by the expected cost of charges to WPBR to be made in respect of guarantees.

The cost of future policy-related liabilities is determined using a market-consistent approach and, in the main, this is based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market-related assumptions (for example, persistency, mortality and expenses) are based on experience, adjusted to take into account future trends.

The principal assumptions underlying the cost of future policy related liabilities are as follows:

Future investment return

A "risk-free" rate equal to the spot yield on UK Government securities, plus a margin of 0.1% is used. The rates vary, according to the outstanding term of the policy, with a typical rate as at 31 December 2009 being 4.35% *(2008: 3.58%)* for a policy with 10 years outstanding.

Volatility of investment return

Volatility assumptions are set with reference to implied volatility data on traded market instruments, where available or on a best estimate basis where not. These are term-dependent, with specimen values for 10 year terms as follows:

	Volatility	
	2009	2008
Equity returns	**26.6%**	34.6%
Property returns	**15.0%**	15.0%
Fixed interest yields	**14.4%**	15.9%

The table above shows the volatility of fixed interest yields, set with reference to 20 year at-the-money swaption volatilities.

38 – Insurance liabilities continued

Future regular bonuses

Annual bonus assumptions for 2010 have been set consistently with the year end 2009 declaration. Future annual bonus rates reflect the principles and practices of the fund. In particular, the level is set with regard to the projected margin for final bonus and the change from one year to the next is limited to a level consistent with past practice.

Mortality

Mortality assumptions are set with regard to recent company experience and general industry trends.

The mortality tables used in the valuation are summarised below:

	Mortality table used	
	2008 and 2009	2007
Assurances, pure endowments and deferred annuities before vesting	**Nil or Axx00 adjusted**	Nil or AM92/AF92
Pensions business after vesting and pensions annuities in payment	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

Non-profit business

Conventional non-profit contracts, including those written in the with-profit funds, are valued using gross premium methods which discount projected future cash flows. The cash flows are calculated using the amount of contractual premiums payable, together with explicit assumptions for investment returns, inflation, discount rates, mortality, morbidity, persistency and future expenses. These assumptions vary by contract type and reflect current and expected future experience.

For unit-linked and some unitised with-profit business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows on the assumption that future premiums cease, unless it is more onerous to assume that they continue. Where appropriate, allowance for persistency is based on actual experience.

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical default experience of each asset class. A further margin for risk is then deducted for all asset classes.

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option.

Valuation discount rates for business in the non-profit funds are as follows:

	Valuation discount rates		
	2009	2008	2007
Assurances			
Life conventional non-profit	**3.0% to 3.8%**	2.7% to 3.4%	3.1% to 3.9%
Pensions conventional non-profit	**3.8% to 4.0%**	3.4% to 3.6%	3.9% to 4.1%
Deferred annuities			
Non-profit – in deferment	**4.2%**	3.8%	4.3%
Non-profit – in payment	**3.8% to 4.0%**	3.4% to 3.6%	3.9% to 4.1%
Annuities in payment			
Conventional annuity	**4.2% to 5.7%**	3.8% to 5.4%	4.3% to 5.2%
Non-unit reserves			
Life	**3.3%**	3.0%	3.4%
Pensions	**4.1%**	3.7%	4.2%

38 – Insurance liabilities continued

Mortality assumptions are set with regard to recent company experience and general industry trends. The mortality tables used in the valuation are summarised below:

	Mortality tables used	
	2008 and 2009	2007
Assurances		
Non-profit	**AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors**	AM80/AF80 or AM92/AF92 or TM92/TF92 adjusted for smoker status and age/sex specific factors
Pure endowments and deferred annuities before vesting	**AM00/AF00 adjusted**	Nil or AM80/AF80 or AM92/AF92 adjusted
Pensions business after vesting	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement
Annuities in payment		
General annuity business	**IML00/IFL00 adjusted plus allowance for future mortality improvement**	IML00/IFL00 adjusted plus allowance for future mortality improvement

(b) France

The majority of reserves arise from a single premium savings product and is based on the accumulated fund value, adjusted to maintain consistency with the value of the assets backing the policyholder liabilities. The net premium method is used for prospective valuations, in accordance with local regulation, where the valuation assumptions depend on the date of issue of the contract. The valuation discount rate also depends on the original duration of the contract and mortality rates are based on industry tables.

	Valuation discount rates	Mortality tables used
	2009, 2008 and 2007	2009, 2008 and 2007
Life assurances	0% to 4.5%	TD73-77, TD88-90, TH00-02, TGF05/TGH05
Annuities	0% to 4.5%	TPRV (prospective table)

(c) Netherlands

On transition to IFRS, the valuation of most long-term insurance and participating investment contracts was changed from existing methods that used historic assumptions to an active basis using current market interest rates. A liability adequacy test is performed in line with IFRS requirements. Where liabilities are based on current market interest rates and assets are valued at market value, the margin in the liability adequacy test is determined by comparison of the liabilities with the present value of best estimate cash flows. The yield curve is constructed from yields on collateralised AAA bonds.

	Valuation discount rates	Mortality tables used
	2009, 2008 and 2007	2009, 2008 and 2007
Life assurances	Market risk-free yield curves, based on iBoxx index for collateralised AAA bonds *(2007: Based on DNB swap rates)*	GBM 61-65, GBM/V 76-80, GBM 80-85, GBM/V 85-90 and GBM/V90-95
Annuities in deferment and in payment	Market risk-free yield curves, based on iBoxx index for collateralised AAA bonds *(2007: Based on DNB swap rates)*	GBM/V 76-80, GBM/V 85-90, GBM/V 95-00, Coll 1993/2003 and DIL 98, plus further allowance for future mortality improvement

(d) United States

For the major part of our US business, insurance liabilities are measured in accordance with US GAAP as at the date of acquisition.

The liability for future policy benefits for traditional life insurance is computed using the net level method, based on guaranteed interest and mortality rates as used in calculating cash surrender values. Reserve interest assumptions ranged from 2.00% to 7.50% in 2009 *(2008: 2.00% to 7.50%)*. The weighted average interest rate for all traditional life policy reserves in 2009 was 4.47% *(2008: 4.47%)*.

38 – Insurance liabilities continued

Future policy benefit reserves for universal life insurance, deferred annuity products and funding agreements are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. For the indexed products, the liability held is calculated based on the option budget method and is equal to the host contract and the calculated value of the derivative. The value of the derivative is based on the present value of the difference between the projected fund value and the underlying fund guarantee. The weighted average interest crediting rates for universal life products were 4.27% in 2009 *(2008: 4.77%)*. The range of interest crediting rates for deferred annuity products, excluding sales inducement payouts, was 2.00% to 6.00% in 2009 *(2008: 2.50% to 6.00%)*. An additional liability is established for universal life contracts with death or other insurance benefit features, which is determined using an equally-weighted range of scenarios with respect to investment returns, policyholder lapses, benefit election rates, premium payout patterns and mortality. The additional liability represents the present value of future expected benefits based on current product assumptions.

The indexed life and annuity products guarantee the return of principal to the customer, and credit interest based on certain indices. A portion of the premium from each customer is invested in fixed income securities and is intended to cover the minimum guaranteed value. A further portion of the premium is used to purchase derivatives to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. Both the derivatives and the options embedded in the policy are valued at their fair value.

Deferred income reserves are established for fees charged for insurance benefit features which are assessed in a manner that is expected to result in higher profits in earlier years, followed by lower profits or losses in subsequent years. The excess charges are deferred and amortised using the same assumptions and factors used to amortise deferred acquisition costs. Shadow adjustments may be made to deferred acquisition costs, acquired value of in-force business, deferred income reserves and contract liabilities. The shadow adjustments are recognised directly in other comprehensive income so that unrealised gains or losses on investments that are recognised directly in other comprehensive income affect the measurement of the liability, or related assets, in the same way as realised gains or losses.

(e) Other countries

In all other countries, local generally-accepted interest rates and published standard mortality tables are used for different categories of business as appropriate. The tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

(iv) Movements

The following movements have occurred in the long-term business provisions during the year:

	2009 £m	2008 £m
Carrying amount at 1 January	**156,188**	135,312
Provisions in respect of new business	**11,105**	13,414
Expected change in existing business provisions	**(7,625)**	(6,423)
Variance between actual and expected experience	**2,154**	(9,401)
Effect of adjusting to PS06/14 realistic basis	**—**	(40)
Impact of other operating assumption changes	**(121)**	(812)
Impact of economic assumption changes	**(404)**	(604)
Other movements	**1,112**	(527)
Change in liability recognised as an expense	**6,221**	(4,393)
Effect of portfolio transfers, acquisitions and disposals	**(67)**	1,872
Foreign exchange rate movements	**(8,284)**	23,397
Carrying amount at 31 December	**154,058**	156,188

The variance between actual and expected experience of £2.2 billion was primarily driven by favourable movements in investment markets in 2009, which had a direct or indirect impact on liability values. Equity markets recovered and the values of corporate bonds and commercial mortgages were increased by the narrowing of credit spreads. For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of insurance liabilities. The £2.2 billion variance between actual and expected experience is not a change in assumptions. For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 42, together with the impact of movements in related non-financial assets.

(c) General insurance and health liabilities

(i) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves for general insurance and health business are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

38 – Insurance liabilities continued

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

We only establish loss reserves for losses that have already occurred. We therefore do not establish catastrophe equalisation reserves that defer a share of income in respect of certain lines of business from years in which a catastrophe does not occur to future periods in which catastrophes may occur. When calculating reserves, we take into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability.

The table below shows the split of total general insurance and health outstanding claim provisions and IBNR provisions, gross of reinsurance, by major line of business.

	As at 31 December 2009			As at 31 December 2008		
	Outstanding claim provisions £m	**IBNR provisions £m**	**Total claim provisions £m**	Outstanding claim provisions £m	IBNR provisions £m	Total claim provisions £m
Motor	**4,411**	**753**	**5,164**	4,723	960	5,683
Property	**1,697**	**196**	**1,893**	1,920	257	2,177
Liability	**2,707**	**1,379**	**4,086**	3,407	878	4,285
Creditor	**170**	**17**	**187**	131	28	159
Other	**992**	**374**	**1,366**	1,661	395	2,056
	9,977	**2,719**	**12,696**	11,842	2,518	14,360

	As at 31 December 2007		
	Outstanding claim provisions £m	IBNR provisions £m	Total claim provisions £m
Motor	4,428	951	5,379
Property	1,598	231	1,829
Liability	2,953	551	3,504
Creditor	119	15	134
Other	1,744	351	2,095
	10,842	2,099	12,941

(ii) Discounting

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

	Rate			Mean term of liabilities		
Class	**2009**	2008	2007	**2009**	2008	2007
Netherlands Permanent health and injury	**3.48%**	3.82%	3.87%	**8 years**	7 years	8 years
Reinsured London Market business	**4.00%**	3.56%	5.00%	**10 years**	8 years	8 years
Latent claims	**0.82% to 4.84%**	1.17% to 3.92%	4.51% to 5.21%	**8 to 15 years**	9 to 15 years	9 to 15 years
Structured settlements	**3.30%**	2.5%	2.5%	**35 years**	35 years	35 years

The gross outstanding claims provision before discounting was £13,576 million *(2008: £15,061 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims reserves is based on the relevant swap curve in the relevant currency having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table above. The duration of the claims span over 35 years, with the average duration being between 8 and 15 years depending on the geographical region. Any change in discount rates between the start and the end of the accounting period is reflected below operating profit as an economic assumption change.

During 2009, we have experienced an increase in the number of bodily injury claims settled by periodic payment orders (PPOs) or structured settlements, especially in the UK, which are reserved for on a discounted basis.

(iii) Assumptions

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims. Taking into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for authorisation.

38 – Insurance liabilities continued

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Claim development is separately analysed for each geographic area, as well as by each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range.

However, the following explicit assumptions are made which could materially impact the level of booked net reserves:

UK mesothelioma claims

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. UK mesothelioma claims account for a large proportion of the Group's latent claims. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim, future inflation in the average cost of claims, legal fees and the life expectancy of potential sufferers.

The best estimate of the liabilities reflects the latest available market information and studies. Many different scenarios can be derived by flexing these key assumptions and applying different combinations of the different assumptions. An upper and lower scenario can be derived by making reasonably likely changes to these assumptions, resulting in an estimate £195 million greater than the best estimate, or £155 million lower than the best estimate. These scenarios do not, however, constitute an upper or lower bound on these liabilities.

Interest rates used to discount latent claim liabilities

The discount rates used in determining our latent claim liabilities are based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement of latent claims. The range of discount rates used is shown in section (ii) above and depends on the duration of the claim and the reporting date. At 31 December 2009, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £60 million, excluding the offsetting effect on asset values as assets are not hypothecated across classes of business. The impact of a 1% fall in interest rates across all assets and liabilities of our general insurance and health businesses is shown in note 56(i).

Allowance for risk and uncertainty

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims adopted by the Group at 31 December 2009 requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated by each business unit in accordance with the requirements of the Group non-life reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Group non-life reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across both business units and reporting periods.

Changes to claims development patterns can materially impact the results of actuarial projection techniques. However, allowance for the inherent uncertainty in the assumptions underlying reserving projections is automatically allowed for in the explicit allowance for risk and uncertainty included when setting booked reserves.

38 – Insurance liabilities continued

(iv) Movements

The following changes have occurred in the general insurance and health claims provisions during the year:

	2009 £m	2008 £m
Carrying amount at 1 January	**14,360**	12,941
Impact of changes in assumptions	**(106)**	120
Claim losses and expenses incurred in the current year	**7,328**	8,720
Decrease in estimated claim losses and expenses incurred in prior years	**(541)**	(828)
Exceptional strengthening of general insurance latent claims provisions (see below)	**60**	356
Incurred claims losses and expenses	**6,741**	8,368
Less:		
Payments made on claims incurred in the current year	**(3,922)**	(4,682)
Payments made on claims incurred in prior years	**(3,814)**	(4,307)
Recoveries on claim payments	**298**	293
Claims payments made in the year, net of recoveries	**(7,438)**	(8,696)
Unwind of discounting	**41**	33
Other movements in the claims provisions	**—**	(27)
Changes in claims reserve recognised as an expense	**(656)**	(322)
Effect of portfolio transfers, acquisitions and disposals	**(649)**	128
Foreign exchange rate movements	**(359)**	1,613
Carrying amount at 31 December	**12,696**	14,360

The effect of changes in the main assumptions is given in note 42 and the economic assumption changes are explained in note 9.

Exceptional strengthening of claim provisions

In 2009 an exceptional charge of £60 million was incurred for the strengthening of reserves in respect of several specific discontinued commercial liability risks written in Canada a significant number of years ago, which is included in change in insurance liabilities.

In 2008 the Institute of Actuaries' Asbestos Working Party report contributed to our view that experience variances, which we had previously perceived as normal short-term volatility, reflected a real worsening of expected ultimate claims experience. The market trend in mesothelioma claims was fully reflected as a significant one-off strengthening of gross latent claims reserves in 2008 of £356 million, with a corresponding increase of £52 million in reinsurance recoverable. The net increase of £304 million comprised £668 million on an undiscounted basis and discounting of £364 million.

(d) Loss development tables

(i) Description of tables

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the accident years 2001 to 2009. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2002, by the end of 2009 £5,767 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £6,250 million was re-estimated to be £6,044 million at 31 December 2009.

The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

In 2005, the year of adoption of IFRS, only five years were required to be disclosed. This is being increased in each succeeding additional year, until 10 years of information is included.

The Group aims to maintain strong reserves in respect of its general insurance and health business in order to protect against adverse future claims experience and development. As claims develop and the ultimate cost of claims become more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as shown in the loss development tables and movements table (c)(iv) above. However, in order to maintain overall reserve adequacy, the Group establishes strong reserves in respect of the current accident year (2009) where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Key elements of the release from prior accident year general insurance and health net provisions during 2008 were:

- £285 million from the UK, mainly due to an improved trend in bodily injury experience on both personal and commercial motor, favourable experience on commercial liability and a reduction in public liability average claim costs.
- £312 million from Europe, mainly due to lower than expected IBNR and costs of settling motor and commercial liability claims.
- £111 million from Canada, mainly due to favourable motor bodily injury experience.
- £89 million from prior year health insurance provisions.

Key elements of the release from prior accident year general insurance and health net provisions during 2009 were:

- £230 million from the UK, including group reinsurance business, mainly due to an improved view of group reinsurance liabilities, and favourable development on personal and commercial motor claims, and commercial property and commercial liability large claims.
- £237 million from Europe mainly due to favourable development of personal motor and commercial property, especially in respect of large claims.
- £79 million from Canada mainly due to favourable experience on motor and personal property.

38 – Insurance liabilities continued

(ii) Gross figures

Before the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	**Total £m**
Gross cumulative claim payments											
At end of accident year		(3,029)	(2,952)	(2,819)	(2,971)	(3,345)	(3,653)	(4,393)	(4,915)	(3,780)	
One year later		(4,766)	(4,486)	(4,190)	(4,561)	(5,011)	(5,525)	(6,676)	(7,350)		
Two years later		(5,303)	(4,921)	(4,613)	(4,981)	(5,449)	(5,971)	(7,191)			
Three years later		(5,701)	(5,233)	(4,972)	(5,263)	(5,784)	(6,272)				
Four years later		(5,966)	(5,466)	(5,258)	(5,448)	(6,001)					
Five years later		(6,121)	(5,618)	(5,409)	(5,617)						
Six years later		(6,223)	(5,715)	(5,527)							
Seven years later		(6,294)	(5,767)								
Eight years later		(6,350)									
Estimate of gross ultimate claims											
At end of accident year		6,590	6,250	6,385	6,891	7,106	7,533	8,530	9,508	7,364	
One year later		6,770	6,372	6,172	6,557	6,938	7,318	8,468	9,322		
Two years later		6,775	6,287	6,124	6,371	6,813	7,243	8,430			
Three years later		6,798	6,257	6,036	6,178	6,679	7,130				
Four years later		6,754	6,205	5,932	6,008	6,603					
Five years later		6,679	6,122	5,853	6,003						
Six years later		6,630	6,056	5,813							
Seven years later		6,576	6,044								
Eight years later		6,600									
Estimate of gross ultimate claims		6,600	6,044	5,813	6,003	6,603	7,130	8,430	9,322	7,364	
Cumulative payments		(6,350)	(5,767)	(5,527)	(5,617)	(6,001)	(6,272)	(7,191)	(7,350)	(3,780)	
	3,358	250	277	286	386	602	858	1,239	1,972	3,584	**12,812**
Effect of discounting	(778)	(8)	(13)	(31)	(4)	(7)	(7)	(8)	(11)	(13)	**(880)**
Present value	2,580	242	264	255	382	595	851	1,231	1,961	3,571	**11,932**
Cumulative effect of foreign exchange movements	—	43	43	69	83	106	152	132	(41)	—	**587**
Effect of acquisitions	—	7	10	62	14	23	23	27	11	—	**177**
Present value recognised in the statement of financial position	**2,580**	**292**	**317**	**386**	**479**	**724**	**1,026**	**1,390**	**1,931**	**3,571**	**12,696**

38 – Insurance liabilities continued

(iii) Net of reinsurance

After the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	**Total £m**
Net cumulative claim payments											
At end of accident year		(2,970)	(2,913)	(2,819)	(2,870)	(3,281)	(3,612)	(4,317)	(4,808)	(3,650)	
One year later		(4,624)	(4,369)	(4,158)	(4,378)	(4,925)	(5,442)	(6,542)	(7,165)		
Two years later		(5,088)	(4,779)	(4,565)	(4,712)	(5,344)	(5,881)	(7,052)			
Three years later		(5,436)	(5,064)	(4,924)	(4,986)	(5,671)	(6,181)				
Four years later		(5,648)	(5,297)	(5,180)	(5,163)	(5,892)					
Five years later		(5,763)	(5,424)	(5,325)	(5,327)						
Six years later		(5,841)	(5,508)	(5,442)							
Seven years later		(5,896)	(5,552)								
Eight years later		(5,954)									
Estimate of net ultimate claims											
At end of accident year		6,186	6,037	6,218	6,602	6,982	7,430	8,363	9,262	7,115	
One year later		6,333	6,038	6,093	6,266	6,818	7,197	8,302	9,104		
Two years later		6,321	5,997	6,037	6,082	6,688	7,104	8,244			
Three years later		6,329	5,973	5,942	5,882	6,544	6,996				
Four years later		6,286	5,912	5,851	5,709	6,476					
Five years later		6,219	5,855	5,772	5,699						
Six years later		6,173	5,786	5,683							
Seven years later		6,109	5,754								
Eight years later		6,130									
Estimate of net ultimate claims		6,130	5,754	5,683	5,699	6,476	6,996	8,244	9,104	7,115	
Cumulative payments		(5,954)	(5,552)	(5,442)	(5,327)	(5,892)	(6,181)	(7,052)	(7,165)	(3,650)	
	1,860	176	202	241	372	584	815	1,192	1,939	3,465	**10,846**
Effect of discounting	(404)	(2)	(3)	(3)	(1)	(2)	(4)	(8)	(11)	(13)	**(451)**
Present value	1,456	174	199	238	371	582	811	1,184	1,928	3,452	**10,395**
Cumulative effect of foreign exchange movements	—	31	38	60	79	99	143	126	(42)	—	**534**
Effect of acquisitions	—	6	7	38	11	18	18	17	9	—	**124**
Present value recognised in the statement of financial position	**1,456**	**211**	**244**	**336**	**461**	**699**	**972**	**1,327**	**1,895**	**3,452**	**11,053**

In the loss development tables shown above, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year. The impact of using varying exchange rates is shown at the bottom of each table. Disposals are dealt with by treating all outstanding and IBNR claims of the disposed entity as "paid" at the date of disposal.

The loss development tables above include information on asbestos and environmental pollution claims provisions from business written before 2001. The undiscounted claim provisions, net of reinsurance, in respect of this business at 31 December 2009 were £968 million *(2008: £1,019 million, 2007 £323 million)*. The movement in the year reflects exceptional strengthening of provisions by £60 million in respect of several specific discontinued commercial liability risks written in Canada a significant number of years ago (*2008: £668 million due to the increased market trend in mesothelioma claim notifications*), other releases of £62 million *(2008: £16 million strengthening)*, foreign exchange rate movements and timing differences between claim payments and reinsurance recoveries.

(e) Provision for unearned premiums

Movements

The following changes have occurred in the provision for unearned premiums (UPR) during the year:

	2009 £m	2008 £m
Carrying amount at 1 January	**5,493**	5,484
Premiums written during the year	**9,968**	11,934
Less: Premiums earned during the year	**(10,613)**	(12,322)
Changes in UPR recognised as income	**(645)**	(388)
Gross portfolio transfers and acquisitions	**—**	(11)
Foreign exchange rate movements	**(67)**	408
Carrying amount at 31 December	**4,781**	5,493

39 – Liability for investment contracts

This note analyses our investment contract liabilities by type of product and describes how we calculate these liabilities and what assumptions we have used.

(a) Carrying amount

The liability for investment contracts at 31 December comprised:

	2009 £m	2008 £m	2007 £m
Long-term business			
Participating contracts	**66,559**	65,278	53,609
Non-participating contracts at fair value	**41,289**	39,509	43,608
Non-participating contracts at amortised cost	**2,167**	2,772	1,027
	43,456	42,281	44,635
Total	**110,015**	107,559	98,244

(b) Long-term business investment liabilities

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS.

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts and are measured according to the methodology and Group practice for long-term business liabilities as described in note 38. They are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. The IASB has deferred consideration of participating contracts to Phase II of its insurance contracts project.

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as unallocated distributable surplus. Guarantees on long-term investment products are discussed in note 40.

Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at either fair value or amortised cost.

Of the non-participating investment contracts measured at fair value, £39,686 million are unit-linked in structure and the fair value liability is equal to the unit reserve plus additional non-unit reserves if required on a fair value basis. These contracts are classified as 'Level 1' in the fair value hierarchy, as the unit reserve is calculated as the publicly quoted unit price multiplied by the number units in issue, and any non-unit reserve is insignificant. Of the remaining non-participating contracts measured at fair value at 31 December 2009, £238 million are classified as 'Level 1', £1,203 million are classified as 'Level 2' and £162 million are classified as 'Level 3' in the fair value hierarchy. 'Level 3' investment contracts had a fair value of £178 million at 31 December 2008, with the movement in the year represented by foreign exchange movements of £19 million offset by new policy issuances of £3 million. We believe that changing one or more of the assumptions that support the 'Level 3' valuation to reasonably possible alternative assumptions would not change the fair value significantly. In respect of investment contracts carried at fair value there were no transfers between different levels of the fair value hierarchy during 2009.

For unit-linked business, a deferred acquisition cost asset and deferred income reserve liability are recognised in respect of transaction costs and front-end fees respectively, that relate to the provision of investment management services, and which are amortised on a systematic basis over the contract term. The amount of the related deferred acquisition cost asset is shown in note 26 and the deferred income liability is shown in note 50.

In the United States, funding agreements consist of one to ten year fixed rate contracts. These contracts may not be cancelled by the holders unless there is a default under the agreement, but may, subject to a call premium, be terminated by Aviva at any time. Aviva issued no new funding agreements in 2009. The weighted average interest rates for fixed-rate and floating-rate funding agreements as at 31 December 2009 were 4.79% and 0.37% respectively. Funding agreements issued before 2008 are measured at fair value equal to the present value of contractual cash flows, and for business issued since 2008 are measured at amortised cost. Most funding agreements are fully collateralised and therefore their fair values are not adjusted for own credit risk. Funding agreements carried at fair value total £1,093 million and are classified as 'Level 2' in the fair value hierarchy.

There is a small volume of annuity certain business for which the liability is measured at amortised cost using the effective interest method.

The fair value of contract liabilities measured at amortised cost is not materially different from the amortised cost liability.

39 – Liability for investment contracts continued

(c) Movements in the year

The following movements have occurred in the year:

(i) Participating investment contracts

	2009 £m	2008 £m
Carrying amount at 1 January	**65,278**	53,609
Provisions in respect of new business	**5,973**	3,391
Expected change in existing business provisions	**(1,256)**	(1,909)
Variance between actual and expected experience	**2,469**	(4,661)
Impact of operating assumption changes	**(49)**	(166)
Impact of economic assumption changes	**(57)**	244
Other movements	**(1,316)**	13
Change in liability recognised as an expense	**5,764**	(3,088)
Effect of portfolio transfers, acquisitions and disposals	**(246)**	2,181
Foreign exchange rate movements	**(4,256)**	12,576
Other movements	**19**	—
Carrying amount at 31 December	**66,559**	65,278

The variance between actual and expected experience of £2.5 billion was primarily driven by favourable movements in investment markets in 2009, which had a direct or indirect impact on liability values. Equity markets recovered and the values of corporate bonds and commercial mortgages were increased by the narrowing of credit spreads. For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of participating investment contract liabilities. The £2.5 billion variance between actual and expected experience is not a change in assumptions. For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 42, together with the impact of movements in related non-financial assets.

(ii) Non-participating investment contracts

	2009 £m	2008 £m
Carrying amount at 1 January	**42,281**	44,635
Provisions in respect of new business	**3,045**	5,314
Expected change in existing business provisions	**(1,847)**	(2,273)
Variance between actual and expected experience	**2,495**	(9,503)
Impact of operating assumption changes	**107**	(28)
Impact of economic assumption changes	**4**	5
Other movements	**370**	(169)
Change in liability	**4,174**	(6,654)
Effect of portfolio transfers, acquisitions and disposals	**(1,596)**	(14)
Foreign exchange rate movements	**(1,403)**	4,314
Carrying amount at 31 December	**43,456**	42,281

The variance between actual and expected experience of £2.5 billion was primarily driven by favourable movements in investment markets in 2009, which had a direct or indirect impact on liability values. Equity markets recovered and the value of corporate bonds and commercial mortgages were increased by the narrowing of credit spreads. For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of non-participating investment contract liabilities. The £2.5 billion variance between actual and expected experience is not a change in assumptions. The impact of assumption changes on profit are included in the effect of changes in assumptions and estimates during the year shown in note 42, which combines participating and non-participating investment contracts together with the impact of movements in related non-financial assets.

40 – Financial guarantees and options

This note details the financial guarantees and options we have given for some of our insurance and investment products.

As a normal part of their operating activities, various Group companies have given guarantees and options, including investment return guarantees, in respect of certain long-term insurance and fund management products. Further information on assumptions is given in notes 38 and 39.

(a) UK Life with-profit business

In the UK, life insurers are required to comply with the FSA's realistic reporting regime for their with-profit funds for the calculation of FSA liabilities. Under the FSA's rules, provision for guarantees and options within realistic liabilities must be measured at fair value, using market-consistent stochastic models. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions.

The material guarantees and options to which this provision relates are:

(i) Maturity value guarantees

Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus. In addition, the guarantee fund has offered maturity value guarantees on certain unit-linked products. For some unitised with-profit life contracts the amount paid after the fifth policy anniversary is guaranteed to be at least as high as the premium paid increased in line with the rise in RPI/CPI.

(ii) No market valuation reduction (MVR) guarantees

For unitised business, there are a number of circumstances where a "no MVR" guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets.

(iii) Guaranteed annuity options

The Group's UK with-profit funds have written individual and group pension contracts which contain guaranteed annuity rate options (GAOs), where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates. The Group also has exposure to GAOs and similar options on deferred annuities.

Realistic liabilities for GAOs in the UK with-profit funds were £760 million at 31 December 2009 *(2008: £1,093 million, 2007: £1,161 million)*. With the exception of the New With-Profits Sub Fund (NWPSF), movements in the realistic liabilities in the with-profit funds are offset by a corresponding movement in the unallocated divisible surplus, with no net impact on IFRS profit. Realistic liabilities for GAOs in the NWPSF were £109 million at 31 December 2009 *(2008 and 2007: not applicable)*.

(iv) Guaranteed minimum pension

The Group's UK with-profit funds also have certain policies that contain a guaranteed minimum level of pensions as part of the condition of the original transfer from state benefits to the policy.

In addition, the with-profit fund companies have made promises to certain policyholders in relation to their with-profit mortgage endowments. Top-up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall. For UKLAP WP policyholders, these payments are subject to certain conditions.

(b) UK Life non-profit business

The Group's UK non-profit funds are evaluated by reference to statutory reserving rules, including changes introduced in 2006 under FSA Policy Statement 06/14 *Prudential Changes for Insurers*.

(i) Guaranteed annuity options

Similar options to those written in the with-profit fund have been written in relation to non-profit products. Provision for these guarantees does not materially differ from a provision based on a market-consistent stochastic model, and amounts to £28 million at 31 December 2009 *(2008: £27 million, 2007: £36 million)*.

(ii) Guaranteed unit price on certain products

Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

(c) Overseas life businesses

In addition to guarantees written in the Group's UK life businesses, our overseas businesses have also written contracts containing guarantees and options. Details of the significant guarantees and options provided by overseas life businesses are set out below.

(i) France

Guaranteed surrender value and guaranteed minimum bonuses

Aviva France has written a number of contracts with such guarantees. The guaranteed surrender value is the accumulated value of the contract including accrued bonuses. Bonuses are based on accounting income from amortised bond portfolios, where the duration of bond portfolios is set in relation to the expected duration of the policies, plus income and releases from realised gains on equity-type investments. Policy reserves are equal to guaranteed surrender values. Local statutory accounting envisages the establishment of a reserve, "Provision pour Aléas Financiers" (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No PAF was established at the end of 2008.

40 – Financial guarantees and options continued

The most significant of these contracts is the AFER Eurofund which has total liabilities of £33 billion at 31 December 2009 *(2008: £33 billion, 2007: £24 billion)*. The guaranteed bonus on this contract equals 75% of the average of the last two years' declared bonus rates and was 3.67% for 2009 *(2008: 3.66%, 2007: 3.64%)* compared with an accounting income from the fund of 4.62% *(2008: 4.85%,2007: 4.92%)*.

Non-AFER contracts with guaranteed surrender values had liabilities of £12 billion at 31 December 2009 *(2008: £12 billion, 2007: £8 billion)* and all guaranteed annual bonus rates are between nil and 4.5%.

Guaranteed death and maturity benefits

In France, the Group has also sold unit-linked policies where the death and/or maturity benefit is guaranteed to be at least equal to the premiums paid. The reserve held in the Group's consolidated statement of financial position at the end of 2009 for this guarantee is £97 million *(2008: £113 million, 2007: £30 million)*. The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2009, total sums at risk for these contracts were £372 million *(2008: £1,279 million, 2007: £63 million)* out of total unit-linked funds of £14 billion *(2008: £14 billion, 2007: £15 billion)*. The average age of policyholders was approximately 54. It is estimated that this liability would increase by £71 million *(2008: £59 million, 2007: £17 million)* if yields were to decrease by 1% per annum and by £25 million *(2008: £22 million, 2007: £7 million)* if equity markets were to decline by 10% from year end 2009 levels. These figures do not reflect our ability to review the tariff for this option.

(ii) Delta Lloyd

Guaranteed minimum return at maturity

In the Netherlands, it is market practice to guarantee a minimum return at maturity on traditional savings and pension contracts. Guarantees on older lines of business are 4% per annum while, for business written since 1 September 1999, the guarantee is 3% per annum. On Group pensions business, it is often possible to recapture guarantee costs through adjustments to surrender values or to premium rates.

On transition to IFRS, Delta Lloyd changed the reserving basis for most traditional contracts to reflect current market interest rates, for consistency with the reporting of assets at market value. The cost of meeting interest rate guarantees is allowed for directly in the liabilities. Although most traditional contracts are valued at market interest rate, the split by level of guarantee shown below is according to the original underlying guarantee.

The total liabilities for traditional business at 31 December 2009 are £13 billion *(2008: £14 billion, 2007: £10 billion)* analysed as follows:

	Liabilities 3% guarantee		
	2009 £m	2008 £m	2007 £m
Individual	**2,206**	2,214	1,387
Group pensions	**780**	689	485
Total	**2,986**	2,903	1,872

	Liabilities 4% guarantee		
	2009 £m	2008 £m	2007 £m
Individual	**3,690**	4,684	3,671
Group pensions	**6,329**	6,804	3,993
Total	**10,019**	11,488	7,664

Delta Lloyd has certain unit-linked contracts which provide a guaranteed minimum return at maturity from 4% pa to 2% pa. Provisions consist of unit values plus an additional reserve for the guarantee. The additional provision for the guarantee was £246 million *(2008: £226 million, 2007: £70 million)*. An additional provision of £33 million *(2008: £121 million, 2007: £19 million)* in respect of investment return guarantees on group segregated fund business is held. It is estimated that the provision would increase by £180 million *(2008: £255 million, 2007: £211 million)* if yields were to reduce by 1% pa and by £42 million *(2008: £56 million, 2007: £21 million)* if equity markets were to decline by 10% from year end 2009 levels.

(iii) Ireland

Guaranteed annuity options

Products with similar GAOs to those offered in the UK have been issued in Ireland. The current net of reinsurance provision for such options is £214 million *(2008: £180 million, 2007: £160 million)*. This has been calculated on a deterministic basis, making conservative assumptions for the factors which influence the cost of the guarantee, principally annuitant mortality option take-up and long-term interest rates.

These GAOs are "in the money" at current interest rates but the exposure to interest rates under these contracts has been hedged through the use of reinsurance, using derivatives (swaptions). The swaptions effectively guarantee that an interest rate of 5% will be available at the vesting date of these benefits so there is reduced exposure to a further decrease in interest rates.

40 – Financial guarantees and options continued

'No MVR' guarantees

Certain unitised with-profit policies containing 'no MVR' guarantees, similar to those in the UK, have been sold in Ireland.

These guarantees are currently 'in-the-money' by £10 million *(2008: 'in-the-money' by £16 million, 2007: 'out-of-the-money' by £53 million)*. This has been calculated on a deterministic basis as the excess of the current policy surrender value over the discounted value (excluding terminal bonus) of the guarantees. The value of these guarantees is usually sensitive to the performance of investments held in the with-profit fund. Amounts payable under these guarantees are determined by the bonuses declared on these policies. It is estimated that the guarantees would be 'in-the-money' by £10 million *(2008: 'in-the-money' by £16 million, 2007: 'out-of-the-money' by £46 million)* if yields were to increase by 1% per annum and by £10 million *(2008: 'in-the-money' by £16 million, 2007: 'out-of-the-money' by £29 million)* if equity markets were to decline by 10% from year end 2009 levels. There is no sensitivity to either interest rates or equity markets since there is no longer any exposure to equity in these funds and a matching strategy has been implemented for bonds.

Return of premium guarantee

Until 2005, Hibernian Life wrote two tranches of linked bonds with a return of premium guarantee, or a price floor guarantee, after five or six years. The provision for these over and above unit and sterling reserves, at the end of 2009 is £11 million (2008: £18 million, 2007: £0.1 million).

It is estimated that the provision would increase by £4 million (2008: £4 million, 2007: £1 million) if equity markets were to decline by 10% from the year end 2009 levels. However, the provision increase would be broadly off-set by an increase in the value of the hedging assets that were set up on sale of these policies. We would not expect any significant impact on this provision as a result of interest rate movements. It is estimated that the provision would increase by £2 million if property values were to decline by 10% from year end 2009 levels. This would be offset by an increase in the value of the hedging assets by £0.4 million, the difference reflecting the fact that only the second tranche was hedged for property exposure.

(iv) Spain and Italy

Guaranteed investment returns and guaranteed surrender values

The Group has also written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy. Traditional profit-sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and 4% in Italy on existing business, while on new business the maximum guaranteed rate is lower. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At 31 December 2009, total liabilities for the Spanish business were £3 billion *(2008: £5 billion, 2007: £4 billion)* with a further reserve of £11 million *(2008: £19 million, 2007: £16 million)* for guarantees. Total liabilities for the Italian business were £6 billion *(2008: £5 billion, 2007: £4 billion)*, with a further provision of £52 million *(2008: £55 million, 2007: £48 million)* for guarantees. Liabilities are most sensitive to changes in the level of interest rates. It is estimated that provisions for guarantees would need to increase by £46 million *(2008: £59 million, 2007: £66 million)* in Spain and £16 million *(2008: £5 million, 2007: £14 million)* in Italy if interest rates fell by 1% from end 2009 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 1.6% and no lapses or premium discontinuances.

(v) United States

Indexed and total return strategy products

In the United States, the Group writes indexed life and deferred annuity products. These products guarantee the return of principal to the policyholder and credit interest based on certain indices, primarily the Standard & Poor's 500 Composite Stock Price Index. A portion of each premium is used to purchase derivatives to hedge the growth in interest credited to the policyholder. The derivatives held by the Group and the options embedded in the policy are both carried at fair value.

The US Treasury swap curve plus a risk adjustment of 1.87% *(2008: 5.30%, 2007: 1.05%)* for indexed life and 1.65% (*2008: 5.30%, 2007: 1.05%)* for indexed deferred annuities is used as the discount rate to calculate the fair value of the embedded options.

The risk adjustment calculation is based on market spreads on senior long-term unsecured Aviva plc debt with a reduction to reflect policyholder priority over other creditors in case of default. The amount of change in the fair value of these embedded options resulting from the risk adjustment in 2009 is an increase of £313 million (2008: £514 million decrease), and is principally attributable to market factors rather than instrument specific credit risk. There were no significant gains or losses attributable to the risk adjustment or instrument specific credit risk. At 31 December 2009, the total liabilities for indexed products were £17 billion *(2008: £15 billion, 2007: £8 billion)*, including liabilities for the embedded option of £1.7 billion *(2008: £1.9 billion, 2007: £1.2 billion)*. If interest rates were to increase by 1%, the provision for embedded options would decrease by £59 million *(2008: £138 million, 2007: £89 million)* and, if interest rates were to decrease by 1%, the provision would increase by £86 million *(2008: £155 million, 2007: £86 million)*.

The Group has certain products that credit interest based on a total return strategy, whereby policyholders are allowed to allocate their premium payments to different asset classes within the general account. The Group guarantees a minimum return of premium plus approximately 3% interest over the term of the contracts. The linked general account assets are fixed maturity securities, and both the securities and the contract liabilities are carried at fair value. At 31 December 2009, the liabilities for total return strategy products were £1.2 billion *(2008: £1.5 billion, 2007: £1.2 billion)*.

The Group offers an optional lifetime guaranteed income benefit focused on the retirement income segment of the deferred annuity marketplace to help customers manage income during both the accumulation stage and the distribution stage of their financial life. At 31 December 2009, a total of £4.9 billion *(2008: £3.2 billion, 2007: £0.7 billion)* in indexed deferred annuities have elected this benefit taking steps to guarantee retirement income.

40 – Financial guarantees and options continued

(d) Sensitivity

In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, real estate prices and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options (GAOs), are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

41 – Reinsurance assets

This note details the reinsurance recoverables on our insurance and investment contract liabilities.

(a) Carrying amounts

The reinsurance assets at 31 December comprised:

	2009 £m	2008 £m	2007 £m
Long-term business			
Insurance contracts	**4,299**	4,466	4,298
Participating investment contracts	**—**	52	22
Non-participating investment contracts	**1,258**	1,047	1,461
Outstanding claims provisions	**40**	145	94
	5,597	5,710	5,875
General insurance and health			
Outstanding claims provisions	**1,194**	1,737	1,634
Provisions for claims incurred but not reported	**449**	29	29
	1,643	1,766	1,663
Provision for unearned premiums	**332**	418	511
Other technical provisions	**—**	—	5
	1,975	2,184	2,179
Total	**7,572**	7,894	8,054

Of the above total, £4,493 million *(2008: £6,097 million, 2007: £4,796 million)* is expected to be recovered more than one year after the statement of financial position date.

The increase in the reinsurers' share of provisions for claims incurred but not reported during 2009 is due to a revised allocation between outstanding claims and IBNR of reinsurance assets in respect of certain discontinued run-off business.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts.

Reinsurance assets are valued net of an allowance for their recoverability.

(c) Movements

The following movements have occurred in the reinsurance asset during the year:

(i) In respect of long-term business provisions

	2009 £m	2008 £m
Carrying amount at 1 January	**5,565**	5,781
Asset in respect of new business	**412**	235
Expected change in existing business asset	**(57)**	243
Variance between actual and expected experience	**(35)**	(1,141)
Impact of other operating assumption changes	**(189)**	(761)
Impact of economic assumption changes	**(250)**	306
Other movements	**486**	(231)
Change in asset	**367**	(1,349)
Effect of portfolio transfers, acquisitions and disposals	**(41)**	140
Foreign exchange rate movements	**(334)**	993
Carrying amount at 31 December	**5,557**	5,565

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of reinsurance assets. The reduction in the reinsurance asset from assumption changes mainly relates to Ireland, with a corresponding reduction made to gross insurance contract liabilities. For participating businesses, a movement in reinsurance assets is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 42, together with the impact of movements in related liabilities and other non-financial assets.

41 – Reinsurance assets continued

(ii) In respect of general insurance and health outstanding claims provisions and IBNR

	2009 £m	2008 £m
Carrying amount at 1 January	**1,766**	1,663
Impact of changes in assumptions	**(72)**	21
Exceptional strengthening of latent claims provisions	**—**	52
Reinsurers' share of claim losses and expenses		
Incurred in current year	**255**	228
Incurred in prior years	**7**	12
Reinsurers' share of incurred claim losses and expenses	**262**	240
Less:		
Reinsurance recoveries received on claims		
Incurred in current year	**(138)**	(107)
Incurred in prior years	**(202)**	(257)
Reinsurance recoveries received in the year	**(340)**	(364)
Unwind of discounting	**22**	24
Change in reinsurance asset recognised as income	**(128)**	(27)
Effect of portfolio transfers, acquisitions and disposals	**57**	27
Foreign exchange rate movements	**(50)**	105
Other movements	**(2)**	(2)
Carrying amount at 31 December	**1,643**	1,766

(iii) Reinsurers' share of the provision for unearned premiums (UPR)

	2009 £m	2008 £m
Carrying amount at 1 January	**418**	511
Premiums ceded to reinsurers in the year	**775**	798
Less: Reinsurers' share of premiums earned during the year	**(861)**	(909)
Changes in reinsurance asset recognised as income	**(86)**	(111)
Reinsurers' share of portfolio transfers and acquisitions	**5**	8
Foreign exchange rate movements	**(5)**	10
Carrying amount at 31 December	**332**	418

42 – Effect of changes in assumptions and estimates during the year

Certain estimates and assumptions used in determining our liabilities for insurance and investment contract business were changed from 2008 to 2009, affecting the profit recognised for the year with an equivalent effect on liabilities. This note analyses the effect of the changes. This disclosure only allows for the impact on liabilities and related assets, such as reinsurance, deferred acquisition costs and AVIF, and does not allow for offsetting movements in the value of backing financial assets.

	Effect on profit 2009 £m	Effect on profit 2008 £m
Assumptions		
Long-term insurance business		
Interest rates	**(363)**	(521)
Expenses	**69**	24
Persistency rates	**—**	2
Mortality for assurance contracts	**11**	44
Mortality for annuity contracts	**6**	26
Tax and other assumptions	**(49)**	93
Investment contracts		
Interest rates	**20**	(75)
Expenses	**40**	(27)
Persistency rates	**—**	2
Tax and other assumptions	**(89)**	36
General insurance and health business		
Change in loss ratio assumptions	**(2)**	(1)
Change in discount rate assumptions	**57**	(94)
Change in expense ratio and other assumptions	**(21)**	—
Total	**(321)**	(491)

The impact of interest rates for long-term business relates primarily to the US, driven by the reduction in credit spreads on corporate bonds; this had the effect of increasing liabilities for indexed business and hence a negative impact on profit. The overall impact on profit also depends on movements in the value of assets backing the liabilities, which is not included in this disclosure.

Other assumption changes include the effect of business migration and expense inflation adjustments in the UK, and reserve releases in Asia.

43 – Unallocated divisible surplus

An unallocated divisible surplus (UDS) is established where the nature of policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. This note shows the movements in this surplus during the year.

The following movements have occurred in the year:

	2009 £m	2008 £m
Carrying amount at 1 January	**2,325**	6,785
Change in participating contract assets	**(1,314)**	(12,022)
Change in participating contract liabilities	**3,836**	7,699
Effect of special bonus to with-profit policyholders (see note 44a)	**(69)**	(89)
Effect of reattribution of inherited estate (see note 44b)	**(881)**	—
Other movements	**(25)**	(70)
Change in liability recognised as an expense	**1,547**	(4,482)
Effect of portfolio transfers, acquisitions and disposals	**(4)**	—
Movement in respect of change in pension scheme deficit (note 47c(i))	**(24)**	(78)
Foreign exchange rate movements	**43**	88
Other movements	**(21)**	12
Carrying amount at 31 December	**3,866**	2,325

In Italy, the UDS balances were £92 million negative in total at 31 December 2009 *(2008: France, Italy and Spain £924 million negative, 2007: Italy £116 million negative)* because of an accounting mismatch between participating assets carried at market value and participating liabilities measured using local practice. In each case, the negative balance is considered to be recoverable from margins in the existing participating business liabilities.

44 – Special bonus and reattribution of the inherited estate

This note describes the special distribution and reattribution of the inherited estate in our UK Life business.

(a) Special bonus declared by UK Life business

On 5 February 2008, the Group's UK long-term business operation, Norwich Union Life, announced a one-off, special bonus worth an estimated £2.3 billion, benefiting around 1.1 million with-profit policyholders in its CGNU Life and CULAC with-profit funds. The bonus is being used to enhance policy values by around 10% in total, in three instalments, with the qualifying dates being 1 January 2008, 1 January 2009 and 1 January 2010. In accordance with the way the funds are managed, the bonus distribution is being split on a 90/10 basis between policyholders and shareholders. £2,127 million was set aside for policyholders on 1 January 2008, and subject to market movements from that date, will be allocated over three years. Similarly, shareholders will receive £236 million, subject to market movements, over the three year period.

As explained in accounting policies F and K, the Group's insurance and participating investment contract liabilities are measured in accordance with IFRS 4, *Insurance Contracts*, and FRS 27, *Life Assurance*. The latter requires liabilities for with-profit funds falling within the scope of the UK's Financial Services Authority's capital regime to be determined in accordance with this regime, adjusted to remove the shareholders' share of future bonuses. This required us to recognise planned discretionary bonuses within policyholder liabilities at 31 December 2007, even if there was no constructive obligation at the time. As a result of the announcement made above, a transfer of £2,127 million was made in 2007 from the UDS in order to increase insurance liabilities by £1,728 million and participating investment contract liabilities by £399 million. Of the original £236 million due to shareholders, £69 million has been transferred from the UDS in 2009 *(2008: £89 million)*.

(b) Impact of the reattribution of the inherited estate

On 1 October 2009 a reorganisation of the with-profit funds of CGNU Life Assurance Limited (CGNU) and Commercial Union Life Assurance Company Limited (CULAC) was approved by the Board and became effective. The reorganisation is achieved through a reattribution to shareholders of the inherited estates of these funds. As part of the reorganisation the two funds were merged and transferred to Aviva Life & Pensions UK Limited (UKLAP).

Within UKLAP, two new with-profit sub-funds have been created. Policies of non-electing policyholders have been transferred to the Old With-Profit Sub-Fund (OWPSF). The inherited estate has not been reattributed and remains in the OWPSF.

Where policyholders elected to accept the reattribution their policies have been transferred to the New With-Profit Sub-Fund (NWPSF). The inherited estate, totalling £1,105 million at 1 October 2009, has been reattributed to a separate long-term fund called the Non-Profit Sub-Fund 1(NPSF1), in which 100% of the surplus is attributable to shareholders.

On the effective date of 1 October 2009, the unallocated divisible surplus of NWPSF was released as it has been allocated to shareholders. The release of this liability is included in the impact below. The reorganisation scheme has imposed certain restrictions around release of the assets allocated to shareholders as a result of this transaction, to ensure that sufficient protection for with-profit policyholder benefits is maintained.

44 – Special bonus and reattribution of the inherited estate continued

Initial impact

The initial impact of the reorganisation on the IFRS income statement and balance sheet at 1 October 2009 was:

	Note	Impact £m
Change in unallocated divisible surplus		
Release of unallocated divisible surplus	(a)	881
Other expenses		
Policyholder incentive payments	(b)	(471)
Project costs	(c)	(208)
Tax	(d)	(207)
Loss after tax		(5)

	Note	Impact £m
Cash and cash equivalents	(b)	(450)
Prepayments	(c)	(208)
Total assets		(658)
Equity		(5)
Gross insurance liabilities	(b)	21
Unallocated divisible surplus	(a)	(881)
Tax liabilities	(d)	207
Total equity and liabilities		(658)

Notes:

(a) The unallocated divisible surplus transferred to the NWPSF, in proportion to the electing policies, has been allocated to shareholders and released. The remaining UDS, transferred to the OWPSF in proportion to the non-electing policies, has not been released and remains unallocated.

(b) Policyholder incentive payments total £471 million. Payments totalling £450 million were paid in cash and the remaining payments of £21 million were added to the value of certain policies in the form of additional benefits.

(c) During the development stage of the scheme eligible costs were capitalised as a prepayment. As the benefit of the scheme has now been realised, these costs have been charged to the Income Statement.

(d) A deferred tax liability has been recognised in accordance with IAS 12 on the temporary difference between the carrying value of the reattributed estate for tax and IFRS purposes.

The initial impact of the reorganisation on profit before tax was £202 million, of which a loss of £5 million is recognised in operating profit, reflecting the value derived from the reorganisation. The remaining £207 million is recognised outside operating profit, off-setting the shareholder tax attributable to the transaction.

Ongoing impact

The reattribution has an ongoing impact arising from profits generated in the NWPSF that are attributable to shareholders. Included within profit before tax for the year of £2,022 million is £51 million that has been recognised as profit as a result of the reattribution of the inherited estate which comprises £56 million relating to the ongoing impact offset by a £5 million charge from the initial impact of the reattribution. Previously this profit would have been transferred to the unallocated distributable surplus.

45 – Tax assets and liabilities

This note analyses the tax assets and liabilities that appear in the statement of financial position, and explains the movements in these balances in the year.

(a) Current tax

Current tax assets recoverable and liabilities payable in more than one year are £254 million and £49 million (*2008: £230 million and £362 million*).

The taxation of foreign profits and worldwide debt cap rules were enacted in the Finance Act 2009. Under the foreign profits rules, a dividend exemption was introduced which largely exempts dividends received on or after 1 July 2009 from UK corporation tax. The Group has applied this legislation in arriving at its UK tax results for 2009. The worldwide debt cap rules apply from 1 January 2010 and are not expected to apply to the Group due to an exemption for qualifying financial services groups.

(b) Deferred tax

(i) The balances at 31 December comprise:

	2009[1] £m	Restated 2008 £m
Deferred tax assets	**218**	2,642
Deferred tax liabilities	**(1,038)**	(3,063)
Net deferred tax liability	**(820)**	(421)

1. As a result of Aviva's US sub-group filing a single consolidated tax return for the first time in 2009, deferred tax assets and liabilities in this jurisdiction are presented net for the year ended 31 December 2009. This has reduced both assets and liabilities by £1 billion compared with the previous year end.

(ii) The net deferred tax liability arises on the following items:

	2009 £m	Restated 2008 £m
Long-term business technical provisions and other insurance items	**1,290**	467
Deferred acquisition costs	**(662)**	(769)
Unrealised (gains)/losses on investments	**(915)**	724
Pensions and other post-retirement obligations	**100**	66
Unused losses and tax credits	**824**	702
Subsidiaries, associates and joint ventures	**(7)**	6
Intangibles and additional value of in-force long-term business	**(766)**	(1,090)
Provisions and other temporary differences	**(684)**	(527)
Net deferred tax liability	**(820)**	(421)

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

	2009 £m	Restated 2008 £m
Net liability at 1 January 2008 as reported	**(421)**	(1,942)
Prior year adjustment (see note 2b(ii))	**—**	(33)
Net liability at 1 January restated	**(421)**	(1,975)
Acquisition and disposal of subsidiaries	**(22)**	(13)
Amounts (charged)/credited to profit (note 13a)	**(254)**	1,726
Amounts (charged)/credited to other comprehensive income (note 13b)	**(196)**	219
Exchange differences	**37**	(111)
Other movements	**36**	(267)
Net liability at 31 December	**(820)**	(421)

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. In countries 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. Where this is the case the directors have relied on business plans supporting future profits.

The Group has unrecognised tax losses and other temporary differences of £2,975 million *(2008: £2,961 million)* to carry forward against future taxable income of the necessary category in the companies concerned. Of these, trading losses of £127 million will expire within the next 15 years. The remaining losses have no expiry date.

In addition, the Group has unrecognised capital losses of £462 million *(2008: £556 million)*. Of these, £345 million will expire within the next 15 years. The remaining capital losses have no expiry date.

Deferred tax liabilities have not been established for temporary differences in respect of unremitted overseas retained earnings of £144 million *(2008: £6,121 million)* associated with investments in subsidiaries and interests in joint ventures and associates because the Group can control the timing of the reversal of these differences and it is probable that they will not reverse in the foreseeable future. The temporary differences at 31 December 2009 are significantly reduced from those at 31 December 2008 following the UK tax law change which largely exempts dividends received on or after 1 July 2009 from UK tax. The temporary differences at 31 December 2009 represent only the unremitted earnings of those overseas subsidiaries in respect of which a tax liability may still arise on remittance of those earnings to the UK, principally as a result of overseas withholding taxes on dividends.

46 – Provisions

This note details the non-insurance provisions that the Group holds, and shows the movements in these during the year.

(a) Carrying amounts

	2009 £m	Restated 2008 £m	Restated 2007 £m
Deficits in the staff pension schemes (note 47e(vii))	**1,707**	613	205
Other obligations to staff pension schemes – insurance policies issued by Group companies (note 47e(vii))	**1,351**	1,402	1,025
Total IAS 19 obligations to staff pension schemes	**3,058**	2,015	1,230
Restructuring provision	**198**	253	135
Other provisions	**724**	722	572
	3,980	2,990	1,937
Less amounts classified as held for sale	**—**	(6)	—
Total	**3,980**	2,984	1,937

Of the total, £3,375 million *(2008: £2,328 million, 2007: £1,277 million)* is expected to be settled more than one year after the statement of financial position date.

(b) Movements on restructuring and other provisions

	Restructuring provision £m	Other provisions £m	Restated Total £m
At 1 January 2008 as reported	135	572	707
Additional provisions	355	307	662
Unused amounts reversed	(9)	(73)	(82)
Change in the discounted amount arising from passage of time	—	5	5
Charge to income statement	346	239	585
Utilised during the year	(248)	(193)	(441)
Acquisition of subsidiaries	—	39	39
Foreign exchange rate movements	20	65	85
At 31 December 2008	253	722	975
Additional provisions	**348**	**341**	**689**
Unused amounts reversed	**(13)**	**(31)**	**(44)**
Change in the discounted amount arising from passage of time	**(7)**	**(2)**	**(9)**
Charge to income statement	**328**	**308**	**636**
Utilised during the year	**(370)**	**(251)**	**(621)**
Acquisition of subsidiaries	**—**	**(32)**	**(32)**
Foreign exchange rate movements	**(13)**	**(23)**	**(36)**
At 31 December 2009	**198**	**724**	**922**

Other provisions comprise many small provisions throughout the Group for obligations such as costs of compensation, litigation, staff entitlements and reorganisation.

47 – Pension obligations

This note describes the Group's pension arrangements for its employees and explains how our obligations to these schemes are calculated.

(a) Introduction

The Group operates a large number of defined benefit and defined contribution pension schemes around the world. The only material defined benefit schemes are in the UK, the Netherlands, Canada and Ireland and, of these, the main UK scheme is by far the largest.

The assets of the main UK, Irish and Canadian schemes are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. In the Netherlands, the main scheme is held in a separate foundation which invests in the life funds of the Group. In all schemes, the appointment of trustees of the funds is determined by their trust documentation, and they are required to act in the best interests of the schemes' beneficiaries. The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes.

A full actuarial valuation of each of the defined benefit schemes is carried out at least every three years for the benefit of scheme trustees and members. Actuarial reports have been submitted for each scheme within this period, using appropriate methods for the respective countries on local funding bases.

(b) Membership

The number of scheme members at 31 December 2009 was as follows:

	United Kingdom			Netherlands		
	2009 Number	2008 Number	2007 Number	**2009 Number**	2008 Number	2007 Number
Active members	**8,164**	9,972	10,532	**4,637**	4,920	5,048
Deferred members	**53,221**	53,376	53,953	**6,155**	5,739	5,015
Pensioners	**28,878**	27,749	27,176	**3,119**	3,014	2,815
Total members	**90,263**	91,097	91,661	**13,911**	13,673	12,878

	Canada			Ireland		
	2009 Number	2008 Number	2007 Number	**2009 Number**	2008 Number	2007 Number
Active members	**816**	889	960	**1,143**	1,180	1,157
Deferred members	**558**	529	617	**877**	842	830
Pensioners	**1,291**	1,280	1,350	**684**	682	674
Total members	**2,665**	2,698	2,927	**2,704**	2,704	2,661

(c) Main UK scheme

In the UK, the Group operates two main pension schemes, the Aviva Staff Pension Scheme (ASPS) and the smaller RAC (2003) Pension Scheme. New entrants join the defined contribution section of the ASPS, as the defined benefit section is closed to new employees. This scheme is operated by a trustee company, with 11 trustee directors, comprising representatives of the employers, staff, pensioners and an independent trustee (referred to below as the trustees).

(i) Defined benefit section of the ASPS

The Company works closely with the trustees who are required to consult it on the funding of the scheme and its investment strategy. Following each actuarial valuation, the Company and the trustees agree the level of contributions needed and funding levels are then monitored on an annual basis.

At 31 March 2009, the date of the last actuarial valuation, this section of the scheme had an excess of obligations over available assets, on a funding basis, which uses more prudent assumptions than are required for reporting under IAS 19, of £3.0 billion. At 31 December 2009, this figure is estimated to have fallen to £2.7 billion. The Company and the trustees are in advanced stages of finalising a long-term funding plan over which it will aim to eliminate the funding deficit. Under the current proposals, deficit funding payments in 2010 are expected to be £365 million.

The employing companies' contributions to the defined benefit section of the ASPS throughout 2009 were 41% of employees' pensionable salaries, together with the cost of redundancies during the year, and additional deficit funding payments totalling £52 million. As this section of the scheme is closed to new entrants and the contribution rate is determined using the projected unit credit method, it is expected that the percentage cost of providing future service benefits will continue to increase as the membership ages, leading to higher pension costs, and the number of members falls, leading to a higher charge per member. Pending finalisation of the funding plan above, the employers' contribution rate for 2010 has been increased to 43% of pensionable salaries, with expected service funding contributions under the current proposals increasing to £130 million. Active members of this section of the ASPS contributed between 5% and 7.5% of their pensionable salaries, increasing to between 6% and 10% from 1 April 2010.

47 – Pension obligations continued

In 2006, the Group's UK life business carried out an investigation into the allocation of costs in respect of funding the ASPS, to identify the deficit that arose in respect of accruals prior to the introduction of the current management services agreements (MSAs) and to propose a split between individual product companies based on an allocation of the deficit into pre- and post-MSA amounts. The results of this review were agreed by the relevant company boards and accepted by the UK regulator. Consequently, with effect from 1 January 2006, the Company's UK with-profit product companies are liable for a share, currently 12%, of the additional payments for deficit funding referred to above up to a total of £130 million. This has resulted in movements between the unallocated divisible surplus (UDS) and retained earnings via the statement of comprehensive income of £24 million in 2009 *(2008: £78 million)* to reflect actuarial movements in the deficit during the year and therefore a change in the amount recoverable from the with-profit product companies.

(ii) Defined contribution (money purchase) section of the ASPS
The trustees have responsibility for selecting a range of suitable funds in which the members can choose to invest and for monitoring the performance of the available investment funds. Members are responsible for reviewing the level of contributions they pay and the choice of investment fund to ensure these are appropriate to their attitude to risk and their retirement plans. The employers' contribution rates for members of the defined contribution section up to 30 June 2009 were 8% of pensionable salaries, together with further contributions up to 4% where members contributed, and the cost of the death-in-service benefits. With effect from 1 July 2009, members of this section have contributed at least 1% of their pensionable salaries and, depending on the percentage chosen, the Company's contribution has increased up to a maximum 14%. These contribution rates are unchanged for 2010.

(d) Charges to the income statement

The total pension costs of the Group's defined benefit and defined contribution schemes were:

	2009 £m	2008 £m
UK defined benefit schemes	**84**	115
Overseas defined benefit schemes	**103**	60
Total defined benefit schemes (note 10b)	**187**	175
UK defined contribution schemes	**53**	46
Overseas defined contribution schemes	**20**	19
Total defined contribution schemes (note 10b)	**73**	65
	260	240

There were no significant contributions outstanding or prepaid as at either 31 December 2007, 2008 or 2009.

(e) IAS 19 disclosures

Disclosures under IAS 19 for the material defined benefit schemes in the UK, the Netherlands, Canada and Ireland are given below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions. Total employer contributions for these schemes in 2010, including the ASPS deficit funding, are expected to be £565 million.

(i) Assumptions on scheme liabilities
The projected unit credit method
The inherent uncertainties affecting the measurement of scheme liabilities require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to the economic conditions of the countries in which the relevant businesses are situated, and changes in these assumptions can materially affect the measurement of the pension obligations.

Alternative measurement methods
There are alternative methods of measuring liabilities, for example by calculating an accumulated benefit obligation (the present value of benefits for service already rendered but with no allowance for future salary increases) or on a solvency basis, using the cost of securing the benefits at a particular date with an insurance company or one of the growing market of alternative buy-out providers. This could take the form of a buy-out, in which the entire liability will be settled in one payment with all obligations transferred to an insurance company or buy-out provider, or a buy-in, in which annuities or other insurance products are purchased to cover a part or all of the liability. A valuation of the liabilities in either of these cases will almost always result in a higher estimate of the pension deficit than under an ongoing approach, as they assume that the sponsor immediately transfers the majority, if not all, of the risk to another provider who would be seeking to make a profit on the transaction. However, there are only a limited number of organisations that would be able to offer these options for schemes of the size of those in our Group. The full buy-out cost would only be known if quotes were obtained from such organisations but, to illustrate the cost of a buy-out valuation, an estimate for the main UK scheme is that the year end liabilities of £8.4 billion could be valued some £3.6 billion higher, at £12.0 billion.

47 – Pension obligations continued

There is a small buy-out market in Ireland, largely restricted to pensions currently in payment and it is not clear whether current capacity would enable an immediate buy-out of our Irish pension liabilities at present. The Canadian defined benefit plan's liabilities represent the likely limit on what the Canadian group annuity market could absorb at normal competitive group annuity prices if the entire plan were subject to a buy-out valuation. There is in fact a reasonably high chance that only a portion of the plan's liabilities could be absorbed in one tranche.

IAS 19 requires us to use the projected unit credit method to measure our pension scheme liabilities. Neither of the alternative methods is considered appropriate in presenting fairly the Group's obligations to the members of its pension schemes on an ongoing basis, so they are not considered further.

Valuations and assumptions

The valuations used for accounting under IAS 19 have been based on the most recent full actuarial valuations, updated to take account of that standard's requirements in order to assess the liabilities of the material schemes at 31 December 2009. Scheme assets are stated at their fair values at 31 December 2009.

The main actuarial assumptions used to calculate scheme liabilities under IAS 19 are:

			UK			Netherlands
	2009	2008	2007	**2009**	2008	2007
Inflation rate	**3.6%**	2.9%	3.4%	**2.1%**	2.0%	2.0%
General salary increases	**5.4%**	4.7%	5.2%	**3.1%***	3.0%*	3.0%*
Pension increases	**3.6%**	3.1%	3.4%	**2.1%/1.9%****	2.0%/1.3%**	2.0%/2.4%**
Deferred pension increases	**3.6%**	3.1%	3.4%	**2.1%/1.9%****	2.0%/1.3%**	2.0%/2.4%**
Discount rate	**5.7%**	6.2%	5.8%	**5.2%**	5.7%	5.5%
Basis of discount rate			AA-rated corporate bonds			AA-rated corporate bonds

* Age-related scale increases plus 3.1% *(2008: 3%, 2007: 3%).*
**2.1% until 2011 and 1.9% thereafter *(2008: 2.0% and 1.3% respectively, 2007: 2.0% and 2.4% respectively).*

			Canada			Ireland
	2009	2008	2007	**2009**	2008	2007
Inflation rate	**2.5%**	2.5%	2.5%	**2.0%**	2.0%	2.5%
General salary increases	**3.75%**	3.75%	3.75%	**3.5%**	3.75%	4.25%
Pension increases	**1.25%**	1.25%	1.25%	**2.0%**	2.0%	2.4%
Deferred pension increases	**—**	—	—	**2.0%**	2.0%	2.4%
Discount rate	**5.5%**	6.75%	5.25%	**5.5%**	5.9%	5.6%
Basis of discount rate			AA-rated corporate bonds			AA-rated corporate bonds

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. For each country, the discount rate is based on current average yields of high quality debt instruments taking account of the maturities of the defined benefit obligations. A 1% increase in this rate (and therefore the net discount rate) would reduce the liabilities by £1.8 billion and the service cost for the year by £31 million.

Mortality assumptions

Mortality assumptions are significant in measuring the Group's obligations under its defined benefit schemes, particularly given the maturity of these obligations in the material schemes. The assumptions used are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of these schemes.

47 – Pension obligations continued

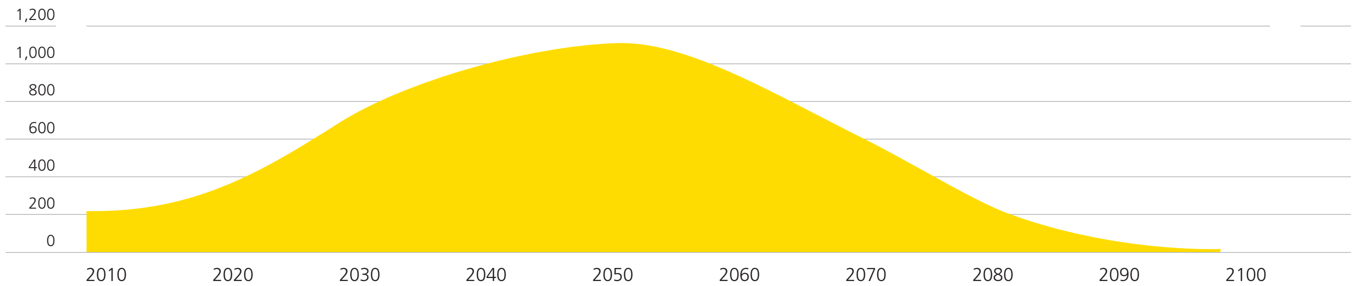
The mortality tables, average life expectancy and pension duration used at 31 December 2009 for scheme members are as follows:

			Life expectancy/(pension duration) at NRA of a male		Life expectancy/(pension duration) at NRA of a female	
Mortality table		Normal retirement age (NRA)	Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
UK	PA92U2010MC with a one year age rating deduction and including an allowance for future improvements	60	89.4 (29.4)	92.5 (32.5)	91.8 (31.8)	93.9 (33.9)
Netherlands	CRC8b, which includes allowance for future improvements up to 2050	65	82.5 (17.5)	84.0 (19.0)	86.1 (21.1)	86.8 (21.8)
Canada	UP1994 projected to 2015, using Scale AA	65	84.4 (19.4)	84.4 (19.4)	86.8 (21.8)	86.8 (21.8)
Ireland	94% PNA00 with allowance for future improvements	61	86.5 (25.5)	89.5 (28.5)	89.3 (28.3)	92.3 (31.3)

The assumptions above are based on commonly-used mortality tables. In the UK, the standard mortality tables have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. In the UK schemes, which are by far the most material to the Group, the assumptions include an allowance for future mortality improvement, based on the actuarial profession's medium cohort projection table and incorporating underpins to the rate of future improvement equal to 1.5% p.a. for males and 1.0% p.a. for females. The effect of assuming all members were one year younger would increase the above schemes' liabilities by £248 million and the service cost for the year by £5 million.

The discounted scheme liabilities have an average duration of 22 years in the UK schemes and between 12 and 18 years in the overseas schemes. The undiscounted benefits payable from the main UK defined benefit scheme are expected to be as shown in the chart below:

Undiscounted benefit payments £m



(ii) Assumptions on scheme assets

The expected rates of return on the schemes' assets are:

	UK		Netherlands		Canada		Ireland	
	2010	**2009**	2010	**2009**	2010	**2009**	2010	**2009**
Equities	7.8%	**6.3%**	6.8%	**6.0%**	7.6%	**4.5%**	7.2%	**6.0%**
Bonds	4.8%	**5.2%**	4.3%	**3.8%**	3.5%	**4.3%**	4.5%	**4.1%**
Property	6.3%	**4.8%**	5.2%	**5.7%**	n/a	**n/a**	5.7%	**4.5%**
Cash	0.9%	**3.2%**	n/a	**3.8%**	n/a	**n/a**	2.9%	**3.0%**

The overall rates of return are based on the expected returns within each asset category and on current asset allocations. The expected returns for equities and properties have been aligned with the rates used for the longer-term investment return assumptions, other than in the Netherlands, where they have been developed in conjunction with external advisers due to the characteristics of the scheme. The figures for the total expected return on scheme assets in the following section are stated after deducting investment expenses.

47 – Pension obligations continued

(iii) Investments in Group-managed funds and insurance policies

Plan assets include investments in Group-managed funds in the consolidated statement of financial position of £101 million *(2008: £99 million, 2007: £150 million)* in the UK scheme, and insurance policies with other Group companies of £157 million and £1,351 million *(2008: £150 million and £1,402 million, 2007: £143 million and £1,025 million)* in the UK and Dutch schemes respectively. The Dutch insurance policies are considered non-transferable under the terms of IAS 19 and so have been treated as other obligations to staff pension schemes within provisions (see note 46).

The treatment of the relevant parts of the financial statements is as follows:

Plan assets – The treatment of these funds and policies in the consolidated statement of financial position is described above.

Expected rates of return – Where the relevant insurance policies are in segregated funds with specific asset allocations, their expected rates of return are included in the appropriate line in the table in section (ii) above.

Pension expense – To avoid double-counting of investment income on scheme assets and the assets backing the underlying policies, adjustments have been made to the former in the tables in section (iv) below.

(iv) Pension expense

As noted above, plan assets in the UK and Dutch schemes include insurance policies with other Group companies. To avoid double-counting of investment income on scheme assets and the assets backing the underlying policies, adjustments have been made to the former as shown in the tables below.

The total pension expense for these schemes comprises:

Recognised in the income statement

	2009 £m	2008 £m
Current service cost	**(131)**	(162)
Past service cost	**(25)**	(1)
Gains on curtailments	**38**	(3)
Gains on settlements	**11**	—
Total pension cost charged to net operating expenses	**(107)**	(166)
Expected return on scheme assets	**466**	706
Less: Income on insurance policy assets accounted for elsewhere (see (iii) above)	**(58)**	(64)
	408	642
Interest charge on scheme liabilities	**(591)**	(585)
(Charge)/credit to investment income	**(183)**	57
Total charge to income	**(290)**	(109)

Recognised in the statement of comprehensive income

	2009 £m	2008 £m
Expected return on scheme assets	**(466)**	(706)
Actual positive/(negative) return on these assets	**1,009**	(1,245)
Actuarial gains/(losses) on scheme assets	**543**	(1,951)
Less: losses on insurance policy assets accounted for elsewhere (see (iii) above)	**18**	58
Actuarial gains/(losses) on admissible assets	**561**	(1,893)
Experience gains arising on scheme liabilities	**77**	105
Changes in assumptions underlying the present value of the scheme liabilities	**(1,778)**	859
Actuarial losses recognised in other comprehensive income	**(1,140)**	(929)

The loss arising from changes in assumptions in 2009 reflects the impact of lower discount rates for liabilities across all schemes and higher pension and salary increase assumptions in the UK and Netherlands, together with the strengthening of mortality assumptions in Ireland.

The cumulative amount of actuarial gains and losses on the pension schemes recognised in other comprehensive income since 1 January 2004 (the date of transition to IFRS) is a loss of £2,230 million at 31 December 2009 *(2008: loss of £1,090 million)*.

47 – Pension obligations continued

(v) Experience gains and losses

The following disclosures of experience gains and losses give a five year history. Scheme assets exclude insurance policies with Group companies and income on the assets underlying them.

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Fair value of scheme assets at the end of the year	**8,754**	7,936	8,814	8,137	7,334
Present value of scheme liabilities at the end of the year	**(11,812)**	(9,951)	(10,017)	(10,196)	(9,680)
Net deficits in the schemes	**(3,058)**	(2,015)	(1,203)	(2,059)	(2,346)
Difference between the expected and actual return on scheme assets					
Amount of gains/(losses)	**561**	(1,893)	(138)	251	798
Percentage of the scheme assets at the end of the year	**6.4%**	23.8%	1.6%	3.1%	10.9%
Experience gains/(losses) on scheme liabilities (excluding changes in assumptions)					
Amount of gains/(losses)	**77**	105	(80)	63	(86)
Percentage of the present value of scheme liabilities	**0.7%**	1.1%	0.8%	0.6%	0.9%

(vi) Risk management and asset allocation strategy

As noted above, the long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. To meet these objectives, each scheme's assets are invested in a diversified portfolio, consisting primarily of equity and debt securities. These reflect the current long-term asset allocation ranges chosen, having regard to the structure of liabilities within the schemes.

Main UK scheme

Both the Group and the trustees regularly review the asset/liability management of the main UK scheme. It is fully understood that, whilst the current asset mix is designed to produce appropriate long-term returns, this introduces a material risk of volatility in the scheme's surplus or deficit of assets compared with its liabilities.

The principal asset risks to which the scheme is exposed are:

Equity market risk – the effect of equity market falls on the value of plan assets.

Inflation risk – the effect of inflation rising faster than expected on the value of the plan liabilities.

Interest rate risk – falling interest rates leading to an increase in liabilities significantly exceeding the increase in the value of assets.

There is also an exposure to currency risk where assets are not denominated in the same currency as the liabilities. The majority of this exposure has been removed by the use of hedging instruments.

In addition, the trustees have taken measures to partially mitigate inflation and interest rate risks, including entering into inflation and interest rate swaps to hedge approximately one third of the scheme's exposure to these risks.

Other schemes

The other schemes are considerably less material but their risks are managed in a similar way to those in the main UK scheme.

47 – Pension obligations continued

(vii) Recognition in the statement of financial position

The assets and liabilities of the schemes, attributable to defined benefit members, including investments in Group insurance policies (see footnote below), at 31 December 2009 were:

	UK £m	Netherlands £m	Canada £m	Ireland £m	Total 2009 £m
Equities	**2,285**	**258**	**78**	**28**	**2,649**
Bonds	**4,619**	**992**	**110**	**231**	**5,952**
Property	**403**	**92**	**—**	**18**	**513**
Other	**835**	**16**	**10**	**130**	**991**
Total fair value of assets	**8,142**	**1,358**	**198**	**407**	**10,105**
Present value of scheme liabilities	**(9,554)**	**(1,372)**	**(308)**	**(578)**	**(11,812)**
Deficits in the schemes included in provisions (note 46)	**(1,412)**	**(14)**	**(110)**	**(171)**	**(1,707)**

	UK £m	Netherlands £m	Canada £m	Ireland £m	Total 2008 £m
Equities	3,002	292	93	182	3,569
Bonds	3,395	857	86	172	4,510
Property	405	76	—	26	507
Other	485	184	3	80	752
Total fair value of assets	7,287	1,409	182	460	9,338
Present value of scheme liabilities	(7,732)	(1,424)	(250)	(545)	(9,951)
Deficits in the schemes included in provisions (note 46)	(445)	(15)	(68)	(85)	(613)

	UK £m	Netherlands £m	Canada £m	Ireland £m	Total 2007 £m
Equities	4,347	306	144	256	5,053
Bonds	3,059	556	85	174	3,874
Property	562	52	—	42	656
Other	135	114	2	5	256
Total fair value of assets	8,103	1,028	231	477	9,839
Present value of scheme liabilities	(8,229)	(1,049)	(289)	(450)	(10,017)
(Deficits)/surplus in the schemes	(126)	(21)	(58)	27	(178)
Included in other assets (note 26)	—	—	—	27	27
Included in provisions (note 46)	(126)	(21)	(58)	—	(205)
	(126)	(21)	(58)	27	(178)

Other assets comprise cash at bank, derivative financial instruments, receivables and payables.

Plan assets in the table above include investments in Group-managed funds and insurance policies, as described in section (iii) above. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate line in the table above, otherwise they appear in "Other". The Dutch insurance policies of £1,351 million *(2008: £1,402 million, 2007: £1,025 million)* are considered non-transferable under the terms of IAS 19 and so have been treated as other obligations to staff pension schemes within provisions (see note 46).

47 – Pension obligations continued

The total IAS 19 obligations and strict IAS 19 assets (ie excluding the non-transferable insurance policies) of the schemes give a net deficit of £3,058 million *(2008: £2,015 million, 2007: £1,203 million)*, as shown in the following tables.

	UK £m	Netherlands £m	Canada £m	Ireland £m	Total 2009 £m
Equities	**2,285**	**—**	**78**	**28**	**2,391**
Bonds	**4,619**	**—**	**110**	**231**	**4,960**
Property	**403**	**—**	**—**	**18**	**421**
Other	**835**	**7**	**10**	**130**	**982**
Total fair value of assets	**8,142**	**7**	**198**	**407**	**8,754**
Present value of scheme liabilities	**(9,554)**	**(1,372)**	**(308)**	**(578)**	**(11,812)**
Deficits in the schemes included in provisions (note 46)	**(1,412)**	**(1,365)**	**(110)**	**(171)**	**(3,058)**

	UK £m	Netherlands £m	Canada £m	Ireland £m	Total 2008 £m
Equities	3,002	—	93	182	3,277
Bonds	3,395	—	86	172	3,653
Property	405	—	—	26	431
Other	485	7	3	80	575
Total fair value of assets	7,287	7	182	460	7,936
Present value of scheme liabilities	(7,732)	(1,424)	(250)	(545)	(9,951)
Deficits in the schemes included in provisions (note 46)	(445)	(1,417)	(68)	(85)	(2,015)

	UK £m	Netherlands £m	Canada £m	Ireland £m	Total 2007 £m
Equities	4,347	—	144	256	4,747
Bonds	3,059	—	85	174	3,318
Property	562	—	—	42	604
Other	135	3	2	5	145
Total fair value of assets	8,103	3	231	477	8,814
Present value of scheme liabilities	(8,229)	(1,049)	(289)	(450)	(10,017)
(Deficits)/surplus in the schemes	(126)	(1,046)	(58)	27	(1,203)
Included in other assets (note 26)	—	—	—	27	27
Included in provisions (note 46)	(126)	(1,046)	(58)	—	(1,230)
	(126)	(1,046)	(58)	27	(1,203)

The present value of unfunded post-retirement benefit obligations included in the totals in both sets of tables above is £118 million *(2008: £104 million, 2007: £107 million)*.

47 – Pension obligations continued

(viii) Movements in the scheme deficits and surpluses

Movements in the pension schemes' deficits and surpluses comprise:

2009	Scheme assets £m	Scheme liabilities £m	Pension scheme deficits £m	Adjust for Group insurance policies £m	IAS 19 pensions deficits £m
Deficits in the schemes at 1 January	**9,338**	**(9,951)**	**(613)**	**(1,402)**	**(2,015)**
Employer contributions	**294**	**—**	**294**	**(62)**	**232**
Employee contributions	**18**	**(18)**	**—**	**(8)**	**(8)**
Benefits paid	**(392)**	**392**	**—**	**46**	**46**
Current and past service cost (see (iv) above)	**—**	**(156)**	**(156)**	**—**	**(156)**
Gains/(losses) on curtailments and settlements (see (iv) above)	**(19)**	**68**	**49**	**—**	**49**
Credit/(charge) to investment income (see (iv) above)	**466**	**(591)**	**(125)**	**(58)**	**(183)**
Other actuarial gains/(losses) (see (iv) above)	**543**	**(1,701)**	**(1,158)**	**18**	**(1,140)**
Buy-outs and other transfers	**(1)**	**1**	**—**	**2**	**2**
Exchange rate movements on foreign plans	**(142)**	**144**	**2**	**113**	**115**
Deficits in the schemes at 31 December	**10,105**	**(11,812)**	**(1,707)**	**(1,351)**	**(3,058)**

2008	Scheme assets £m	Scheme liabilities £m	Pension scheme deficits £m	Adjust for Group insurance policies £m	IAS 19 pensions deficits £m
Deficits in the schemes at 1 January	9,839	(10,017)	(178)	(1,025)	(1,203)
Employer contributions	620	—	620	(70)	550
Employee contributions	24	(24)	—	(7)	(7)
Benefits paid	(368)	368	—	39	39
Current and past service cost (see (iv) above)	(5)	(158)	(163)	—	(163)
Losses on curtailments (see (iv) above)	—	(3)	(3)	—	(3)
Credit/(charge) to investment income (see (iv) above)	706	(585)	121	(64)	57
Other actuarial gains/(losses) (see (iv) above)	(1,951)	964	(987)	58	(929)
Buy-outs and other transfers	(1)	1	—	1	1
Exchange rate movements on foreign plans	474	(497)	(23)	(334)	(357)
Deficits in the schemes at 31 December	9,338	(9,951)	(613)	(1,402)	(2,015)

The change in the pension schemes' net deficits during 2009 is mainly attributable to the unfavourable changes in assumptions underlying the present value of the schemes' liabilities, partly offset by a rise in equity and property investment values.

48 – Borrowings

Our borrowings are either core structural borrowings, such as subordinated debt, debenture loans and most commercial paper, or operational borrowings, such as bank loans and financing for securitised mortgage loan notes. This note shows the carrying values and contractual maturity amounts of each type, and explains their main features and movements during the year.

(a) Analysis of total borrowings

Total borrowings comprise:

	2009 £m	2008 £m	2007 £m
Core structural borrowings, at amortised cost	**5,489**	5,525	4,311
Operational borrowings, at amortised cost	**4,404**	4,233	3,347
Operational borrowings, at fair value	**5,107**	5,443	5,011
	9,511	9,676	8,358
	15,000	15,201	12,669
Less amounts classified as held for sale	**—**	—	(12)
	15,000	15,201	12,657

(b) Core structural borrowings

The following table provides information about the carrying amounts and maturity periods of these borrowings. Borrowings are considered current if the contractual maturity dates are within a year.

	Carrying value £m	Denominated currency £m	Within 1 year £m	1–5 years £m	5–10 years £m	10–15 years £m	Over 15 years £m	Total £m
			2009					
			Maturity dates of undiscounted cash flows					
Subordinated debt								
6.125% £700 million subordinated notes 2036	**690**	**£**	**—**	**—**	**—**	**—**	**700**	**700**
5.750% €800 million subordinated notes 2021	**710**	**€**	**—**	**—**	**—**	**711**	**—**	**711**
5.250% €650 million subordinated notes 2023	**539**	**€**	**—**	**—**	**—**	**578**	**—**	**578**
5.700% €500 million undated subordinated notes	**441**	**€**	**—**	**—**	**—**	**—**	**444**	**444**
6.125% £800 million undated subordinated notes	**791**	**£**	**—**	**—**	**—**	**—**	**800**	**800**
Floating rate US$300 million subordinated notes 2017	**186**	**US$**	**—**	**—**	**186**	**—**	**—**	**186**
6.875% £400 million subordinated notes 2058	**395**	**£**	**—**	**—**	**—**	**—**	**400**	**400**
6.875% £200 million subordinated notes 2058	**199**	**£**	**—**	**—**	**—**	**—**	**200**	**200**
6.875% €500 million subordinated notes 2038	**442**	**€**	**—**	**—**	**444**	**—**	**—**	**444**
10.6726% £200 million subordinated notes 2019	**200**	**£**	**—**	**—**	**200**	**—**	**—**	**200**
10.464% €50 million subordinated notes 2019	**44**	**€**	**—**	**—**	**44**	**—**	**—**	**44**
	4,637		**—**	**—**	**874**	**1,289**	**2,544**	**4,707**
Debenture loans								
9.5% guaranteed bonds 2016	**199**	**£**	**—**	**—**	**200**	**—**	**—**	**200**
2.5% subordinated perpetual loan notes	**157**	**€**	**—**	**—**	**—**	**—**	**441**	**441**
Other loans	**13**	**Various**	**—**	**13**	**—**	**—**	**—**	**13**
	369		**—**	**13**	**200**	**—**	**441**	**654**
Commercial paper	**483**	**Various**	**483**	**—**	**—**	**—**	**—**	**483**
Total	**5,489**		**483**	**13**	**1,074**	**1,289**	**2,985**	**5,844**
Contractual undiscounted interest payments			**344**	**1,455**	**1,736**	**1,440**	**2,340**	**7,315**
Total contractual undiscounted cash flows for core structural borrowings			**827**	**1,468**	**2,810**	**2,729**	**5,325**	**13,159**

48 – Borrowings continued

			2008					
			Maturity dates of undiscounted cash flows					
	Carrying value £m	Denominated currency £m	Within 1 year £m	1–5 years £m	5–10 years £m	10–15 years £m	Over 15 years £m	Total £m
Subordinated debt								
6.125% £700 million subordinated notes 2036	689	£	—	—	—	—	700	700
5.750% €800 million subordinated notes 2021	772	€	—	—	—	773	—	773
5.250% €650 million subordinated notes 2023	593	€	—	—	—	628	—	628
5.700% €500 million undated subordinated notes	480	€	—	—	—	—	483	483
6.125% £800 million undated subordinated notes	790	£	—	—	—	—	800	800
Floating rate US$300 million subordinated notes 2017	208	US$	—	—	209	—	—	209
6.875% £400 million subordinated notes 2058	394	£	—	—	—	—	400	400
6.875% £200 million subordinated notes 2058	199	£	—	—	—	—	200	200
6.875% €500 million subordinated notes 2038	481	€	—	—	—	—	483	483
	4,606		—	—	209	1,401	3,066	4,676
Debenture loans								
9.5% guaranteed bonds 2016	199	£	—	—	200	—	—	200
2.5% subordinated perpetual loan notes	166	€	—	—	—	—	474	474
Other loans	14	various	—	14	—	—	—	14
	379		—	14	200	—	474	688
Commercial paper	540	various	540	—	—	—	—	540
Total	5,525		540	14	409	1,401	3,540	5,904
Contractual undiscounted interest payments			345	1,246	1,498	1,339	2,658	7,086
Total contractual undiscounted cash flows for core structural borrowings			885	1,260	1,907	2,740	6,198	12,990

			2007					
			Maturity dates of undiscounted cash flows					
	Carrying value £m	Denominated currency £m	Within 1 year £m	1–5 years £m	5–10 years £m	10–15 years £m	Over 15 years £m	Total £m
Subordinated debt								
6.125% £700 million subordinated notes 2036	689	£	—	—	—	—	700	700
5.750% €800 million subordinated notes 2021	586	€	—	—	—	588	—	588
5.250% €650 million subordinated notes 2023	474	€	—	—	—	—	477	477
5.700% €500 million undated subordinated notes	364	€	—	—	—	—	367	367
6.125% £800 million undated subordinated notes	790	£	—	—	—	—	800	800
Floating rate US$300 million subordinated notes 2017	151	US$	—	—	151	—	—	151
	3,054		—	—	151	588	2,344	3,083
Debenture loans								
9.5% guaranteed bonds 2016	198	£	—	—	200	—	—	200
2.5% subordinated perpetual loan notes	127	£	—	—	—	—	360	360
Other loans	10	various	—	10	—	—	—	10
	335		—	10	200	—	360	570
Commercial paper	922	various	935	—	—	—	—	935
Total	4,311		935	10	351	588	2,704	4,588
Contractual undiscounted interest payments			256	834	1,023	869	625	3,607
Total contractual undiscounted cash flows for core structural borrowings			1,191	844	1,374	1,457	3,329	8,195

Subordinated debt is stated at net of notes held by Group companies of £35 million *(2008: £33 million; 2007: £nil)*.

Where subordinated debt is undated or loan notes are perpetual, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £75 million *(2008: £89 million)*.

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Year end exchange rates have been used for interest projections on loans in foreign currencies.

All the above borrowings are stated at amortised cost.

48 – Borrowings continued

(c) Operational borrowings

The following table provides information about the carrying amounts and maturity periods of these borrowings. Borrowings are considered current if the contractual maturity dates are within a year.

			2009					
			Maturity dates of undiscounted cash flows					
	Carrying value £m	Denominated currency £m	Within 1 year £m	1–5 years £m	5–10 years £m	10–15 years £m	Over 15 years £m	Total £m
Amounts owed to credit institutions								
Bank loans	**2,182**	**Various**	**313**	**698**	**806**	**290**	**75**	**2,182**
Securitised mortgage loan notes								
UK lifetime mortgage business	**1,444**	**£**	**11**	**71**	**130**	**379**	**1,061**	**1,652**
Dutch domestic mortgage business	**5,885**	**€**	**—**	**—**	**—**	**—**	**6,094**	**6,094**
	7,329		**11**	**71**	**130**	**379**	**7,155**	**7,746**
Total	**9,511**		**324**	**772**	**936**	**669**	**7,230**	**9,928**
Contractual undiscounted interest payments			**185**	**755**	**825**	**754**	**2,335**	**4,854**
Total contractual undiscounted cash flows			**509**	**1,527**	**1,761**	**1,423**	**9,565**	**14,782**

			2008					
			Maturity dates of undiscounted cash flows					
	Carrying value £m	Denominated currency £m	Within 1 year £m	1–5 years £m	5–10 years £m	10–15 years £m	Over 15 years £m	Total £m
Amounts owed to credit institutions								
Bank loans	1,891	various	353	842	152	154	390	1,891
Securitised mortgage loan notes								
UK lifetime mortgage business	1,590	£	9	40	66	—	1,529	1,644
Dutch domestic mortgage business	6,195	€	—	—	—	—	7,913	7,913
	7,785		9	40	66	—	9,442	9,557
Total	9,676		362	882	218	154	9,832	11,448
Contractual undiscounted interest payments			520	2,147	2,508	2,460	13,203	20,838
Total contractual undiscounted cash flows			882	3,029	2,726	2,614	23,035	32,286

48 – Borrowings continued

			2007					
			Maturity dates of undiscounted cash flows					
	Carrying value £m	Denominated currency £m	Within 1 year £m	1–5 years £m	5–10 years £m	10–15 years £m	Over 15 years £m	Total £m
Amounts owed to credit institutions								
Bank loans	1,064	various	375	306	314	9	60	1,064
Securitised mortgage loan notes								
UK lifetime mortgage business	1,674	£	—	14	125	—	1,613	1,752
Dutch domestic mortgage business	5,620	€	—	—	—	—	5,890	5,890
	7,294		—	14	125	—	7,503	7,642
Total	8,358		375	320	439	9	7,563	8,706
Contractual undiscounted interest payments			374	1,392	1,705	1,652	8,452	13,575
Total contractual undiscounted cash flows			749	1,712	2,144	1,661	16,015	22,281

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. The reduction in future contractual undiscounted interest payments mainly reflects lower average interest payable at 31 December 2009 on floating rate securitised loan notes issued by our Dutch business, compared to 31 December 2008. Year end exchange rates have been used for interest projections on loans in foreign currencies.

The securitised mortgage loan notes are at various fixed, floating and index-linked rates. Further details about these notes are given in note 23.

All the above borrowings are stated at amortised cost, except for the loan notes issued in connection with the UK lifetime mortgage business £1,444 million *(2008: £1,590 million, 2007: £1,674 million)* and £3,664 million *(2008: £3,842 million, 2007: £3,337 million)* of the loan notes issued in connection with the Dutch domestic mortgage business, which are carried at fair value. Fair values are modelled on risk-adjusted cash flows for defaults discounted at a risk-free rate plus a market-determined liquidity premium, and are therefore classified as "Level 2" in the fair value hierarchy. These have been designated at fair value through profit and loss in order to present the relevant mortgages, borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch.

(d) Description and features

(i) Subordinated debt

A description of each of the subordinated notes is set out in the table below:

Notional amount	Issue date	Redemption date	Callable at par at option of the Company from	In the event the Company does not call the notes, the coupon will reset at each applicable reset date to
£700 million	14 Nov 2001	14 Nov 2036	16 Nov 2026	5 year Benchmark Gilt + 2.85%
€800 million	14 Nov 2001	14 Nov 2021	14 Nov 2011	3 month Euribor + 2.12%
€650 million	29 Sep 2003	02 Oct 2023	02 Oct 2013	3 month Euribor + 2.08%
€500 million	29 Sep 2003	Undated	29 Sep 2015	3 month Euribor + 2.35%
£800 million	29 Sep 2003	Undated	29 Sep 2022	5 year Benchmark Gilt + 2.40%
US$300 million	19 Dec 2007	19 Jun 2017	19 Jun 2012	3 month US LIBOR + 0.84%
£400 million	20 May 2008	20 May 2058	20 May 2038	3 month LIBOR + 3.26%
£200 million	8 Aug 2008	20 May 2058	20 May 2038	3 month LIBOR + 3.26%
€500 million	22 May 2008	22 May 2038	22 May 2018	3 month Euribor + 3.35%
£200 million	31 Mar 2009	31 Mar 2019	31 Mar 2014	3 month LIBOR + 8.10%
€50 million	30 Apr 2009	30 Apr 2019	30 Apr 2014	3 month Euribor + 8.25%

The subordinated notes were issued by the Company. They rank below its senior obligations and ahead of its preference shares and ordinary share capital. The dated subordinated notes rank ahead of the undated subordinated notes. The fair value of these notes at 31 December 2009 was £4,372 million (2008*: £2,979 million, 2007: £3,006 million)*, calculated with reference to quoted prices.

48 – Borrowings continued

(ii) Debenture loans

The 9.5% guaranteed bonds were issued by the Company at a discount of £1.1 million. This discount and the issue expenses are being amortised over the full term of the bonds. Although these bonds were issued in sterling, the loans have effectively been converted into euro liabilities through the use of financial instruments in a subsidiary.

The 2.5% perpetual subordinated loan notes were issued by Delta Lloyd to finance the acquisition of NUTS OHRA Beheer BV in 1999. As part of the public offering of Delta Lloyd, their nominal value was increased to €497 million *(2008: €490 million)*. However, because they are considered to be perpetual, their carrying value is lower at €177 million *(2008: €172 million)*, calculated in 1999 and based on the future cash flows in perpetuity discounted back at a market rate of interest. The rate of interest paid on the notes has been gradually increased to a maximum of 2.76% in 2009.

Other loans totalling £13 million *(2008: £14 million)* comprise borrowings in the United States.

All these borrowings are at fixed rates and their fair value at 31 December 2009 was £552 million *(2008: £663 million)*, calculated with reference to quoted prices or discounted future cash flows as appropriate.

(iii) Commercial paper

The commercial paper consists of £483 million in the Company *(2008: £535 million, 2007: £918 million)* and £nil in France *(2008: £5 million, 2007: £4 million)*. All of this is considered core structural funding.

All commercial paper is repayable within one year and is issued in a number of different currencies, primarily sterling, euros and US dollars. Its fair value is considered to be the same as its carrying value.

(iv) Bank loans

Bank loans comprise:

	2009 £m	2008 £m	2007 £m
Non-recourse			
Loans to property partnerships (see (a) below)	**790**	978	485
Loans to Irish investment funds (see (b) below)	**36**	60	74
UK Life reassurance (see (c) below)	**114**	103	—
US	**150**	—	—
Other non-recourse loans	**169**	44	16
	1,259	1,185	575
Banking loans	**145**	184	103
Other loans (see (d) below)	**778**	522	386
	2,182	1,891	1,064

(a) As explained in accounting policy D, the UK long-term business policyholder funds have invested in a number of property limited partnerships (PLPs). The PLPs have raised external debt, secured on their respective property portfolios, and the lenders are only entitled to obtain payment of both interest and principal to the extent there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder or shareholders' funds of any companies in the Aviva Group. Loans of £790 million *(2008: £978 million, 2007: £485 million)* included in the table relate to those PLPs which have been consolidated as subsidiaries.

(b) Certain Irish policyholder investment funds and unit trusts, which have been fully consolidated in accordance with accounting policy D, have raised borrowings with external credit institutions. The borrowings are secured on the funds, with the only recourse on default being the underlying investments in these funds and unit trusts. The lenders have no recourse whatsoever to the shareholders' funds of any companies in the Aviva Group. These loans run for a period of five years, with interest rates fixed monthly and based on a fixed margin above the euro inter-bank rate. The amount of these loans can be varied without any penalty being charged, subject to a maximum of 50% Loan to Value and a maximum facility of €40 million.

(c) The UK long-term business entered into a financial reassurance agreement with Swiss Re in 2008, under which up-front payments are received from Swiss Re in return for 90% of future surplus arising. The loan will be repaid as profits emerge on the business.

(d) Other loans includes €500 million 10.44% subordinated notes due 2019 of which €400 million of the loan was issued by Delta Lloyd Levensverzekering and €100m by Delta Lloyd Schadeverzekering

48 – Borrowings continued

(v) Securitised mortgage loan notes

Loan notes have been issued by special purpose securitisation companies in the UK and the Netherlands. Details of these securitisations are given in note 23.

For the Dutch securitised mortgage loan notes carried at amortised cost of £2,221 million *(2008: £2,353 million, 2007: £2,283 million)*, their fair value is £2,170 million *(2008: £2,224 million, 2007: £2,283 million)*, calculated based on the future cash flows discounted back at the market rate of interest.

(e) Movements during the year

Movements in borrowings during the year were:

	Core structural £m	**Operational £m**	**Total 2009 £m**
New borrowings drawn down, net of expenses	**2,739**	**1,521**	**4,260**
Repayment of borrowings	**(2,546)**	**(1,307)**	**(3,853)**
Net cash inflow	**193**	**214**	**407**
Foreign exchange rate movements	**(232)**	**(566)**	**(798)**
Fair value movements	**—**	**187**	**187**
Amortisation of discounts and other non-cash items	**3**	**—**	**3**
Movements in the year	**(36)**	**(165)**	**(201)**
Balance at 1 January	**5,525**	**9,676**	**15,201**
Balance at 31 December	**5,489**	**9,511**	**15,000**

Movements in borrowings during the previous year were:

	Core structural £m	Operational £m	Total 2008 £m
New borrowings drawn down, net of expenses	3,929	1,586	5,515
Repayment of borrowings	(3,496)	(1,721)	(5,217)
Net cash inflow	433	(135)	298
Foreign exchange rate movements	779	1,779	2,558
Borrowings acquired for non-cash consideration	—	(3)	(3)
Acquisitions	—	81	81
Fair value movements	—	(404)	(404)
Amortisation of discounts and other non-cash items	2	—	2
Movements in the year	1,214	1,318	2,532
Balance at 1 January	4,311	8,358	12,669
Balance at 31 December	5,525	9,676	15,201

All movements in fair value in 2009 and 2008 on securitised mortgage loan notes designated as fair value through profit or loss were attributable to changes in market conditions. These loan notes have external credit ratings which have not changed since the inception of the loans.

(f) Undrawn borrowings

The Group and Company have the following undrawn committed central borrowing facilities available to it, of which £1,000 million *(2008: £1,000 million, 2007: £1,000 million)* is used to support the commercial paper programme:

	2009 £m	2008 £m	2007 £m
Expiring within one year	**600**	815	500
Expiring beyond one year	**1,510**	1,285	1,575
	2,110	2,100	2,075

49 – Payables and other financial liabilities

This note analyses our financial liabilities at the end of the year.

	2009 £m	2008 £m	2007 £m
Payables arising out of direct insurance	**1,585**	1,716	1,731
Payables arising out of reinsurance operations	**544**	499	410
Deposits and advances received from reinsurers	**928**	1,014	1,294
Bank overdrafts	**926**	605	621
Derivative liabilities (note 57)	**2,099**	2,024	633
Bank customer accounts	**4,618**	4,510	2,460
Bank deposits received from other banks	**1,933**	1,780	1,288
Amounts due to brokers for investment purchases	**793**	757	901
Obligations for repayment of collateral received (notes 24e(i) & 57c)	**3,602**	5,497	6,545
Obligations under stock repurchase arrangements (note 24e(ii))	**664**	383	358
Other financial liabilities	**2,850**	2,077	1,891
	20,542	20,862	18,132
Less: Amounts classified as held for sale	**—**	(22)	(72)
	20,542	20,840	18,060
Expected to be settled within one year	**19,982**	18,468	16,097
Expected to be settled in more than one year	**560**	2,372	1,963
	20,542	20,840	18,060

Bank overdrafts arise substantially from unpresented cheques and amount to £422 million *(2008: £111 million, 2007: £183 million)* in long-term business operations and £504 million *(2008: £494 million, 2007: £438 million)* in general business and other operations.

All payables and other financial liabilities are carried at cost, which approximates to fair value, except for derivative liabilities, which are carried at their fair values.

We have used the following measurement basis to fair value derivative liabilities:

	2009 £m
Level 1 – Quoted market prices in active markets	**117**
Level 2 – Modelled with significant observable market inputs	**1,968**
Level 3 – Modelled with significant unobservable market inputs	**14**
Total	**2,099**

50 – Other liabilities

This note analyses our other liabilities at the end of the year.

	2009 £m	Restated 2008 £m	Restated 2007 £m
Deferred income	**423**	532	339
Reinsurers' share of deferred acquisition costs	**127**	202	233
Accruals	**1,623**	1,643	1,274
Other liabilities	**1,493**	2,484	2,010
	3,666	4,867	3,856
Less: Amounts classified as held for sale	**(13)**	(478)	(220)
	3,653	4,386	3,636
Expected to be settled within one year	**3,214**	3,006	2,785
Expected to be settled in more than one year	**439**	1,380	851
	3,653	4,386	3,636

51 – Contingent liabilities and other risk factors

This note sets out the main areas of uncertainty over the calculation of our liabilities.

(a) Uncertainty over claims provisions

Note 38 gives details of the estimation techniques used by the Group to determine the general business outstanding claims provisions and of the methodology and assumptions used in determining the long-term business provisions. These approaches are designed to allow for the appropriate cost of future policy-related liabilities, with a degree of prudence, to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed, or future general business claims inflation differs from that expected, there is uncertainty in respect of these liabilities.

(b) Asbestos, pollution and social environmental hazards

In the course of conducting insurance business, various companies within the Group receive general insurance liability claims, and become involved in actual or threatened related litigation arising there from, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in various jurisdictions, including Europe, Canada and Australia. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, on the basis of current information having regard to the level of provisions made for general insurance claims, and the strengthening of latent claims that took place during 2008, the directors consider that any additional costs arising are not likely to have a material impact on the financial position of the Group.

(c) Guarantees on long-term savings products

As a normal part of their operating activities, various Group companies have given guarantees and options, including interest rate guarantees, in respect of certain long-term insurance and fund management products. Note 40 gives details of these guarantees and options. In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, property values and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options (GAOs), are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made. The directors continue to believe that the existing provisions for such guarantees and options are sufficient.

(d) Pensions mis-selling

The pensions review of past sales of personal pension policies which involved transfers, opt outs and non-joiners from occupational schemes, as required by the Financial Services Authority (FSA), has largely been completed.

A provision of some £16 million at 31 December 2009 *(2008: £18 million, 2007: £23 million)* remains to meet the outstanding costs of the very few remaining cases, the anticipated cost of any guarantees provided, and potential levies payable to the Financial Services Compensation Scheme. It continues to be the directors' view that there will be no material effect either on the Group's ability to meet the expectations of policyholders or on shareholders.

(e) Endowment reviews

In December 1999, the FSA announced the findings of its review of mortgage endowments and expressed concern as to whether, given decreases in expected future investment returns, such policies could be expected to cover full repayment of mortgages. A key conclusion was that, on average, holders of mortgage endowments had enjoyed returns such that they had fared at least as well as they would have done without an endowment. Nevertheless, following the FSA review, all of the Group's UK mortgage endowment policyholders received policy-specific letters advising them whether their investment was on track to cover their mortgage.

In May 2002, in accordance with FSA requirements, the Group commenced sending out the second phase of endowment policy update letters, which provide policyholders with information about the performance of their policies and advice as to whether these show a projected shortfall at maturity. The Group will send these updates annually to all mortgage endowment holders, in accordance with FSA requirements. The Group has made provisions totalling £25 million at 31 December 2009 *(2008: £38 million, 2007: £96 million)* to meet potential mis-selling costs and the associated expenses of investigating complaints. It continues to be the directors' view that there will be no material effect either on the Group's liability to meet the expectations of policyholders or on shareholders.

In August 2004, the Group confirmed its intention to introduce time barring on mortgage endowment complaints, under FSA rules. The Group now includes details of its endowment policyholders' time bar position within the annual re-projection mailings. Customers will be given at least 12 months' individual notice before a time bar becomes applicable – double the six months' notice required by the FSA.

51 – Contingent liabilities and other risk factors continued

(f) Regulatory compliance

The Group's insurance and investment business is subject to local regulation in each of the countries in which it operates. The FSA regulates the Group's UK business and in addition monitors the financial resources and organisation of the Group as a whole. The FSA has broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation, to investigate marketing and sales practices and to require the maintenance of adequate financial resources. The Group's regulators outside the UK typically have similar powers but in some cases they operate a system of "prior product approval" and hence place less emphasis than the FSA on regulating sales and marketing practices.

The directors believe each of the Group's regulated businesses dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding (whether in the UK or overseas) could have a negative impact on the Group's reported results or on its relations with current and potential customers. Regulatory action against a member of the Group could result in adverse publicity for, or negative perceptions regarding, the Group, or could have a material adverse effect on the business of the Group, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

(g) Aviva USA litigation

In November 2006, the Group completed the acquisition of the AmerUs Group, a US-based insurer. In common with other companies operating in the sector, AmerUs is subject to litigation, including class-action litigation, arising out of its sale of equity-based index-linked annuity products. The Group is aware of a multi-district class action filed against AmerUs in Pennsylvania but is not aware of any adverse development. The directors continue to monitor the situation and consider that the litigation will not have a material effect on the Group's ability to meet shareholder expectations.

(h) Payment protection insurance (PPI) mis-selling

In September 2009, the FSA launched an investigation into sales practices for payment protection insurance. As at 3 March 2010, no ruling has been issued by the FSA and, as a result, it is not possible to determine whether, and if so to what extent, any liability exists. The directors continue to monitor the situation.

(i) Structured settlements

In Canada annuities have been purchased from licensed Canadian life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, the Group is exposed to credit risk to the extent that any of the life insurers fail to fulfil their obligations. The Group's maximum exposure to credit risk for these arrangements is approximately £984 million as at 31 December 2009 *(2008: £1,029 million, 2007: £742 million)* based on estimated replacement cost for the underlying annuities. The credit risk is managed by acquiring annuities from a diverse portfolio of life insurers with proven financial stability. The risk is reduced to the extent of coverage provided by Assuris, the Canadian life insurance industry compensation plan. As at 31 December 2009, no information has come to the Group's attention that would suggest any weakness or failure in the Canadian life insurers from which it has purchased annuities.

(j) Other

In the course of conducting insurance and investment business, various Group companies receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

The Company and several of its subsidiaries have guaranteed the overdrafts and borrowings of certain other Group companies. At 31 December 2009, the total exposure of the Group and Company is £nil *(2008: £nil, 2007: £7 million)* and £77 million *(2008: £88 million, 2007: £113 million)* respectively and, in the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities.

In addition, in line with standard business practice, various Group companies have been given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries and associates to parties outside the Aviva Group. In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties.

The Group's insurance subsidiaries pay contributions to levy schemes in several countries in which we operate. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

52 – Commitments

This note gives details of our commitments to capital expenditure and under operating leases.

(a) Capital commitments

Contractual commitments for acquisitions or capital expenditures of investment property, property and equipment and intangible assets, which have not been recognised in the financial statements, are as follows:

	2009 £m	2008 £m	2007 £m
Investment property	**66**	7	55
Property and equipment	**255**	108	160
Intangible assets	**4**	23	—
	325	138	215

Contractual obligations for future repairs and maintenance on investment properties are £1 million *(2008: £1 million, 2007: £nil)*.

The Group has capital commitments to its joint ventures of £nil *(2008: £nil, 2007: £nil)* and to other investment vehicles of £33 million *(2008: £48 million, 2007: £157 million)*.

(b) Operating lease commitments

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

	2009 £m	2008 £m	2007 £m
Within 1 year	**551**	590	644
Later than 1 year and not later than 5 years	**1,505**	1,761	1,879
Later than 5 years	**2,456**	2,880	3,265
	4,512	5,231	5,788

(ii) Future contractual aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2009 £m	2008 £m	2007 £m
Within 1 year	**145**	207	161
Later than 1 year and not later than 5 years	**463**	626	555
Later than 5 years	**834**	971	1,107
	1,442	1,804	1,823
The total of future minimum sub-lease payments expected to be received under non-cancellable sub-leases.	**83**	89	159

53 – Statement of cash flows

This note gives further detail behind the figures in the statement of cash flow.

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

	2009 £m	Restated 2008 £m
Profit/(loss) before tax	**2,022**	(2,368)
Adjustments for:		
Share of losses/(profits) of joint ventures and associates	**504**	1,128
Dividends received from joint ventures and associates	**22**	87
(Profit)/loss on sale of:		
Investment property	**(339)**	(14)
Property and equipment	**(9)**	—
Subsidiaries, joint ventures and associates	**(153)**	(7)
Investments	**1,534**	9
	1,033	(12)
Fair value (gains)/losses on:		
Investment property	**1,084**	3,137
Investments	**(15,352)**	25,510
Borrowings	**196**	(404)
	(14,072)	28,243
Depreciation of property and equipment	**115**	131
Equity compensation plans, equity settled expense	**56**	39
Impairment and expensing of:		
Goodwill on subsidiaries	**30**	68
Financial investments, loans and other assets	**592**	1,040
Acquired value of in-force business and intangibles	**25**	67
Non-financial assets	**(1)**	—
	646	1,175
Amortisation of:		
Premium or discount on debt securities	**303**	(12)
Premium or discount on loans	**(19)**	(20)
Premium or discount on borrowings	**3**	2
Premium or discount on participating investment contracts	**15**	13
Financial instruments	**(77)**	(245)
Acquired value of in-force business and intangibles	**376**	433
	601	171
Change in unallocated divisible surplus	**1,547**	(4,482)
Interest expense on borrowings	**1,327**	1,547
Net finance income on pension schemes	**125**	(121)
Foreign currency exchange losses/(gains)	**(155)**	327
Changes in working capital		
Decrease in reinsurance assets	**(124)**	1,543
(Increase)/decrease in deferred acquisition costs	**(567)**	(328)
Increase/(decrease) in insurance liabilities and investment contracts	**15,134**	(15,320)
Increase/(decrease) in other assets and liabilities	**2,359**	(381)
	16,802	(14,486)
Net purchases of operating assets		
Purchases of investment property	**(441)**	(1,846)
Proceeds on sale of investment property	**1,267**	1,164
Net purchases of financial investments	**(8,113)**	(1,960)
	(7,287)	(2,642)
Cash generated from operations	**3,286**	8,737

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

(b) Cash flows in respect of the acquisition of subsidiaries, joint ventures and associates:

	2009 £m	2008 £m
Cash consideration for subsidiaries, joint ventures and associates acquired	**601**	437
Less: Cash and cash equivalents acquired with subsidiaries	**(5)**	(101)
Cash flows on acquisitions	**596**	336

53 – Statement of cash flows continued

(c) Cash flows in respect of the disposal of subsidiaries, joint ventures and associates:

	2009 £m	2008 £m
Cash proceeds from disposal of subsidiaries, joint ventures and associates	**1,738**	396
Net cash and cash equivalents divested with subsidiaries	**(607)**	(43)
Cash flows on disposals	**1,131**	353

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

	2009 £m	Restated 2008 £m	Restated 2007 £m
Cash at bank and in hand	**10,681**	11,928	3,718
Cash equivalents	**14,495**	12,208	12,037
	25,176	24,136	15,755
Bank overdrafts	**(925)**	(605)	(621)
	24,251	23,531	15,134

Of the total cash and cash equivalents shown above, £nil has been classified as held for sale *(2008: £493 million, 2007: £96 million)* (see note 3d).

54 – Group capital structure

Accounting basis and capital employed by segment

The table below shows how our capital, on an MCEV basis, is deployed by segment and how that capital is funded.

	2009 £m	Restated 2008 £m
Long-term savings	**20,693**	19,440
General insurance and health	**4,562**	5,516
Fund management	**269**	340
Other business	**(246)**	(199)
Corporate[1]	**(34)**	(30)
Total capital employed	**25,244**	25,067
Financed by		
Equity shareholders' funds	**13,035**	13,162
Minority interests	**4,237**	3,080
Direct capital instrument	**990**	990
Preference shares	**200**	200
Subordinated debt	**4,637**	4,606
External debt	**852**	919
Net internal debt[2]	**1,293**	2,110
Total capital employed	**25,244**	25,067

1. The "corporate" net liabilities represent the element of the pension scheme deficit held centrally.
2. In addition to our external funding sources, we have certain internal borrowing arrangements in place which allow some of the assets that support technical liabilities to be invested in a pool of central assets for use across the group. These internal debt balances allow for the capital allocated to business operations to exceed the externally sourced capital resources of the group. Net internal debt represents the balance of the amounts due from corporate and holding entities, less the tangible net assets held by these entities. Although intra-group in nature, they are included as part of the capital base for the purpose of capital management. These arrangements arise in relation to the following:
— Certain subsidiaries, subject to continuing to satisfy stand alone capital and liquidity requirements, loan funds to corporate and holding entities. These loans satisfy arms length criteria and all interest payments are made when due.
— Aviva International Insurance (AII) Ltd acts as both a UK general insurer and as the primary holding company for our foreign subsidiaries. Internal capital management mechanisms in place allocate a portion of the total capital of the company to the UK general insurance operations. These mechanisms also allow for some of the assets backing technical liabilities to be made available for use across the group. Balances in respect of these arrangements are also treated as internal debt for capital management purposes.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings (including internal borrowings as described in footnote 2 above).

At 31 December 2009 we had £25.2 billion *(2008: £25.1 billion)* of total capital employed in our trading operations, measured on an MCEV basis. Over the period the benefit of operating profits and investment gains have been offset by foreign exchange losses and actuarial losses on staff pension schemes.

In April 2009 we issued a private placement of £245 million equivalent of Lower Tier 2 hybrid in a dual tranche transaction (£200 million on 1 April 2009 and a further €50 million on 30 April 2009). These transactions had a positive impact on group IGD solvency and economic capital measures.

Financial leverage, the ratio of external senior and subordinated debt to MCEV capital and reserves, was 31.8% *(2008: 34.0%)*. If centre assets were offset against this debt the financial leverage would be 19.0% *(2008: 25.4%)*. Fixed charge cover, which measures the extent to which external interest costs, including subordinated debt interest and preference dividends, are covered by MCEV operating profit was 8.5 times *(2008: 9.2 times)*.

55 – Capital statement

This statement sets out the financial strength of our Group entities and provides an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital statement also provides a reconciliation of shareholders' funds to regulatory capital.

The analysis below sets out the Group's available capital resources.

Available capital resources

	Old with-profit sub-fund £m	New with-profit sub-fund £m	Existing UKLAP with-profit Sub-fund[3] £m	Total UK life with-profit funds £m	Other UK life operations £m	Total UK life operations £m	Overseas life operations £m	Total life operations £m	Other operations[4] £m	2009 Total £m	Restated 2008 Total £m	2007 Total £m
Total shareholders' funds	**2**	**(185)**	**28**	**(155)**	**4,648**	**4,493**	**12,577**	**17,070**	**(1,984)**	**15,086**	14,573	15,931
Other sources of capital[1]	**—**	**—**	**—**	**—**	**200**	**200**	**359**	**559**	**4,529**	**5,088**	4,915	3,230
Unallocated divisible surplus	**182**	**65**	**1,639**	**1,886**	**5**	**1,891**	**1,975**	**3,866**	**—**	**3,866**	2,325	6,785
Adjustments onto a regulatory basis:												
Shareholders' share of accrued bonus	**(37)**	**(215)**	**(324)**	**(576)**	**—**	**(576)**	**—**	**(576)**	**—**	**(576)**	(756)	(1,192)
Goodwill and other intangibles[5]	**—**	**—**	**—**	**—**	**(319)**	**(319)**	**(4,060)**	**(4,379)**	**(2,449)**	**(6,828)**	(8,293)	(6,814)
Regulatory valuation and admissibility restrictions[2]	**52**	**1,463**	**247**	**1,762**	**(1,673)**	**89**	**(1,884)**	**(1,795)**	**2,271**	**476**	917	(1,135)
Total available capital resources	**199**	**1,128**	**1,590**	**2,917**	**2,861**	**5,778**	**8,967**	**14,745**	**2,367**	**17,112**	13,681	16,805
Analysis of liabilities:												
Participating insurance liabilities	**2,159**	**17,584**	**13,180**	**32,923**	**—**	**32,923**	**31,779**	**64,702**	**—**	**64,702**	66,863	66,093
Unit-linked liabilities	**—**	**—**	**—**	**—**	**5,370**	**5,370**	**17,788**	**23,158**	**—**	**23,158**	22,060	20,601
Other non-participating life insurance	**334**	**2,420**	**386**	**3,140**	**19,624**	**22,764**	**43,004**	**65,768**	**—**	**65,768**	66,770	48,320
Total insurance liabilities	**2,493**	**20,004**	**13,566**	**36,063**	**24,994**	**61,057**	**92,571**	**153,628**	**—**	**153,628**		
Participating investment liabilities	**613**	**3,377**	**5,942**	**9,932**	**2,556**	**12,488**	**54,071**	**66,559**	**—**	**66,559**	65,278	53,609
Non-participating investment liabilities	**9**	**66**	**—**	**75**	**25,769**	**25,844**	**17,612**	**43,456**	**—**	**43,456**	42,281	44,635
Total investment liabilities	**622**	**3,443**	**5,942**	**10,007**	**28,325**	**38,332**	**71,683**	**110,015**	**—**	**110,015**	107,559	98,244
Total liabilities	**3,115**	**23,447**	**19,508**	**46,070**	**53,319**	**99,389**			**—**	**263,643**		

1. Other sources of capital include Subordinated debt of £4,637 million issued by Aviva and £451 million of other qualifying capital issued by Dutch, Italian, Spanish and US subsidiary undertakings.
2. Including an adjustment for minorities (except for other sources of capital that are reflected net of minority interest).
3. Includes the Provident Mutual with-profit fund.
4. Other operations include general insurance and fund management business.
5. Goodwill and other intangibles includes goodwill of £587 million in JVs and associates.

55 – Capital statement continued

Analysis of movements in capital of long-term businesses

For the year ended 31 December 2009

	CGNU with-profit fund £m	CULAC with-profit fund £m	Old with-profit sub-fund £m	New with-profit sub-fund £m	Existing UKLAP with-profit fund £m	Total UK life with-profit funds £m	Other UK life operations £m	Total UK life operations £m	Overseas life operations £m	Total life operations £m
Available capital resources at 1 January restated	714	727	—	—	1,247	2,688	2,823	5,511	7,181	12,692
Effect of new business	(20)	(36)	—	—	(22)	(78)	(87)	(165)	(477)	(642)
Expected change in available capital resources	93	94	(4)	4	139	326	35	361	(8)	353
Variance between actual and expected experience	(289)	(93)	23	143	158	(58)	7	(51)	3,218	3,167
Effect of operating assumption changes	60	(5)	(1)	—	6	60	—	60	40	100
Effect of economic assumption changes	(59)	12	(15)	(110)	49	(123)	—	(123)	45	(78)
Effect of changes in management policy	12	17	(2)	(17)	(2)	8	—	8	291	299
Effect of changes in regulatory requirements	—	—	—	—	—	—	—	—	191	191
Transfers, acquisitions and disposals	(543)	(753)	150	1,128	—	(18)	—	(18)	(66)	(84)
Foreign exchange movements	—	—	—	—	—	—	—	—	(587)	(587)
Other movements	32	37	48	(20)	15	112	83	195	(861)	(666)
Available capital resources at 31 December	—	—	199	1,128	1,590	2,917	2,861	5,778	8,967	14,745

Further analysis of the movement in the liabilities of the long-term business can be found in notes 38 and 39.

The analysis of movements in capital provides an explanation of the movement in available capital of the Group's life business for the year. This analysis is intended to give an understanding of the underlying causes of changes in the available capital of the Group's life business, and provides a distinction between some of the key factors affecting the available capital.

As detailed in note 44(b), on 1 October 2009 the with-profit funds of CGNU Life Assurance Limited (CGNU) and Commercial Union Life Assurance Company Limited (CULAC) were reorganised. This reorganisation was achieved through a reattribution to shareholders of the inherited estates of these funds. As part of the reorganisation the two funds were merged and transferred to Aviva Life & Pensions UK Limited (UKLAP).

Within UKLAP two new with-profit sub-funds have been created. Policies of non-electing policyholders have been transferred to Old With-Profit Sub-Fund (OWPSF). The inherited estate has not been reattributed and remains in OWPSF.

Where policyholders elected to accept the reattribution their policies have been transferred to New With-Profit Sub-Fund (NWPSF). The inherited estate, totalling £1,105 million at 1 October 2009, has been reattributed to a separate long-term fund called the Non-Profit Sub-Fund 1(NPSF1), in which 100% of the surplus is attributable to shareholders.

The negative shareholders' funds balance within the UK with-profit funds arises in NWPSF as a result of regulatory valuation and admissibility differences in the reattributed estate which is valued on a realistic regulatory basis compared to the disclosure on an IFRS basis.

NWPSF is fully supported by the reattributed estate of £1,177 million, known as the Reattribution Inherited Estate External Support Accounts (RIEESA), at 31 December 2009, held within NPSF1 (a non-profit fund within UKLAP included within other UK life operations), in the form of a capital support arrangement. This support arrangement will provide capital to NWPSF to ensure that the value of assets of NWPSF are at least equal to the value of liabilities calculated on a realistic regulatory basis therefore it forms part of the NWPSF available capital resources.

For UKLAP/RIEESA, equity market performance has had little impact, as the funds mitigate materially all of the equity risk of the estate/RIEESA through internal hedging.

Commercial property returns have been negative, and this has had adverse impact, less so in UKLAP WP as the risk had been partially hedged. However, credit risk is largely unhedged, and the reduction in spreads on corporate bonds through 2009 contributed to increases in the estate/RIEESA. Stabilisation in financial markets saw implied volatility reduce significantly through 2009, from near 35% at start of year to 25% at year end. This has significantly reduced the market consistent cost of guarantees and hence increased estate/RIEESA.

For the Overseas life operations, the positive variance between actual and expected experience is driven mainly by market movements which has led to capital appreciation of fixed interest assets and consequential increase of the unallocated divisible surplus in France and other European businesses.

In aggregate, the Group has at its disposal total available capital of £17.1 billion *(2008 restated: £13.7 billion)*, representing the aggregation of the solvency capital of all of our businesses.

This capital is available to meet risks and regulatory requirements set by reference to local guidance and EU directives.

After effecting the year end transfers to shareholders, the UK with-profit funds' have available capital of £2.9 billion *(2008: £2.7 billion)* (including amounts held in RIEESA). Subject to certain conditions, the RIEESA capital can be used to write new non-profit business, but the primary purpose of this capital is to provide support for the UK with-profit business. The capital is comfortably in excess of the required capital margin, and therefore the shareholders are not required to provide further support.

For the remaining life and general insurance operations, the total available capital amounting to £14.2 billion (2008 restated: £11.0 billion) is significantly higher than the minimum requirements established by regulators and, in principle, the excess is available to shareholders. In practice, management will hold higher levels of capital within each business operation to provide appropriate cover for risk.

55 – Capital statement continued

As the total available capital of £17.1 billion is arrived at on the basis of local regulatory guidance, which evaluates assets and liabilities prudently, it understates the economic capital of the business which is considerably higher. This is a limitation of the Group Capital Statement which, to be more meaningful, needs to evaluate available capital on an economic basis and compare it with the risk capital required for each individual operation, after allowing for the considerable diversification benefits that exist in our Group.

Within the Aviva Group there exist intra-group arrangements to provide capital to particular business units. Included in these arrangements is a subordinated loan of £200 million from Aviva Life Holdings UK Limited to the Aviva Annuity Limited to provide capital to support the writing of new business.

The available capital of the Group's with-profit funds is determined in accordance with the "Realistic balance sheet" regime prescribed by the FSA's regulations, under which liabilities to policyholders include both declared bonuses and the constructive obligation for future bonuses not yet declared. The available capital resources include an estimate of the value of their respective estates, included as part of the unallocated divisible surplus. The estate represents the surplus in the fund that is in excess of any constructive obligation to policyholders. It represents capital resources of the individual with-profit fund to which it relates and is available to meet regulatory and other solvency requirements of the fund and, in certain circumstances, additional liabilities may arise.

The liabilities included in the balance sheet for the with-profit funds do not include the amount representing the shareholders' portion of future bonuses. However, the shareholders' portion is treated as a deduction from capital that is available to meet regulatory requirements and is therefore shown as a separate adjustment in the capital statement.

In accordance with the FSA's regulatory rules under its realistic capital regime, the Group is required to hold sufficient capital in its UK life with-profit funds to meet the FSA capital requirements, based on the risk capital margin (RCM). The determination of the RCM depends on various actuarial and other assumptions about potential changes in market prices, and the actions management would take in the event of particular adverse changes in market conditions.

	31 December 2009						31 December 2008	31 December 2007
	Estimated realistic assets £bn	Realistic liabilities*[1] £bn	Estimated realistic inherited estate[2] £bn	Estimated risk capital margin[3] £bn	Capital support arrangement[5] £bn	Estimated excess available capital £bn	Excess £bn	Excess £bn
NWPSF	**21.2**	**(21.2)**	**—**	**(0.5)**	**1.1**	**0.6**	0.3	1.1
OWPSF	**3.0**	**(2.8)**	**0.2**	**(0.1)**	**—**	**0.1**	0.3	0.8
Existing UKLAP WP[4]	**20.3**	**(18.7)**	**1.6**	**(0.2)**	**—**	**1.4**	0.5	1.3
Aggregate	**44.5**	**(42.7)**	**1.8**	**(0.8)**	**1.1**	**2.1**	1.1	3.2

* These realistic liabilities include the shareholders' share of future bonuses of £0.6 billion *(2008: £0.8 billion, 2007: £1.2 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £42.1 billion (2008: £43.2 billion, 2007: £48.8 billion).
1. These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £0.3 billion, £2.2 billion and £3.1 billion for OWPSF, NWPSF and UKLAP respectively *(2008: £1.4 billion, £1.5 billion and £4.1 billion, 2007: £0.7 billion, £0.8 billion and £0.3 billion respectively)*.
2. Estimated realistic inherited estate at 31 December 2008 was £0.7 billion, £0.7 billion and £1.2 billion for CGNU Life, CULAC and NUL&P respectively *(2007: £1.4 billion, £1.2 billion, £1.9 billion respectively)*.
3. The risk capital margin (RCM) is 3.6 times covered by the inherited estate and capital support arrangement *(2008: 1.8 times, 2007: 3.5 times)*.
4. The UKLAP fund includes the Provident Mutual (PM) fund, which has realistic assets and liabilities of £1.7 billion and therefore does not impact the realistic inherited estate.
5. This represents the reattributed estate of £1.1 billion at 31 December 2009 held within the non-profit fund with UKLAP included within other UK life operations.

Under the FSA regulatory regime, UK life with-profit business is required to hold capital equivalent to the greater of the regulatory requirement based on EU Directives ('regulatory peak') and the FSA realistic bases ('realistic peak') described above.

For UK non-participating business, the relevant capital requirement is the minimum solvency requirement determined in accordance with FSA regulations. The available capital reflects the excess of regulatory basis assets over liabilities before deduction of capital resources requirement.

For UK general insurance businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the FSA requirements.

For overseas businesses in the EEA, US, Canada, Hong Kong and Singapore, the available capital and the minimum requirement are calculated under the locally applicable regulatory regimes. The businesses outside these territories are subject to the FSA rules for the purposes of calculation of available capital and capital resource requirement.

For fund management and other businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the local regulator's requirements for the specific class of business.

All businesses hold sufficient available capital to meet their capital resource requirement.

55 – Capital statement continued

The available capital resources in each regulated entity are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the Group. The principal restrictions are:

- **(i) UK with-profit funds – (NWPSF,OWPSF and existing UKLAP WP funds)** – any available surplus held in each fund can be used to meet the requirements of the fund itself, be distributed to policyholders and shareholders or in the case of NWPSF and OWPSF, transferred via the capital support arrangement explained above (for OWPSF only to the extent support has been provided in the past). In most cases, with-profit policyholders are entitled to at least 90% of the distributed profits while the shareholders receive the balance. The latter distribution would be subject to a tax charge, which is met by the fund.
- **(ii) UK non-participating funds** – any available surplus held in these is attributable to shareholders. Capital in the non-profit funds may be made available to meet requirements elsewhere in the Group subject to meeting the regulatory requirements of the fund. Any transfer of the surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- **(iii) Overseas life operations** – the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. Any transfer of available capital may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- **(iv) General insurance operations** – the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. Any transfer of available capital may give rise to a tax charge, subject to availability of tax relief elsewhere in the Group.

56 – Risk management

This note sets out the major risks our businesses face and describes our approach to managing these. It also gives sensitivity analyses around the major economic and non-economic assumptions that can cause volatility in our earnings and capital requirements.

(a) Risk management framework

Aviva has established a risk management framework to protect the Group from events that hinder the sustainable achievement of its performance objectives, including failing to exploit opportunities.

The risks faced by the Group can be categorised as follows:

- Financial risks cover market and credit risk, insurance risk, liquidity and capital management.
- Strategic risks include issues such as customer, brand, products and markets as well as any risks to our business model arising from changes in our market and risks arising from mergers and acquisitions.
- Operational risk arises from inadequate or failed internal processes, or from people and systems or from external events.
- Operational risks include business protection, information technology, people, legal and regulatory compliance.

The risk management framework provides the means to identify, assess, mitigate, manage, monitor and report all of the different types of risk faced by the Group to provide a single picture of the threats and uncertainties faced and opportunities that exist.

Responsibility for risk management resides at all levels within the Group with appropriate risk related objectives embedded within performance measurement plans. As part of our risk management framework we employ a three lines of defence model that encourages close working relationships between line management and the risk function whilst facilitating independent assurance by internal audit. Primary responsibility for risk identification and management lies with business management (the first line of defence). Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions (the second line of defence). Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided by group audit (the third line of defence).

The Group sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk the Group is willing to accept). The Group assesses the size and scale of a risk by considering how likely it is that the risk will occur and the potential impact the risk could have on our business and our stakeholders. Where risks are outside appetite actions are agreed to mitigate the exposure.

The Group's risk management framework is designed to manage, rather than eliminate, the risk to business objectives and mitigates the risk of material financial misstatement or loss. New and emerging risks, or risks we currently deem as immaterial may also pose a risk to business objectives.

The Group recognises the critical importance of maintaining an efficient and effective risk management framework. To this end, the Group has an established governance framework, which has the following 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 Board committees, executive management committees and senior management.
- A risk management function operating across Group centre, regions and business units, with clear responsibilities and objectives;
- A Group policy framework that defines risk appetite and sets out risk management and control standards for the Group's worldwide operations. The policies also set out the roles and responsibilities of businesses, regions, policy owners and the risk oversight committees; and
- Risk oversight committees that review and monitor aggregate risk data, assess whether the risk profile is within appetite and take overall risk management decisions. The committees monitor adherence to the risk management policies and oversee mitigating actions being taken where risks are outside of appetite.

56 – Risk management continued

The Group has developed economic capital models that support the measurement, comparison and monitoring of our risks. The results of the modelling are incorporated into key decision making processes. These models show the relative impact to economic capital from the risks we face. In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite.

The financial impact from changes in market risk (such as interest rates, equity prices and property values) is examined through stress tests adopted in the Individual Capital Assessments (ICA) and scenario analysis which consider the impact on capital from variations in financial circumstances on either a remote scenario, or to changes from the central operating scenario. Both assessments consider the management actions that may be taken in mitigation of the change in circumstances.

Stress and scenario testing help give an indication of the size of losses that could be experienced in extreme but plausible events and complements other risk measurement techniques. It helps identify concentration risk across businesses and portfolios and is a useful tool for management to use in their capital planning process. A number of stress tests and economic scenarios have been developed to capture the adverse impact on the businesses of extreme events. The stress tests are designed to cover major asset classes and insurance risks. The stress tests are produced at least monthly and are reviewed and discussed by senior management.

The sensitivity of Group earnings to changes in economic markets is regularly monitored through sensitivities to investment rate and investment return and asset values in IFRS and MCEV reporting.

The Financial Services Authority (FSA) requires Aviva to assess its economic capital requirements to ensure that it adequately reflects business and control risks. In turn this analysis supports our strategic planning and decision-making processes.

(b) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices, and foreign currency exchange rates. Market risk arises in business units due to fluctuations in both the value of liabilities and the value of investments held. At Group level, it also arises in relation to the overall portfolio of international businesses and in the value of investment assets owned directly by the shareholders.

The Group has established a policy on market risk which sets out the principles that businesses are expected to adopt in respect of management of the key market risks to which the Group is exposed. The Group monitors adherence to this market risk policy and regularly reviews how business units are managing these risks locally, through the Group Assets Committee and ultimately the Group Asset Liability Committee. For each of the major components of market risk, described in more detail below, the Group has put in place additional processes and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

The management of market risk is undertaken in businesses, regions and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Businesses may also be constrained by the requirement to meet policyholders' reasonable expectations and to minimise or avoid market risk in a number of areas. The Group Assets Committee is responsible for managing market risk at Group level, and a number of investment-related risks, in particular those faced by shareholder funds throughout the Group.

The Group market risk policy sets out the minimum principles and framework for matching liabilities with appropriate assets, the approaches to be taken when liabilities cannot be matched and the monitoring processes that are required. The Group has criteria for matching assets and liabilities for all classes of business to minimise the impact of mismatches between the value of assets and the liabilities due to market movements. The local regulatory environment for each business will also set the conditions under which assets and liabilities are to be matched.

In addition, where the Group's long-term savings businesses have written insurance and investment products where the majority of investment risks are borne by its policyholders, these risks are managed in line with local regulations and marketing literature, in order to satisfy the policyholders' risk and reward objectives.

The Group writes unit-linked business in a number of its operations. In unit-linked business, the policyholder bears the investment risk on the assets held in the unit-linked funds, as the policy benefits are directly linked to the value of the assets in the fund. The shareholders' exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

Equity price risk

The Group is subject to equity price risk due to daily changes in the market values of its equity securities portfolio. The Group's shareholders are exposed to the following sources of equity risk:
— Direct equity shareholdings in shareholder funds and the Group defined benefit pension funds.
— The indirect impact from changes in the value of equities held in policyholders' funds from which management charges or a share of performance are taken; and
— Its interest in the free estate of long-term with profits funds.

56 – Risk management continued

At a business unit level, equity price risk is actively managed in order to mitigate anticipated unfavourable market movements where this lies outside the risk appetite of either the company in respect of shareholder assets or the fund in respect of policyholder assets concerned. In addition local asset admissibility regulations require that business units hold diversified portfolios of assets thereby reducing exposure to individual equities. The Group does not have material holdings of unquoted equity securities.

Equity risk is also managed using a variety of derivative instruments, including futures and options. Businesses actively model the performance of equities through the use of stochastic models, in particular to understand the impact of equity performance on guarantees, options and bonus rates.

The Group Assets Committee actively monitors equity assets owned directly by the Group, which may include some material shareholdings in the Group's strategic business partners.

Sensitivity to changes in equity prices is given in section (i) below.

Property price risk

The Group is subject to property price risk due to holdings of investment properties in a variety of locations worldwide. Investment in property is managed at regional and business level, and will be subject to local regulations on asset admissibility, liquidity requirements and the expectations of policyholders as well as overall risk appetite. The Group Assets Committee also monitors property assets owned directly by the Group.

As at 31 December 2009, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

Sensitivity to changes in property prices is given in section (i) below.

Interest rate risk

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities, which are exposed to fluctuations in interest rates.

The Group manages this risk by adopting close asset liability matching criteria, to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements.

A number of policyholder participation features have an influence on the Group's interest rate risk. The major features include guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values. Details of material guarantees and options are given in note 40.

In short-term business such as general insurance business, the Group requires a close matching of assets and liabilities to minimise this risk.

Interest rate risk is monitored and managed by the Group Assets Committee, and the Group Asset Liability Committee. Exposure to interest rate risk is monitored through several measures that include Value-at-Risk analysis, position limits, scenario testing, stress testing and asset and liability matching using measures such as duration. The impact of exposure to sustained low interest rates is regularly monitored.

Interest rate risk is also managed using a variety of derivative instruments, including futures, options, swaps, caps and floors, in order to provide a degree of hedging against unfavourable market movements in interest rates inherent in the assets backing technical liabilities.

As at 31 December 2009, the Group had entered into a number of initiatives, including interest rate swap agreements and changes in asset mix, to mitigate the effects of potential adverse interest rate movements, and to enable closer matching of assets and liabilities.

Sensitivity to changes in interest rates is given in section (i) below.

Further information on borrowings is included in note 48.

Currency risk

The Group has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing either unit-linked or with-profit contract liabilities. For this reason, no sensitivity analysis is given for these holdings.

The Group operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Approximately half of the Group's premium income arises in currencies other than sterling and the Group's net assets are denominated in a variety of currencies, of which the largest are euro, sterling, and US dollars. The Group does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements.

The Group's foreign exchange policy requires that each of our subsidiaries maintains sufficient assets in its local currency to meet local currency liabilities. Therefore, capital held by the Group's business units should be able to support local business activities regardless of foreign currency movements. However, such movements may impact the value of the Group's consolidated shareholders' equity which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against pre-determined limits. The Group's foreign exchange policy is to manage these exposures by aligning the deployment of regulatory capital by currency with the Group's regulatory capital requirements by currency. Limits are set to control the extent to which the deployment of capital is not aligned fully with the Group's regulatory capital requirement for each major currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

56 – Risk management continued

At 31 December 2009, the Group's total equity deployment by currency was:

	Sterling £m	Euro £m	US$ £m	Other £m	Total £m
Capital 31 December 2009	**1,737**	**8,781**	**2,605**	**1,963**	**15,086**
Capital 31 December 2008 restated	2,041	8,108	2,130	2,294	14,573
Capital 31 December 2007 restated	3,809	8,763	1,456	1,999	16,027

A 10% change in sterling to euro/US$ foreign exchange rates would have had the following impact on total equity.

	10% increase in sterling/ euro rate £m	10% decrease in sterling/ euro rate £m	10% increase in sterling/ US$ rate £m	10% decrease in sterling/ US$ rate £m
Net assets at 31 December 2009	**(802)**	**802**	**(228)**	**228**
Net assets at 31 December 2008 restated	(811)	811	(213)	213
Net assets at 31 December 2007 restated	(876)	876	(146)	146

The changes arise from retranslation of business unit statements of financial position from their functional currencies into sterling, with above movements being taken through the currency translation reserve. These movements in exchange rates therefore have no impact on profit. Net assets are stated after taking account of the effect of currency hedging activities.

Derivatives risk

Derivatives are used by a number of the businesses, within policy guidelines agreed by the Board of Directors, as set out in the Group policy on derivatives use. Activity is overseen by the Derivatives Approvals Committee, which monitors implementation of the policy, exposure levels and approves large or complex transactions proposed by businesses. Derivatives are primarily used for efficient investment management, risk hedging purposes or to structure specific retail savings products. Derivative transactions are covered by either cash or corresponding assets and liabilities. Speculative activity is prohibited, unless prior approval has been obtained from the Derivatives Approvals Committee. Over the counter derivative contracts are entered into only with approved counterparties and using ISDA documentation and credit support annexes (or equivalent) in accordance with the Group derivatives policy. Adherence to the collateral requirements as set out in the Group derivatives and Group credit policies thereby reduces the risk of credit loss.

The Group applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

Correlation risk

The Group recognises that identified lapse behaviour and potential increases in consumer expectations are sensitive to and interdependent with market movements and interest rates. These interdependencies are taken into consideration in the ICA in the aggregation of the financial stress tests with the operational risk assessment and in scenario analysis.

(c) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to pay on their obligations to Aviva. Our credit risks arise through exposures to debt investments, structured asset investments, derivative counterparties, mortgage lending and reinsurance placement counterparties. We hold these investments for the benefit of both our policyholders and shareholders.

The Group manages its credit risk at business unit, regional and Group levels. All business units and regions are required to implement local credit risk processes (including limits frameworks), operate specific risk management committees, and ensure detailed reporting and monitoring of their exposures against pre-established risk criteria. At Group level, we manage and monitor all exposures across our business units on a consolidated basis, and operate group limit frameworks that must be adhered to by all.

The Group risk management framework also includes the market related aspect of credit risk. This is the risk of a fall in the value of fixed interest securities from changes in the perceived worthiness of the issuer and is manifested through changes in the fixed interest securities' credit spreads.

Management of credit risk is effected by five core functions:

— The maintenance and adherence of an effective governance structure. This includes clear guidance, scope and frameworks for all aspects of the credit risk function to ensure accountability and clarity. This also includes delegated authority to the Group Credit Approvals Committee, a quorum of key senior risk officers, that is authorised to make key decisions within certain risk appetite levels.

— The accurately and timely reporting of detailed exposure information, and their aggregation by counterparty, exposure types, sectors, geography and ratings.

— The implementation of a sophisticated capital charge based credit limits framework that considers and quantifies the key specific attributes of each exposure (eg seniority, maturity etc) and provides a counterparty level aggregation methodology on a risk neutral basis. This is then managed against centrally set limits. Absolute upper bound limits are also set to ensure unexpected jump to default risks are kept within appetite. Additional limit frameworks are applied for structured assets and reinsurance counterparty exposures. The limits framework also considers more systemic risk factors such as sector and geographic concentrations, and these are continually assessed throughout our global portfolio to ensure optimal diversification levels are maintained and improved.

56 – Risk management continued

— Additional committee and credit risk function oversight is provided on all credit risk related matters. This includes regular consideration and review of our key counterparties, monitoring and addressing key credit themes and news that emerge in the markets. The Group Credit Approvals Committee provides an effective forum to ensure that all key recommendations are considered, and decisions implemented throughout the Group. The regional and Group credit divisions ensure that all qualitative aspects of risk management are considered and evaluated to provide further oversight and balance to the quantitative aspects.
— The employment of risk mitigation techniques where and when deemed appropriate. These are utilised where possible to remove residual unwanted risks, as well as bring limits within appetite, and include methods such as collateralisation, purchase of credit protection and diversification strategies.

A detailed breakdown of Aviva's current credit exposure by credit quality is shown below.

Financial exposures by credit ratings

Financial assets are graded according to current external credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as speculative grade. The following table provides information regarding the aggregated credit risk exposure, for financial assets with external credit ratings, of the Group. Not rated assets capture assets not rated by external ratings agencies.

	Credit rating						
At 31 December 2009	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Not rated**	**Carrying value in the statement of financial position £m**
Debt securities	**39.1%**	**17.8%**	**24.6%**	**12.6%**	**2.3%**	**3.6%**	**160,510**
Reinsurance assets	**10.5%**	**52.1%**	**26.7%**	**0.4%**	**0.2%**	**10.1%**	**7,572**
Other investments	**0.2%**	**3.1%**	**1.8%**	**1.1%**	**—**	**93.8%**	**34,826**
Loans	**6.2%**	**7.7%**	**0.9%**	**0.5%**	**1.0%**	**83.7%**	**41,079**

	Credit rating						
At 31 December 2008	AAA	AA	A	BBB	Speculative grade	Not rated	Carrying value in the statement of financial position £m
Debt securities	44.0%	16.2%	26.1%	8.4%	1.5%	3.8%	150,734
Reinsurance assets	12.9%	70.0%	8.1%	0.4%	0.2%	8.4%	7,894
Other investments	0.6%	2.7%	6.0%	0.8%	—	89.9%	36,116
Loans	6.1%	5.3%	5.2%	0.3%	1.0%	82.1%	42,237

	Credit rating						
At 31 December 2007	AAA	AA	A	BBB	Speculative grade	Not rated	Carrying value in the statement of financial position £m
Debt securities	45.6%	19.7%	20.4%	9.0%	1.1%	4.2%	121,312
Reinsurance assets	14.7%	67.8%	7.4%	0.4%	1.2%	8.5%	8,054
Other investments	1.7%	2.3%	2.3%	2.3%	—	91.4%	36,269
Loans	3.4%	17.6%	1.0%	0.7%	1.3%	76.0%	36,193

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure.

56 – Risk management continued

Other investments

Other investments include:

— £29, 944 million of unit trusts and other investment vehicles. The underlying credit ratings of these assets are not reflected in this analysis.
— Derivative financial instruments of £2,078 million, representing positions to mitigate the impact of adverse market movements.
— Other assets of £2,804 million, which are primarily deposits with credit institutions and investments in hedge funds.

The Group loan portfolio principally comprises:

— Policy loans which are generally collateralised by a lien or charge over the underlying policy;
— Loans and advances to banks which primarily relate to loans of cash collateral received in stock lending transactions. These loans are fully collateralised by other securities; and
— Mortgage loans collateralised by property assets.

Unit trusts and other investment vehicles

The credit quality of the underlying debt securities within these vehicles is managed by the safeguards built into the investment mandates for these funds. We rely on our understanding that the trusts and their asset managers are only approved if they satisfy certain selection criteria (including due diligence in the form of a questionnaire and/or research by dedicated teams). In addition, the asset managers are mandated to make investments in line with the funds' risk profiles as marketed to prospective customers and policyholders. Accordingly, as part of reviewing the asset quality of unit trusts and other investment vehicles, we monitor the assets within the funds and their performance to ensure they remain in line with the respective investment mandates for these funds.

For certain of the unit trusts in our other investments, we apply minimum requirements affecting both the underlying counterparties and the investments issued by those counterparties such as a minimum size for the counterparty's programme, a limit on the size of the overall exposure to the underlying counterparty and, where appropriate, explicit approval of the counterparty by internal credit risk management teams is required. These criteria are indicators of the asset quality for these investments, as they represent minimum criteria for liquidity and diversification.

A proportion of the assets underlying these investments are represented by equities and so credit ratings are not generally applicable. Equity exposures are managed against agreed benchmarks that are set with reference to overall market risk appetite.

Derivatives

Derivative transactions must comply with Group guidance on the quality of counterparties used and the extent of collateralisation required. The counterparty must have a minimum credit rating from rating agencies (S&P, Moody's and Fitch) and the collateral process must meet certain minimum standards as set out by Group guidelines.

The largest shareholder notional positions are exchange traded, rather than over the counter (OTC), with the added protection that provides (ie the credit risk is mitigated significantly through regular margining and protection offered by the exchange, and is controlled by the Group's local asset management operations).

Other assets

The vast majority (over 90%) of the investments in deposits and credit institutions is with an individual financial services counterparty which benefits from both implicit and explicit backing of AAA rated governments as a function of its ownership structure.

56 – Risk management continued

Loans

The majority of the Group loans portfolio is unrated. However, we use the following metrics to internally monitor our exposure:
— Property collateralisation
— Interest service cost
— Diversity of the tenant base
— Lower risk nature of loans made to the UK healthcare sector; and
— Existence of government guarantees for some residential mortgages.

Policy loans are loans and advances made to policyholders, and are collateralised by the underlying policies. As such, we believe such collateralisation minimises our risk.

Credit concentration risk

The long-term businesses and general insurance businesses are generally not individually exposed to significant concentrations of credit risk due to the regulations, applicable in most markets, limiting investments in individual assets and asset classes supplemented by the Group credit policy and limits framework. In cases where the business is particularly exposed to credit risk (eg in respect of defaults on mortgages matching annuity liabilities) this risk is translated into a more conservative discount rate used to value the liabilities, creating a greater capital requirement, and this credit risk is actively managed. The impact of aggregation of credit risk is monitored as described above. With the exception of Government bonds the largest aggregated counterparty exposure is approximately 0.8% of the Group's total shareholder assets.

Reinsurance credit exposures

The Group is exposed to concentrations of risk with individual reinsurers, due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite. The Credit Approvals Committee has a monitoring role over this risk.

The Group's largest reinsurance counterparty is Swiss Reinsurance Company Ltd (including subsidiaries). At 31 December 2009, the reinsurance asset recoverable from Swiss Reinsurance Company Ltd was £1,433 million. This exposure is monitored on a regular basis. In the event of a catastrophic event, the counterparty exposure to a single reinsurer is estimated not to exceed 4.6% of shareholders' equity.

Securities finance

The Group has significant securities financing operations within the UK. The risks within this business are mitigated by over collateralisation which is designed to result in minimal residual risk. The Group operates strict standards around collateral management and controls.

Derivative credit exposures

The Group is exposed to counterparty credit risk through derivative trades. This risk is mitigated through collateralising almost all trades (the exception being certain FX trades where it has historically been the market norm not to collateralise). The Group operates strict standards around collateral management and controls including the requirement that all "Over the Counter" derivatives are supported by credit support annexes and ISDAs.

Unit-linked business

As discussed previously, in unit-linked business the policyholder bears the market risk, including credit risk, on investment assets in the unit funds, and the shareholders' exposure to credit risk is limited to the extent that their income arises from asset management charges based on the value of assets in the fund.

56 – Risk management continued

Impairment of financial assets

The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired.

At 31 December 2009	Neither past due nor impaired £m	Financial assets that are past due but not impaired: 0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value in the statement of financial position £m
Debt securities	**160,400**	**—**	**—**	**—**	**—**	**110**	**160,510**
Reinsurance assets	**7,572**	**—**	**—**	**—**	**—**	**—**	**7,572**
Other investments	**34,811**	**—**	**—**	**—**	**—**	**15**	**34,826**
Loans	**40,039**	**355**	**35**	**17**	**6**	**627**	**41,079**
Receivables and other financial assets	**8,814**	**647**	**61**	**32**	**71**	**7**	**9,632**

At 31 December 2008	Neither past due nor impaired £m	Financial assets that are past due but not impaired: 0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value in the statement of financial position £m
Debt securities	150,284	—	—	—	—	114	150,398
Reinsurance assets	7,867	25	—	—	—	2	7,894
Other investments	36,509	1	—	—	—	1	36,511
Loans	41,091	227	658	13	11	237	42,237
Receivables and other financial assets	8,932	539	293	33	6	13	9,816

At 31 December 2007	Neither past due nor impaired £m	Financial assets that are past due but not impaired: 0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value in the statement of financial position £m
Debt securities	121,440	—	—	—	—	71	121,511
Reinsurance assets	8,052	—	—	—	—	2	8,054
Other investments	36,500	—	—	—	—	—	36,500
Loans	35,937	210	11	3	15	17	36,193
Receivables and other financial assets	8,337	200	21	13	2	46	8,619

Credit terms are set locally within overall credit limits prescribed by the Group Credit Committee and within the framework of the Group Credit Policy. The credit quality of financial assets is managed at the local business unit level. Where assets have been classed as "past due and impaired", an analysis is made of the risk of default and a decision is made whether to seek collateral from the counterparty.

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

56 – Risk management continued

(d) Liquidity risk

At Group level, we maintain a prudent level of liquidity which meets the expectations of the financial services authority (FSA) and the wider investment community. We maintain a buffer of liquid assets, determined by liquidity stress tests, which is designed to cover unforeseen circumstances in any of our businesses.

The Group and Company have a strong liquidity position (£2.2 billion of financial assets held at Group) and through the application of a Group Liquidity policy seek to maintain sufficient financial resources to meet its obligations as they fall due. In addition to this strong liquidity position, the Group and Company maintain significant committed borrowing facilities (£2.1 billion) from a range of highly rated banks to further mitigate this risk.

Asset liability matching

Generally, our individual business units generate sufficient capital from the receipt of premiums, fees and investment income, along with planned asset sales and maturities, to pay claims and expenses. However, there may be instances where additional cash requirements arise in excess of that available within the operating businesses. In such instances, we have several options to fund these cash requirements including the selling of assets from the investment portfolios, using centre funds, issuing commercial paper and the committed borrowing facilities.

The Group market risk policy sets out the minimum principles and framework for matching liabilities with appropriate assets, the approaches to be taken when liabilities cannot be matched and the monitoring processes that are required. The Group has criteria for matching assets and liabilities for all classes of business to minimise the impact of mismatches between the value of assets and the liabilities due to market movements. The local regulatory environment for each business will also set the conditions under which assets and liabilities are to be matched. The Asset Liability matching (ALM) methodology develops optimal asset portfolio maturity structures for our businesses which seek to ensure that the cash flows are sufficient to meet the liabilities as they are expected to arise.

Where any decision to adopt a position in respect of policyholder assets and liabilities is not closely matched but is within the business unit's investment risk appetite, the impact is monitored through our economic capital measurement process. The decision taken must be justified to the local management board and Group management by a full analysis of the impact of the level of mismatch on both risk and return.

ALM strategy may be determined at a sub-fund level for a block of closely related liabilities. Alternatively, if ALM strategy is determined at a fund or company level, it will usually be appropriate (for pricing, financial reporting and risk management purposes) to develop a hypothecation of assets to notional sub-funds with different liability characteristics. It is for this reason that Group Risk provides a framework of corporate objectives within which the operating businesses develop specific and appropriate ALM methodologies, to seek to ensure that our businesses have sufficient liquidity to settle claims as they are expected to arise.

ALM modelling is based on a projection of both assets and liabilities into the future. Stochastic models are used to set ALM policy where fund particulars contain a range of outcomes.

A further tenet of our risk management strategy involves investment strategies, which also take into account the accounting, regulatory, capital and tax issues. The ALM strategy also takes into account the reasonable expectations of policyholders, local best practice and meets relevant regulatory requirements.

Our investment strategies are designed to seek to ensure that sufficient liquidity exists in extreme business scenarios. For example, our investment strategy must consider a scenario of high lapses accompanied by poor investment markets or a general insurance catastrophe event.

Maturity analyses

The following tables show the maturities of our insurance and investment contract liabilities, and of the financial and reinsurance assets to meet them. A maturity analysis of the contractual amounts payable for borrowings and derivatives is given in notes 48 and 57 respectively. Contractual obligations under operating leases and capital commitments are given in note 52.

(i) Analysis of maturity of insurance and investment contract liabilities

For non-linked insurance business, the following table shows the gross liability at 31 December 2009 analysed by remaining duration. The total liability is split by remaining duration in proportion to the cash-flows expected to arise during that period, as permitted under IFRS 4, Insurance Contracts.

Almost all investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. We expect surrenders, transfers and maturities to occur over many years, and the tables reflect the expected cash flows for non-linked investment contracts. However, contractually, the total liability for non-linked investment contracts of £59,504 million *(2008: £60,264 million, 2007: £45,492 million)* would be shown in the "within 1 year" column below. Unit-linked contracts are repayable or transferable on demand and are therefore shown in the "within 1 year" column.

56 – Risk management continued

At 31 December 2009	Total £m	On demand or within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Long-term business					
Insurance contracts – non-linked	**123,933**	**10,139**	**38,549**	**45,181**	**30,064**
Investment contracts – non-linked	**59,504**	**4,304**	**12,562**	**24,119**	**18,519**
Linked business	**80,206**	**80,206**	**—**	**—**	**—**
General insurance and health	**17,484**	**7,215**	**6,936**	**2,865**	**468**
Total contract liabilities	**281,127**	**101,864**	**58,047**	**72,165**	**49,051**

At 31 December 2008	Total £m	On demand or within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Long-term business					
Insurance contracts – non-linked	126,450	10,243	34,546	48,031	33,630
Investment contracts – non-linked	60,264	3,639	13,922	24,319	18,384
Linked business	77,940	77,940	—	—	—
General insurance and health	19,866	8,849	7,512	3,038	467
Total contract liabilities	284,520	100,671	55,980	75,388	52,481

At 31 December 2007	Total £m	On demand or within 1 year £m	1-5 years £m	5-15 years £m	Over 15 years £m
Long-term business					
Insurance contracts – non-linked	106,758	9,480	27,726	44,305	25,247
Investment contracts – non-linked	45,492	2,957	10,263	17,205	15,067
Linked business	82,033	82,033	—	—	—
General insurance and health	18,452	8,324	7,508	2,568	52
Total contract liabilities	252,735	102,794	45,497	64,078	40,366

(ii) Analysis of maturity of financial assets

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

56 – Risk management continued

At 31 December 2009	Total £m	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	No fixed term (perpetual) £m
Debt securities	**160,510**	**17,309**	**44,051**	**98,792**	**358**
Equity securities	**43,343**	**—**	**—**	**—**	**43,343**
Other investments	**34,849**	**32,423**	**414**	**493**	**1,519**
Loans	**41,079**	**6,867**	**4,146**	**30,066**	**—**
Cash and cash equivalents	**25,176**	**25,176**	**—**	**—**	**—**
	304,957	**81,775**	**48,611**	**129,351**	**45,220**

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Group. Where an instrument is transferable back to the issuer on demand, such as most unit trusts or similar types of investment vehicle, it is included in the "On demand or within 1 year" column. Debt securities with no fixed contractual maturity date are generally callable at the option of the issuer at the date the coupon rate is reset under the contractual terms of the instrument. The terms for resetting the coupon are such that we expect the securities to be redeemed at this date, as it would be uneconomic for the issuer not to do so, and for liquidity management purposes we manage these securities on this basis. The first repricing and call date is normally 10 years or more after the date of issuance. Most of the Group's investments in equity securities and fixed maturity securities are market traded and therefore, if required, can be liquidated for cash at short notice.

As explained in note 2(a)(ii), comparative information for the disclosures required by the IFRS 7 amendments is not needed in the first year of application and so no table for 2008 is presented above.

(e) Insurance risk

(i) Life insurance risk

Types of risk

Life insurance risk in the Group arises through its exposure to mortality and morbidity insurance and exposure to worse than anticipated operating experience on factors such as persistency levels and management and administration expenses.

Risk management framework

The Group has developed a life insurance risk policy and guidelines on the practical application of this policy. Individual life insurance risks are managed at a business unit level but are also monitored at Group level.

The impact of life insurance risks is monitored by the business units as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities, the asset liability management framework, profit reporting (under both IFRS and MCEV), and the ICA process. Significant insurance risks will be reported through the Group risk management framework and overseen by the Life Insurance Committee. At Group level the overall exposure to life insurance risk is measured through the ICA and other management reporting.

The Life Insurance Committee monitors the application of the risk policy in each business, and receives management information on life insurance risks. The committee considers all areas of life insurance risk, but in particular has a remit to monitor mortality, longevity, morbidity, persistency, product development and pricing, unit pricing and expenses.

The committee also considers the reinsurance coverage across the life businesses. It confirms that guidance and procedures are in place for each of the major components of life insurance risk, and that the businesses mitigate against any life insurance risk outside local appetite, within the parameters for the overall Group risk appetite.

The committee has also developed guidance for business units on management of a number of areas of life insurance risk to ensure best practice is shared throughout the Group and common standards are adopted.

56 – Risk management continued

Management of life insurance risks

The individual life insurance risks are managed as follows:

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group allows business units to select reinsurers, from those approved by the Group, based on local factors, but assesses the overall programme to manage group-wide risk exposures and monitor the aggregation of risk ceded to individual reinsurers is within appetite for credit risk.
- Longevity risk is carefully monitored against the latest external industry data and emerging trends. Whilst individual businesses are responsible for reserving and pricing for annuity business, the Group monitors the exposure to this risk and the capital implications to manage the impact on the group-wide exposure and the capital funding that businesses may require as a consequence. The Group has used reinsurance solutions to reduce the risks from longevity where possible and desirable and continually monitors and evaluates emerging market solutions to mitigate this risk further.
- Persistency risk is managed at a business unit level through frequent monitoring of company experience, benchmarked against local market information. Generally, persistency risk arises from customers lapsing their policies earlier than has been assumed. Where possible the financial impact of lapses is reduced through appropriate product design. Businesses also implement specific initiatives to improve retention of policies which may otherwise lapse. The Group Life Insurance Committee has developed guidelines on persistency management.
- Product Design and Pricing risk arises from poorly designed or inadequately priced products and can lead to both financial loss and reputation damage from the Group. Guidelines have been developed to support the businesses through the complete cycle of the product development process, financial analysis and pricing.
- Expense risk is primarily managed by the business units through the assessment of business unit profitability and frequent monitoring of expense levels.

Apart from the ICA, sensitivity testing is widely used to measure the capital required and volatility in earnings due to exposure to life insurance risks, typically through MCEV reporting (examples of which are contained elsewhere in this report). This assessment is taken at both business unit level and at Group level where the impact of aggregation of similar risks can be measured. This enables the Group to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

Concentration risk

The Group writes a diverse mix of business in worldwide markets that are all subject to similar risks (mortality, persistency etc). The Group assesses the relative costs and concentrations of each type of risk through the ICA capital requirements and material issues are escalated to and addressed at the Life Insurance Committee. This analysis enables the Group to assess whether accumulations of risk exceeds risk appetite.

One key concentration of life insurance risk for the Group is improving longevity risk from pensions in payment and deferred annuities in the UK and the Netherlands where the Group has material portfolios. The Group continually monitors this risk and the opportunities for mitigating actions through reinsurance, improved asset liability matching, or innovative solutions that emerge in the market.

When looking at concentrations of risk, for example market risk, the risk within Aviva staff pension schemes is also considered. ICA analysis and MCEV sensitivity testing help identify both concentrations of risk types and the benefits of diversification of risk.

Embedded derivatives

The Group has exposure to a variety of embedded derivatives in its long-term savings business due to product features offering varying degrees of guaranteed benefits at maturity or on early surrender, along with options to convert their benefits into different products on pre-agreed terms. The extent of the impact of these embedded derivatives differs considerably between business units.

Examples of each type of embedded derivative affecting the Group are:

- Options: call, put, surrender and maturity options, guaranteed annuity options, options to cease premium payment, options for withdrawals free of market value adjustment, annuity options, and guaranteed insurability options.
- Guarantees: embedded floor (guaranteed return), maturity guarantee, guaranteed death benefit, and guaranteed minimum rate of annuity payment.
- Other: indexed interest or principal payments, maturity value, loyalty bonus.

The impact of these is reflected in ICA and MCEV reporting and managed as part of the asset liability framework.

56 – Risk management continued

(ii) General insurance risk

Types of risk

General insurance risk in the Group arises from:
— Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations
— Unexpected claims arising from a single source
— Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten
— Inadequate reinsurance protection or other risk transfer techniques
— Inadequate reserves

The majority of the general insurance business underwritten by the Group is of a short tail nature such as motor, household and commercial property insurances. The Group's underwriting strategy and appetite is agreed by the Executive Committee and communicated via specific policy statements and guidelines. Like life insurance risk, general insurance risk is managed primarily at business unit level with oversight at a Group level, through the General Insurance Committee.

The vast majority of the Group's general insurance business is managed and priced in the same country as the domicile of the customer.

Management of general insurance risks

Significant insurance risks will be reported through the Group risk management framework. Additionally, the ICA is used to assess the risks that each general insurance business unit, and the Group as a whole, is exposed to, quantifying their impact and calculating appropriate capital requirements. Increasingly risk-based capital models are being used to support the quantification of risk under the ICA framework. All general insurance business units undertake a quarterly review of their insurance risks, the output from which is a key input into the ICA and risk-based capital assessments.

The General Insurance Committee monitors and develops the management of insurance risk in the general insurance business units, and assesses the aggregate risk exposure. It is responsible for the development, implementation, and review of the Group policies for underwriting, claims, reinsurance and reserving that operate within the Group risk management framework.

Business units have developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Group. The Group has pioneered various developments, such as the Aviva UK Digital Flood Map to effectively manage exposures arising from specific perils. Where appropriate such projects are employed throughout the business units to promote the adoption of best practice as standard.

General insurance claims reserving

Actuarial claims reserving is conducted by local actuaries in the various general insurance business units according to the General Insurance Reserving policy. The General Insurance Committee monitors and maintains the General Insurance Reserving policy, and conducts quarterly reviews of the Group's general insurance claims provisions, and their adequacy. The reviews include peer reviews of the business unit's own conclusions as well as independent analysis to confirm the reasonableness of the local reviews.

The adequacy of the Group's general insurance claims provisions is ultimately overseen by the General Insurance Committee.

A number of business units also have periodic external reviews by local consultant actuaries (often as part of the local regulatory requirement).

Reinsurance strategy

Significant reinsurance purchases are reviewed annually at both business unit and Group level, to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Group. Reinsurance purchases must be in line with the strategy set out in our Group General Insurance Reinsurance policy. The basis of these purchases is underpinned by extensive financial and capital modelling and actuarial analysis to optimise the cost and capital efficiency benefits from our reinsurance program. For the larger business units, this involves utilising externally sourced probabilistic models to verify the accumulations and loss probabilities based on the Group's specific portfolios of business. Where external models are not available, scenarios are developed and tested using the Group's data to determine potential losses and appropriate levels of reinsurance protection.

The reinsurance is placed with providers who meet the Group's counterparty security requirements, and large reinsurance placements may also require approval from the Group Asset Liability Committee.

Concentration risk

Processes are in place to manage catastrophe risk in individual business units and at a Group level. The Group cedes much of its worldwide catastrophe risk to third party reinsurers but retains a pooled element for its own account gaining diversification benefit. The total Group potential loss from its most concentrated catastrophe exposure (Northern European windstorm) is approximately £335 million, for a one in ten year annual loss scenario, compared to approximately £620 million when measured on a one in a hundred year annual loss scenario.

For the 2010 underwriting year the Group will participate in a share of a reinsurer's US property catastrophe reinsurance portfolio. This exposure is not correlated with the Group's other General Insurance exposure and therefore provides diversification benefit. The total expected loss from a one in ten year annual loss scenario is approximately £50 million compared to approximately £145 million when measured on a one in a hundred year annual loss scenario.

56 – Risk management continued

(f) Operational risk

Types of operational risk

Operational risk is the risk of loss, arising from inadequate or failed internal processes, or from people and systems, or from external events. Operational risks include business protection, information technology, people, legal and regulatory compliance risks.

Operational risk management

We process a large number of complex transactions across numerous and diverse products, and are highly dependent on the proper functioning of information technology and communications systems. We are partially reliant on the operational processing performance of our outsourced partners including certain servicing and IT functions. The long-term nature of our business means that accurate records have to be maintained for significant periods. Significant resources are devoted to maintaining efficient and effective operations within our framework of corporate responsibility, policies and business ethics code.

Our businesses are primarily responsible for identifying and managing operational risks in line with minimum standards of control set out in our policies. Each operational risk is assessed by considering the potential impact and the probability of the event occurring. Impact assessments are considered against financial, operational and reputation criteria.

Business management teams must be satisfied that all material risks falling outside our risk appetite are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact level are monitored centrally on a regular basis. Businesses use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events; taking appropriate action to address actual control breakdowns and promote internal learning from these occurrences.

The Group Operational Risk Committee (ORC) oversees the Group's aggregate operational risk exposure on behalf of the Group Executive Committee and reports to the Board Risk & Regulatory Committee. It makes recommendations on the risk appetite that the Group can work within for operational risk, assesses and monitors overall operational risk exposures, identifying any concentrations of operational risk across the Group, and in particular verifies that mitigating action plans are implemented. The ORC operates a number of sub-committees which focus on specific areas of strategic and operational risk including customer, brand, business protection, IT, people, legal and regulatory compliance.

(g) Strategic risk

We are exposed to a number of strategic risks. Our strategy needs to support our vision, purpose and objectives and be responsive to both the external and internal environment, for example changes in the competitive landscape, customer behaviour, regulatory changes, merger and acquisition opportunities and emerging trends (such as climate change, pandemic and improving longevity). Strategic risk is explicitly considered throughout our strategic review and planning process. Developments are assessed during our quarterly performance management process where all aspects of our risk profile are considered.

We closely monitor regulatory, legal and fiscal developments as well as actively engaging with external bodies to share the benefit of our expertise in supporting responses to emerging risks to challenge developments that could be damaging to our business and the industry as a whole.

(h) Brand and reputation risk

We are dependent on the strength of our brands, the brands of our partners and our reputation with customers and agents in the sale of our products and services.

Our success and results are, to a certain extent, dependent on the strength of our brands and reputation. As part of our ongoing "One Aviva, Twice the Value" strategy, we have been working to create a global Aviva brand, as well as rebrand businesses in the UK under the Aviva name. While we as a group are well recognised, we are vulnerable to adverse market and customer perception. We operate in an industry where integrity, customer trust and confidence are paramount. We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information, inadequate services, amongst others, whether or not founded, could impact our brands or reputation. Any of our brands or our reputation could also be affected if products or services recommended by us (or any of our intermediaries) do not perform as expected (whether or not the expectations are founded) or the customer's expectations for the product change.

One of the FSA's strategic objectives is to help customers get a fair deal through its "treating customers fairly" principle. Examples of "treating customers fairly" include: products and services targeted to meet customers' needs and which perform in line with what customers have been led to expect; clear information (and advice where relevant); good service; and making sure there are no unfair barriers that prevent customers from getting access to their money, changing products or making a successful insurance claim. The FSA regularly checks that we are meeting the requirement to treat our customers fairly and we make use of various metrics to assess our own performance, including customer advocacy, retention and complaints. Failure to meet these requirements could also impact our brands or reputation.

If we do not manage successfully the perception of our brands and reputation, it could cause existing customers or agents to withdraw from our business and potential customers or agents to be reluctant or elect not to do business with us. This would adversely impact our business and results of operations.

56 – Risk management continued

(i) Risk and capital management

Sensitivity test analysis

The Group uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Primarily, MCEV, ICA, and scenario analysis are used. Sensitivities to economic and operating experience are regularly produced on all of the Group's financial performance measurements to inform the Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks that each of its business units, and the Group as a whole are exposed to.

For long-term business in particular, sensitivities of MCEV performance indicators to changes in both economic and non-economic experience are continually used to manage the business and to inform the decision making process. More information on MCEV sensitivities can be found in the presentation of results on an MCEV basis in the supplementary section of this report.

Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions are made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality rates, and persistency in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business. A number of the key assumptions for the Group's central scenario are disclosed elsewhere in these statements for both IFRS reporting and reporting under MCEV methodology.

General insurance and health business

General insurance and health claim liabilities are estimated by using standard actuarial claims projection techniques.

These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims.

Sensitivity test results

Illustrative results of sensitivity testing for long-term business, general insurance and health business and the fund management and non-insurance business are set out below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by a 1% increase or decrease. The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.
Equity/property market values	The impact of a change in equity/property market values by ± 10%.
Expenses	The impact of an increase in maintenance expenses by 10%.
Assurance mortality/morbidity (life insurance only)	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%.
Annuitant mortality (life insurance only)	The impact of a reduction in mortality rates for annuity contracts by 5%.
Gross loss ratios (non-life insurance only)	The impact of an increase in gross loss ratios for general insurance and health business by 5%.

56 – Risk management continued

Long-term business

Sensitivities as at 31 December 2009

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	**(20)**	**(275)**	**15**	**(35)**	**(15)**	**(5)**	**(40)**
Insurance non-participating	**(190)**	**270**	**35**	**(35)**	**(25)**	**(40)**	**(280)**
Investment participating	**(65)**	**(15)**	**20**	**(30)**	**(15)**	**—**	**—**
Investment non-participating	**(30)**	**45**	**20**	**(20)**	**(5)**	**—**	**—**
Assets backing life shareholders' funds	**(10)**	**10**	**135**	**(140)**	**—**	**—**	**—**
Total	**(315)**	**35**	**225**	**(260)**	**(60)**	**(45)**	**(320)**

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	**(40)**	**(235)**	**20**	**(40)**	**(15)**	**(5)**	**(40)**
Insurance non-participating	**(380)**	**535**	**220**	**(220)**	**(25)**	**(40)**	**(280)**
Investment participating	**(65)**	**(15)**	**20**	**(30)**	**(15)**	**—**	**—**
Investment non-participating	**(80)**	**125**	**20**	**(20)**	**(5)**	**—**	**—**
Assets backing life shareholders' funds	**(65)**	**85**	**215**	**(215)**	**—**	**—**	**—**
Total	**(630)**	**495**	**495**	**(525)**	**(60)**	**(45)**	**(320)**

Sensitivities as at 31 December 2008 restated[1]

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(10)	(165)	85	(90)	(20)	(5)	(10)
Insurance non-participating	(280)	525	65	(50)	(20)	(25)	(310)
Investment participating	(35)	(55)	25	(20)	—	—	—
Investment non-participating	(10)	10	20	(20)	(5)	—	—
Assets backing life shareholders' funds	(20)	30	180	(180)	—	—	—
Total	(355)	345	375	(360)	(45)	(30)	(320)

1. The comparative 2008 economic sensitivities for insurance non-participating business have been restated to reflect modelling enhancements in Delta Lloyd.

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(30)	(135)	85	(90)	(20)	(5)	(10)
Insurance non-participating	(440)	660	290	(270)	(20)	(25)	(310)
Investment participating	(50)	(40)	30	(25)	—	—	—
Investment non-participating	(210)	230	20	(20)	(5)	—	—
Assets backing life shareholders' funds	(80)	95	190	(190)	—	—	—
Total	(810)	810	615	(595)	(45)	(30)	(320)

1. The comparative 2008 economic sensitivities for insurance non-participating business have been restated to reflect modelling enhancements in Delta Lloyd.

The different impacts of the economic sensitivities on profit and shareholders' equity arise from classification of certain assets as available for sale in some business units, for which movements in unrealised gains or losses would be taken directly to shareholders' equity.

The sensitivities to economic movements relate mainly to business in the UK, US and the Netherlands. In general a fall in market interest rates has a beneficial impact on non-participating business and shareholders' funds, due to the increase in market value of fixed interest securities and the relative durations of assets and liabilities; similarly a rise in interest rates has a negative impact. In the US most debt securities are classified as available-for-sale, which limits the overall sensitivity of IFRS profit to interest rate movements. The sensitivity to movements in equity and property market values relates mainly to holdings in the Netherlands, although the impact on IFRS profit is moderated by the classification of equities as available for sale.

Changes in sensitivities between 2008 and 2009 reflect movements in market interest rates, portfolio growth, changes to asset mix and the relative durations of assets and liabilities, asset liability management actions, and reattribution of inherited estate in the UK.

The mortality sensitivities relate primarily to the UK.

56 – Risk management continued

Impact of the reattribution of the inherited estate on IFRS long-term business sensitivities

Prior to the reattribution of the inherited estates of CGNU Life Assurance Limited (CGNU) and Commercial Union Life Assurance Company Limited (CULAC) (as detailed in note 44(b)), movements in the value of assets and liabilities in the with-profit funds of CGNU and CULAC would result in corresponding movements in the value of the unallocated divisible surplus. IFRS profit in these funds would only arise on the shareholders' share of bonuses paid on claims during the year or added to policies at the end of the year.

As a result of the reattribution, movements in the value of assets and liabilities in the New With-Profit Shareholders Funds (NWPSF) and in the reattributed assets will lead to increased volatility of IFRS profit as the result will be borne by shareholders. The main drivers of this increased volatility will be investment returns, the effect of writing new with-profit business in the fund, changes in the cost of guarantees and changes in assumptions. This increase in potential volatility is the primary driver of the change in IFRS long-term business sensitivities between 2008 and 2009.

The impact on the Group's results from sensitivity to these assumptions can also be found in the MCEV sensitivities included in the alternative method of reporting long-term business profits section.

General insurance and health business
Sensitivities as at 31 December 2009
Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	**(310)**	**295**	**105**	**(110)**	**(135)**	**(345)**
Net of reinsurance	**(365)**	**365**	**105**	**(110)**	**(135)**	**(330)**

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	**(310)**	**295**	**105**	**(110)**	**(35)**	**(345)**
Net of reinsurance	**(365)**	**365**	**105**	**(110)**	**(35)**	**(330)**

Sensitivities as at 31 December 2008
Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(310)	300	90	(90)	(170)	(435)
Net of reinsurance	(360)	360	90	(90)	(170)	(425)

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(310)	300	90	(90)	(40)	(435)
Net of reinsurance	(360)	360	90	(90)	(40)	(425)

For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

Fund management and non-insurance business
Sensitivities as at 31 December 2009
Impact before profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
Total	**(20)**	**25**	**70**	**(30)**

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
Total	**(40)**	**55**	**80**	**(50)**

56 – Risk management continued

Sensitivities as at 31 December 2008 restated[1]
Impact before profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
Total	15	(20)	45	(45)

1. The comparative 2008 economic sensitivities for life and non-insurance businesses have been restated to reflect modelling enhancements in Delta Lloyd.

Impact before tax on shareholders' equity (£m)

	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
Total	—	5	90	(90)

1. The comparative 2008 economic sensitivities for life and non-insurance businesses have been restated to reflect modelling enhancements in Delta Lloyd.

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action.

A number of the business units use passive assumptions to calculate their long-term business liabilities. Consequently, a change in the underlying assumptions may not have any impact on the liabilities, whereas assets held at market value in the statement of financial position will be affected. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity. Similarly, for general insurance liabilities, the interest rate sensitivities only affect profit and equity where explicit assumptions are made regarding interest (discount) rates or future inflation.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

57 – Derivative financial instruments

This note gives details of the various derivative instruments we use to mitigate risk.

The Group uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. The objectives include managing exposure to price, foreign currency and/or interest rate risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the narrative and tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held (or issued) by the Group.

The fair values do not provide an indication of credit risk, as many over-the-counter transactions are contracted and documented under ISDA (International Swaps and Derivatives Association Inc) master agreements or their equivalent. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure. In addition, the Group has collateral agreements in place between the individual Group entities and relevant counterparties.

(a) Hedged derivatives

The Group has formally assessed and documented the effectiveness of its hedged derivatives in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*. To aid discussion and analysis, these derivatives are analysed into cash flow, fair value and net investment hedges, as detailed below.

(i) Cash flow hedges

The Group uses forward starting interest rate swap agreements in the United States to hedge the variability in future cash flows associated with the forecasted purchase of fixed-income assets. These agreements reduce the impact of future interest rate changes on the forecasted transaction. Fair value adjustments for these interest rate swaps are deferred and recorded in equity until the occurrence of the forecasted transaction, at which time the interest rate swaps will be terminated. The accumulated gain or loss in equity will be amortised into investment income as the acquired asset affects income. The Group is hedging its exposure to the variability of future cash flows from interest rate movements for terms up to 10 years, therefore the cash flows from these hedging instruments are expected to affect profit and loss for approximately the next 10 years. For the year ended 31 December 2009, none of the Group's cash flow hedges was ineffective or discontinued.

The notional value of these interest rate swaps was £3 million at 31 December 2009 and their fair value was £0.1 million liability. The Group had no cash flow hedge activity at 31 December 2008.

57 – Derivative financial instruments continued

(ii) Fair value hedges

The Group has entered into a number of interest rate swaps in order to hedge fluctuations in the fair value of part of its portfolio of mortgage loans and debt securities in the Netherlands and the United States. The notional value of these interest rate swaps was £3,060 million at 31 December 2009 *(2008: £1,088 million, 2007: £nil)* and their fair value was £184 million liability *(2008: £86 million liability, 2007: £nil)*. These hedges were fully effective during the year.

(iii) Net investment hedges

To reduce its exposure to foreign currency risk, the Group has entered into the following net investment hedges:

- The Group has designated a portion of its Euro and US dollar denominated debt as a hedge of the net investment in its European and American subsidiaries. The carrying value of the debt at 31 December 2009 was £2,806 million *(2008: £2,914 million, 2007: £1,988 million)* and its fair value at that date was £2,709 million *(2008: £1,962 million, 2007: £1,972 million)*.
- The foreign exchange gain of £255 million *(2008: loss of £716 million)* on translation of the debt to sterling at the statement of financial position date has been recognised in the hedging instruments reserve in shareholders' equity. This hedge was fully effective throughout the current and prior years.
- The Group holds a Sterling/Euro cross currency swap derivative, which has been designated as a hedge of the net investment in its European subsidiaries. The notional value of the derivative at 31 December 2009 was £500 million *(2008: £500 million, 2007: £1,000 million)* and its fair value at that date was £120 million liability *(2008: £185 million liability, 2007: £27 million liability)*. During 2008, the Group reduced the size of the notional amount from £1 billion to £500 million, realising a loss of £164 million in closing out this part of the hedge. The fair value gain during 2009 was £65 million *(2008: £158 million loss; 2007: £27 million loss)* on revaluation of the derivative which was recognised in other comprehensive income and the hedging instrument reserve in shareholders' equity. This hedge was fully effective throughout the year.

The losses on the Group's net investment hedges during the year were more than offset by gains on the relevant subsidiaries which are recognised in the currency translation reserve (see note 34).

(b) Non-hedge derivatives

Non-hedge derivatives either do not qualify for hedge accounting under IAS 39 or the option to hedge account has not been taken.

(i) The Group's non-hedge derivative activity at 31 December 2009 was as follows:

	2009			2008		
	Contract/ notional amount £m	**Fair value asset £m**	**Fair value liability £m**	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	**6,091**	**17**	**(53)**	6,164	89	(340)
Interest and currency swaps	**1,408**	**41**	**(53)**	1,235	3	(255)
Total	**7,499**	**58**	**(106)**	7,399	92	(595)
Interest rate contracts						
OTC						
Forwards	**1,043**	**5**	**—**	3,008	17	(11)
Swaps	**26,718**	**297**	**(839)**	20,246	482	(909)
Options	**10,637**	**432**	**(4)**	9,309	920	—
Exchange traded						
Futures	**5,542**	**404**	**(38)**	6,067	615	(15)
Options	**1,066**	**28**	**—**	—	—	—
Total	**45,006**	**1,166**	**(881)**	38,630	2,034	(935)
Equity/Index contracts						
OTC						
Forwards	**863**	**71**	**—**	—	—	—
Options	**14,571**	**663**	**(243)**	11,619	470	(39)
Exchange traded						
Futures	**7,417**	**63**	**(534)**	2,859	45	(68)
Options	**2,688**	**19**	**(2)**	4,513	189	(51)
Total	**25,539**	**816**	**(779)**	18,991	704	(158)
Other	**1,155**	**37**	**(29)**	771	80	(65)
Totals at 31 December	**79,199**	**2,077**	**(1,795)**	65,791	2,910	(1,753)

57 – Derivative financial instruments continued

	2007 Contract/ notional amount £m	2007 Fair value asset £m	2007 Fair value liability £m
Foreign exchange contracts			
OTC			
Forwards	9,594	24	(106)
Interest and currency swaps	859	57	—
Total	10,453	81	(106)
Interest rate contracts			
OTC			
Forwards	3,305	15	(2)
Swaps	16,172	279	(350)
Options	986	251	(1)
Exchange traded			
Futures	6,505	220	(37)
Options	15	—	—
Total	26,983	765	(390)
Equity/Index contracts			
OTC			
Options	12,278	267	(61)
Exchange traded			
Futures	5,456	418	(23)
Options	473	21	(2)
Total	18,207	706	(86)
Other	414	57	(24)
Totals at 31 December	56,057	1,609	(606)

Fair value assets are recognised as "Derivative financial instruments" in note 24(a), whilst fair value liabilities are recognised as "other financial liabilities" in note 49.

The Group's derivative risk management policies are outlined in note 56(b).

(ii) The contractual undiscounted cash flows in relation to non-hedge derivative liabilities have the following maturities:

	2009 £m	2008 £m	2007 £m
Within one year	**1,238**	1,001	151
Between one and two years	**155**	285	100
Between two and three years	**66**	32	20
Between three and four years	**74**	43	20
Between four and five years	**51**	69	21
After five years	**657**	611	516
	2,241	2,041	828

(c) Collateral

Certain derivative contracts, primarily interest rate and currency swaps, involve the receipt or pledging of collateral. The amounts of collateral receivable or repayable are included in notes 25 and 49 respectively.

58 – Assets under management

In addition to the assets included in the consolidated statement of financial position, the Group manages many funds for third parties. This note details the total funds under management.

The total Group assets under management are:

	2009 £m	Restated 2008* £m	Restated 2007* £m
Total IFRS assets included in the consolidated statement of financial position	**354,391**	354,562	321,326
Less: Third party funds included within consolidated IFRS assets	**(9,980)**	(6,025)	(5,845)
	344,411	348,537	315,481
Third-party funds under management			
Unit trusts, OEICs, PEPs and ISAs	**21,618**	15,901	25,868
Segregated funds	**48,770**	52,322	54,422
	414,799	416,760	395,771
Non-managed assets	**(35,388)**	(44,176)	(36,342)
Funds under management	**379,411**	372,584	359,429
Managed by:			
Aviva Investors	**249,630**	236,178	235,309
Other Aviva fund managers	**109,332**	111,532	99,906
Total Aviva fund managers	**358,962**	347,710	335,215
External fund managers	**20,449**	24,874	24,214
	379,411		359,429

* Third-party fund under management has been adjusted as a result of a double count of £6,782 million in 2008.

59 – Related party transactions

This note gives details of the transactions between Group companies and related parties which comprise our joint ventures, associates and staff pension schemes.

The Group receives income from related parties from transactions made in the normal course of business. Loans to related parties are made on normal arm's-length commercial terms.

Services provided to related parties

	2009		2008		2007
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m	Receivable at year end £m
Associates	**49**	**3**	61	3	2
Joint ventures	**17**	**328**	20	300	169
Employee pension schemes	**9**	**2**	24	6	6
	75	**333**	105	309	177

Income from associates predominantly relates to our investments in the Royal Bank of Scotland (RBS) life and collective investment companies listed in note 19(b). Under management service agreements with these associates, our UK life insurance companies provide administration services, the cost of which is recharged to the RBS companies. In addition, our fund management companies provide fund management services to these associates, for which they charge fees based on the level of funds under management. Movements in loans made to our associates may be found in note 19.

Transactions with joint ventures relate to the property management undertakings. At 31 December 2009, there were four such joint ventures, the most material of which are listed in note 18(b). Our interest in these joint ventures comprises a mix of equity and loans, together with the provision of administration services and financial management to many of them. Our UK life insurance companies earn interest on loans advanced to these entities to fund property developments, including shopping, business and distribution centres, and properties in Europe, as well as a film studio development in the UK, movements in which may be found in note 18(a). Our fund management companies also charge fees to these joint ventures for administration services and for arranging external finance.

59 – Related party transactions continued

Our UK fund management companies manage most of the assets held by the Group's main UK staff pension scheme, for which they charge fees based on the level of funds under management. The main UK scheme and the Dutch scheme hold investments in Group-managed funds and insurance policies with other Group companies, as explained in note 47(e)(iii).

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties provided on behalf of related parties are given in note 51(j).

Services provided by related parties

There were no services provided by related parties in 2007, 2008 or 2009.

Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the executive and non-executive directors is as follows:

	2009 £m	2008 £m
Salary and other short-term benefits	**39**	38
Post-employment benefits	**5**	3
Equity compensation plans	**16**	9
Termination benefits	**1**	3
Total	**61**	53

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' remuneration report.

Financial statements of the Company

Income statement

For the year ended 31 December 2009

	Note	2009 £m	Restated 2008 £m
Income			
Dividends received from subsidiaries		**1,340**	1,796
Interest receivable from Group companies		**156**	151
Net investment income/(expense)		**50**	(141)
		1,546	1,806
Expenses			
Operating expenses	C	**(194)**	(25)
Interest payable to Group companies		**(603)**	(992)
Interest payable on borrowings		**(336)**	(289)
		(1,133)	(1,306)
Profit before tax		**413**	500
Tax credit	D	**158**	358
Profit after tax		**571**	858

Statement of comprehensive income

For the year ended 31 December 2009

	Note	2009 £m	Restated 2008 £m
Profit for the year		**571**	858
Other comprehensive income			
Fair value gains/(losses) on investments in subsidiaries	B	**883**	(8,113)
Actuarial (losses)/gains on pension scheme		**(3)**	2
Other comprehensive income, net of tax		**880**	(8,111)
Total comprehensive income for the year		**1,451**	(7,253)

Statement of changes in equity

For the year ended 31 December 2009

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Retained earnings £m	Equity £m	Direct capital instrument £m	Total equity £m
Balance at 1 January		**664**	**200**	**1,234**	**735**	**5,770**	**113**	**3,287**	**12,003**	**990**	**12,993**
Profit for the year		—	—	—	—	—	—	**571**	**571**	—	**571**
Other comprehensive income		—	—	—	—	**883**	—	**(3)**	**880**	—	**880**
Total comprehensive income for the year		—	—	—	—	**883**	—	**568**	**1,451**	—	**1,451**
Dividends and appropriations	15	—	—	—	—	—	—	**(853)**	**(853)**	—	**(853)**
Issues of share capital	28	**1**	—	—	—	—	—	—	**1**	—	**1**
Shares issued in lieu of dividends	35	**27**	—	**(27)**	—	—	—	**299**	**299**	—	**299**
Employee trust shares distributed in the year	30	—	—	—	—	—	—	**(18)**	**(18)**	—	**(18)**
Reserves credit for equity compensation plans	10	—	—	—	—	—	**56**	—	**56**	—	**56**
Shares issued under equity compensation plans		—	—	—	—	—	**(60)**	**60**	—	—	—
Aggregate tax effect		—	—	—	—	—	—	**17**	**17**	—	**17**
Balance at 31 December		**692**	**200**	**1,207**	**735**	**6,653**	**109**	**3,360**	**12,956**	**990**	**13,946**

For the year ended 31 December 2008

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Retained earnings £m	Equity £m	Direct capital instrument £m	Total equity £m
Balance at 1 January		655	200	1,223	735	13,883	89	3,207	19,992	990	20,982
Profit for the year		—	—	—	—	—	—	858	858	—	858
Other comprehensive income		—	—	—	—	(8,113)	—	2	(8,111)	—	(8,111)
Total comprehensive income for the year		—	—	—	—	(8,113)	—	860	(7,253)	—	(7,253)
Dividends and appropriations	15	—	—	—	—	—	—	(975)	(975)	—	(975)
Issues of share capital	28	2	—	18	—	—	—	—	20	—	20
Shares issued in lieu of dividends	35	7	—	(7)	—	—	—	170	170	—	170
Employee trust shares distributed in the year	30	—	—	—	—	—	—	(6)	(6)	—	(6)
Reserves credit for equity compensation plans	10	—	—	—	—	—	39	—	39	—	39
Shares issued under equity compensation plans		—	—	—	—	—	(15)	15	—	—	—
Aggregate tax effect		—	—	—	—	—	—	16	16	—	16
Balance at 31 December		664	200	1,234	735	5,770	113	3,287	12,003	990	12,993

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 130 to 142. The notes identified alphabetically on pages 278 to 282 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified alphabetically) on pages 151 to 274.

Statement of financial position

At 31 December 2009

	Note	2009 £m	Restated 2008 £m	2007 £m
Assets				
Non-current assets				
Investments in subsidiaries	B	**17,236**	16,353	24,466
Investment in joint venture	18c	**72**	61	52
Loans owed by subsidiaries		**3,161**	3,417	2,607
Deferred tax assets	D	**—**	—	9
Current tax assets		**526**	724	714
		20,995	20,555	27,848
Current assets				
Loans owed by subsidiaries		**—**	—	132
Other amounts owed by subsidiaries		**2,546**	2,266	1,027
Other assets		**110**	43	115
Cash and cash equivalents		**4**	78	14
Total assets		**23,655**	22,942	29,136
Equity				
Ordinary share capital	28	**692**	664	655
Preference share capital	31	**200**	200	200
Called up capital		**892**	864	855
Share premium account	28b	**1,207**	1,234	1,223
Merger reserve	E	**735**	735	735
Investment valuation reserve	E	**6,653**	5,770	13,883
Equity compensation reserve	E	**109**	113	89
Retained earnings	E	**3,360**	3,287	3,207
Direct capital instrument	32	**990**	990	990
Total equity		**13,946**	12,993	20,982
Liabilities				
Non-current liabilities				
Borrowings	F	**4,871**	4,838	3,252
Loans owed to subsidiaries		**3,598**	3,108	1,842
Provisions		**47**	40	40
		8,516	7,986	5,134
Current liabilities				
Borrowings	F	**483**	535	918
Loans owed to subsidiaries		**155**	975	1,846
Other amounts owed to subsidiaries		**442**	352	191
Other creditors		**113**	101	65
Total liabilities		**9,709**	9,949	8,154
Total equity and liabilities		**23,655**	22,942	29,136

Approved by the Board on 3 March 2010.

Patrick Regan
Chief Financial Officer

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 130 to 142. The notes identified alphabetically on pages 278 to 282 are an integral part of these separate financial statements. Where the same items appear in the group financial statements, reference is made to the notes (identified alphabetically) on pages 151 to 274.

Statement of cash flows

For the year ended 31 December 2009

All the Company's operating and investing cash requirements are met by subsidiary companies and settled through intercompany loan accounts. As the direct method of presentation has been adopted for these activities, no further disclosure is required. In respect of financing activities, the following items pass through the Company's own bank accounts.

	2009 £m	2008 £m
Cash flows from financing activities		
Funding provided by subsidiaries	**477**	401
New borrowings drawdown, net of expenses	**2,490**	3,905
Repayment of borrowings	**(2,541)**	(3,463)
Net drawdown of borrowings	**(51)**	442
Preference dividends paid	**(17)**	(17)
Ordinary dividends paid	**(476)**	(732)
Interest paid on borrowings	**(7)**	(30)
Net cash from financing activities	**(74)**	64
Net (decrease)/increase in cash and cash equivalents	**(74)**	64
Cash and cash equivalents at 1 January	**78**	14
Cash and cash equivalents at 31 December	**4**	78

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 130 to 142. The notes identified alphabetically on pages 278 to 282 are an integral part of these separate financial statements. Where the same items appear in the group financial statements, reference is made to the notes (identified alphabetically) on pages 151 to 274.

Notes to the Company's financial statements

A – Restatement of prior year figures

The Company runs sterling and currency intercompany accounts with subsidiaries. During the year, it was discovered that incorrect foreign exchange rates had been applied to one of these accounts, with the result that the Company incorrectly recorded a foreign exchange loss of £87 million in 2008. The correcting entry has resulted in a reduction in expenses in 2008 of £87 million, an increase to the 2008 tax charge of £25 million, a reduction in the 2008 current tax asset of £25 million, an increase in other amounts owed by subsidiaries of £87 million and an increase in retained earnings of £62 million as at 31 December 2008.

B – Investments in subsidiaries

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

	2009 £m	2008 £m	2007 £m
Fair value as at 1 January	**16,353**	24,466	27,886
Movement in fair value	**883**	(8,113)	(3,420)
At 31 December	**17,236**	16,353	24,466

Fair values are estimated using applicable valuation models underpinned by the Company's market capitalisation, and are classified as Level 2 in the fair value hierarchy described in note 24(b) to the Group consolidated financial statements.

(ii) At 31 December 2009, the Company has two wholly-owned subsidiaries, both incorporated in Great Britain. These are General Accident plc and Aviva Group Holdings Limited. Aviva Group Holdings Limited is an intermediate holding company, whilst General Accident plc no longer carries out this function. The principal subsidiaries of the Aviva Group at 31 December 2008 are listed on pages 33 and 34.

C – Operating expenses

(i) Operating expenses

Operating expenses comprise:

	2009 £m	Restated 2008 £m
Staff costs and other employee related expenditure (see below)	**130**	86
Other operating costs	**20**	109
Net foreign exchange losses/(gains)	**44**	(170)
Total	**194**	25

(ii) Staff costs

Total staff costs were:

	2009 £m	2008 £m
Wages and salaries	**85**	49
Social security costs	**9**	7
Post-retirement obligations		
Defined benefit schemes (see (iii) below)	**6**	6
Defined contribution schemes	**6**	3
Profit sharing and incentive plans	**9**	3
Equity compensation plans (see (iv) below)	**12**	11
Termination benefits	**3**	7
Total	**130**	86

(iii) Pension costs

The Company is one of a number of UK companies being charged for its employees participating in the Aviva Staff Pension Scheme, and its contributions are affected by the financial position of the scheme. There is no contractual agreement or policy for charging the net defined benefit cost for this scheme across the participating Group entities but, instead, this cost is recognised in the financial statements of the main UK employing company. The Company therefore recognises a pension expense equal to its contributions payable in the year for its staff, together with the service cost of any unfunded benefits, within staff costs above. Full disclosure on the Group's pension schemes is given in the Group consolidated financial statements, note 47.

(iv) Equity compensation plans

All transactions in the Group's equity compensation plans involve options and awards for ordinary shares of the Company. Full disclosure of these plans is given in the Group consolidated financial statements, note 29. The cost of such options and awards is borne by all participating businesses and, where relevant, the Company bears an appropriate charge. As the majority of the charge to the Company relates to directors' options and awards, for which full disclosure is made in the Directors' remuneration report, no further disclosure is given here on the grounds of immateriality.

D – Tax

(i) Tax credited to income statement

	2009 £m	Restated 2008 £m
Current tax:		
For this year	**151**	362
Prior year adjustments	**7**	5
Total current tax	**158**	367
Deferred tax:		
Origination and reversal of timing differences	**—**	(9)
Total deferred tax	**—**	(9)
Total tax credited to income statement	**158**	358

(ii) Tax charged to other comprehensive income

No tax was charged or credited to other comprehensive income in 2008 or 2009.

(iii) Tax credited to equity

Tax credited to equity comprises £17 million *(2008: £16 million)* in respect of coupon payments on the direct capital instrument.

(iv) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2009 £m	Restated 2008 £m
Profit before tax	**413**	500
Tax calculated at standard UK corporation tax rate of 28% *(2008: 28.5%)*	**(116)**	(143)
Adjustment to tax charge in respect of prior years	**7**	5
Non-assessable dividends	**375**	512
Disallowable expenses	**(3)**	(6)
Unpaid group relief	**(102)**	—
Deferred tax asset not recognised	**—**	(11)
Other	**(3)**	1
Total tax credited to income statement	**158**	358

(v) Deferred tax asset

(i) The movement in the net deferred tax asset was as follows:

	2009 £m	2008 £m
Net asset at 1 January	**—**	9
Amounts charged to profit	**—**	(9)
Net asset at 31 December	**—**	—

The Company has unrecognised other temporary differences of £nil *(2008: £30 million)*.

The taxation of foreign profits and worldwide debt cap rules were enacted in the Finance Act 2009. Under the foreign profits rules, a dividend exemption was introduced which largely exempts dividends received on or after 1 July 2009 from UK corporation tax. The Company has applied this legislation in arriving at its tax results for 2009. The worldwide debt cap rules apply from 1 January 2010 and are not expected to apply to the Company due to an exemption for qualifying financial services groups.

E – Reserves

	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Restated Retained earnings £m
Balance at 1 January 2008	735	13,883	89	3,207
Arising in the year:				
Profit for the year	—	—	—	858
Fair value losses on investments in subsidiaries	—	(8,113)	—	—
Actuarial gains on pension schemes	—	—	—	2
Dividends and appropriations	—	—	—	(975)
Reserves credit for equity compensation plans	—	—	39	—
Shares issued in lieu of dividends	—	—	—	170
Trust shares distributed in the year	—	—	—	(6)
Issue of share capital under equity compensation scheme	—	—	(15)	15
Aggregate tax effect	—	—	—	16
Balance at 31 December 2008	735	5,770	113	3,287
Arising in the year:				
Profit for the year	—	—	—	571
Fair value gains on investments in subsidiaries	—	883	—	—
Actuarial losses on pension schemes	—	—	—	(3)
Dividends and appropriations	—	—	—	(853)
Reserves credit for equity compensation plans	—	—	56	—
Shares issued in lieu of dividends	—	—	—	299
Trust shares distributed in the year	—	—	—	(18)
Issue of share capital under equity compensation scheme	—	—	(60)	60
Aggregate tax effect	—	—	—	17
Balance at 31 December 2009	735	6,653	109	3,360

Tax of £17 million *(2008: £16 million)* is deductible in respect of coupon payments of £61 million on the direct capital instruments.

F – Borrowings

The Company's borrowings comprise:

	2009 £m	2008 £m	2007 £m
Subordinated debt	**4,672**	4,639	3,054
9.5% guaranteed bonds 2016	**199**	199	198
Commercial paper	**483**	535	918
Total	**5,354**	5,373	4,170

Maturity analysis of contractual undiscounted cash flows:

	2009			2008			2007		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
Within 1 year	**483**	**328**	**811**	535	312	847	932	235	1,167
1 – 5 years	**—**	**1,235**	**1,235**	—	1,163	1,163	—	799	799
5 – 10 years	**1,074**	**1,540**	**2,614**	409	1,449	1,858	351	998	1,349
10 – 15 years	**1,288**	**1,349**	**2,637**	1,402	1,250	2,652	588	867	1,455
Over 15 years	**2,544**	**1,092**	**3,636**	3,066	2,445	5,511	2,344	206	2,550
Total contractual undiscounted cash flows	**5,389**	**5,544**	**10,933**	5,412	6,619	12,031	4,215	3,105	7,320

Where subordinated debt is undated, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £74 million *(2008: £77 million)*.

The fair value of the subordinated debt at 31 December 2009 was £4,372 million (*2008: £2,979 million)*. The fair value of the 9.5% guaranteed bonds 2016 at 31 December 2009 was £238 million *(2008: £224 million)*. The fair value of the commercial paper is considered to be the same as its carrying value.

Further details of these borrowings and undrawn committed facilities can be found in the Group consolidated financial statements, note 48.

G – Contingent liabilities

Details of the Company's contingent liabilities are given in the Group consolidated financial statements, note 51(j).

H – Risk management

Risk management in the context of the Group is considered in the Group consolidated financial statements, note 56.

The business of the Company is managing its investments in subsidiary and joint venture operations. Its risks are considered to be the same as those in the operations themselves and full details of the risk management policies are given in the Group consolidated financial statements, note 56. Such investments are held by the Company at fair value in accordance with accounting policy D.

The fair values of the subsidiaries and joint venture are estimated using applicable valuation models, underpinned by the Company's market capitalisation. This uses a three month rolling average of the Company's share price. Given that the key input into the valuation model is based on an observable current share price, and therefore sensitive to movements in that price, the valuation process is not sensitive to non-observable market assumptions. Management believes the resulting estimated fair values recorded in the balance sheet and any changes in fair values recorded in the income statement are reasonable, and are the most appropriate values at the balance sheet date.

Financial assets, other than investments in subsidiaries and the joint venture, largely consist of amounts due from subsidiaries. As at the balance sheet date, these receivable amounts were neither past due nor impaired.

Financial liabilities owed by the Company as at the balance sheet date are largely in respect of borrowings (details of which are provided in note F and the Group consolidated financial statements, note 48) and loans owed to subsidiaries. Loans owed to subsidiaries were within agreed credit terms as at the balance sheet date.

Interest rate risk

Loans to and from subsidiaries are at either fixed or floating rates of interest, with the latter being exposed to fluctuations in these rates. The choice of rates is designed to match the characteristics of financial investments (which are also exposed to interest rate fluctuations) held in both the Company and the relevant subsidiary, to mitigate as far as possible each company's net exposure.

The majority of the Company's external borrowings are at fixed rates of interest and are therefore not exposed to changes in these rates. However, for those borrowings that are at floating rates, the Company is affected by changes in these rates. Further details of the Company's borrowings are provided in note F and the Group consolidated financial statements, note 48.

Currency risk

The Company's direct subsidiaries are all incorporated and operating in the UK, and therefore are not exposed to currency risk. However, these subsidiaries are themselves exposed to foreign currency risk arising from fluctuations in exchange rates during the course of providing insurance and asset management services around the world. The exposure of the subsidiaries to currency risk is considered from a Group perspective in the Group consolidated financial statements, note 56.

The Company faces exposure to foreign currency risk through some of its borrowings which are denominated in euros and US dollars. However, most of these borrowings have been on-lent to a subsidiary which holds financial investments in these currencies, generating the net investment hedge described in the Group consolidated financial statements, note 57(a)(iii).

I – Related party transactions

The Company receives dividend and interest income from subsidiaries and pays interest and fee expense to those subsidiaries in the normal course of business. These activities are reflected in the table below.

Loans to and from subsidiaries are made on normal arm's-length commercial terms. The maturity analysis of the related party loans is as follows:

Loans owed by subsidiaries

Maturity analysis	**2009 £m**	2008 £m	2007 £m
Within 1 year	**—**	—	132
1 – 5 years	**2,050**	1,402	1,359
Over 5 years	**1,111**	2,015	1,248
Total	**3,161**	3,417	2,739

Loans owed to subsidiaries

			2009			2008			2007
Maturity analysis of contractual undiscounted cash flows	**Principal £m**	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m	Principal £m	Interest £m	Total £m
Within 1 year	**155**	**143**	**298**	975	247	1,222	1,846	258	2,104
1 – 5 years	**1,840**	**431**	**2,271**	2,124	593	2,717	843	334	1,177
Over 5 years	**1,758**	**217**	**1,975**	984	164	1,148	999	341	1,340
Total	**3,753**	**791**	**4,544**	4,083	1,004	5,087	3,688	933	4,621

Other related party balances comprise dividends and interest receivable and payable, as well as inter-company balances for fees and other transactions in the normal course of business.

Dividends, loans, interest

Services provided to related parties

	Income earned in year 2009 £m	**Receivable at year end 2009 £m**	Income earned in year 2008 £m	Receivable at year end 2008 £m	Income earned in year 2007 £m	Receivable at year end 2007 £m
Subsidiaries	**1,496**	**5,707**	1,947	5,596	2,726	3,766

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties given by the Company on behalf of related parties are given in note 51(j).

Services provided by related parties

	Expense incurred in year 2009 £m	**Payable at year end 2009 £m**	Expense incurred in year 2008 £m	Payable at year end 2008 £m	Expense incurred in year 2007 £m	Payable at year end 2007 £m
Subsidiaries	**603**	**4,195**	992	4,435	944	3,879

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

The directors and key management of the Company are considered to be the same as for the Group. Information on both the Company and Group key management compensation can be found in note 59.

Financial statements MCEV

In this section

Condensed consolidated income statement – MCEV basis

For the year ended 31 December 2009

2009 €m		2009 £m	Restated 2008 £m
	Operating profit before tax attributable to shareholders' profits		
3,851	Long-term business	**3,389**	2,810
1,091	General insurance and health	**960**	1,198
58	Fund management[1]	**51**	42
	Other:		
(197)	Other operations and regional costs[2]	**(173)**	(163)
(123)	Corporate centre	**(108)**	(141)
(723)	Group debt costs and other interest	**(636)**	(379)
3,957	**Operating profit before tax attributable to shareholders' profits**	**3,483**	3,367
	Adjusted for the following:		
862	Economic variances on long-term business	**759**	(12,469)
108	Short-term fluctuation in return on investments on non-long-term business	**95**	(819)
65	Economic assumption changes on general insurance and health business	**57**	(94)
(70)	Impairment of goodwill	**(62)**	(66)
(153)	Amortisation and impairment of intangibles	**(135)**	(108)
82	Profit on the disposal of subsidiaries and associates	**72**	7
(325)	Integration and restructuring costs	**(286)**	(326)
(282)	Exceptional items[3]	**(248)**	(754)
4,244	**Profit/(loss) before tax**	**3,735**	(11,262)
(1,050)	Tax on operating profit	**(924)**	(841)
141	Tax on other activities	**124**	4,396
(909)		**(800)**	3,555
3,335	**Profit/(loss) for the year**	**2,935**	(7,707)

All profit is from continuing operations.

1. Excludes the proportion of the results of Aviva Investors fund management businesses and other fund management operations within the group that arises from the provision of fund management services to our life businesses.
These results are included within the life MCEV operating earnings consistent with the MCEV methodology.
2. Excludes the proportion of the results of subsidiaries providing services to the Life business. These results are included within the life MCEV operating earnings consistent with the MCEV methodology.
3. Exceptional items of £(248) million for the year ended to 31 December 2009 are £175 million in relation to the reattribution of the inherited estate in the UK, the £261 million adverse impact of legislation changes on pensions in Poland, an increase in the latent claims reserves in North America of £60 million and expenses of £102 million for the migration of all remaining local brands, with the exception of Delta Lloyd and RAC, to the single global Aviva brand.

Earnings per share – MCEV basis

2009	Earnings per share	2009	Restated 2008
	Operating earnings per share on an MCEV basis after tax, attributable to ordinary shareholders of Aviva plc		
89.5c	Basic (pence per share)	**78.8p**	83.4p
88.8c	Diluted (pence per share)	**78.1p**	82.7p
	Earnings after tax on an MCEV basis, attributable to ordinary shareholders of Aviva plc		
115.6c	Basic (pence per share)	**101.7p**	(282.6)p
114.5c	Diluted (pence per share)	**100.8p**	(282.6)p

Condensed consolidated statement of comprehensive income – MCEV basis

For the year ended 31 December 2009

2009 €m		2009 £m	Restated 2008 £m
3,335	**Profit/(loss) for the year**	**2,935**	(7,707)
	Other comprehensive income		
(98)	Fair value losses on AFS securities, owner-occupied properties and hedging instruments	**(86)**	(278)
(34)	Fair value gains transferred to profit	**(30)**	(8)
(1,295)	Actuarial losses on pension schemes	**(1,140)**	(929)
27	Actuarial gains on pension schemes transferred to unallocated divisible surplus and other movements	**24**	78
101	Impairment losses	**89**	81
(1,125)	Foreign exchange rate movements	**(991)**	3,052
54	Aggregate tax effect – shareholder tax	**48**	66
(2,370)	**Other comprehensive income, net of tax**	**(2,086)**	2,062
965	**Total comprehensive income for the year**	**849**	(5,645)
	Attributable to:		
1,103	Equity shareholders of Aviva plc	**971**	(6,298)
(138)	Minority interests	**(122)**	653
965		**849**	(5,645)

Condensed consolidated statement of changes in equity – MCEV basis

For the year ended 31 December 2009

2009 €m		2009 £m	Restated 2008 £m
19,809	**Balance at 1 January**	**17,432**	23,928
965	Total comprehensive (income/(expense) for the year	**849**	(5,645)
(969)	Dividends and appropriations	**(853)**	(975)
1	Issues of share capital	**1**	20
340	Shares issued in lieu of dividends	**299**	170
7	Capital contributions from minority shareholders	**6**	36
1,057	Net increase to total equity following Delta Lloyd IPO	**930**	—
(124)	Minority share of dividends declared in the year	**(109)**	(106)
(2)	Minority interest in (disposed)/acquired subsidiaries	**(2)**	43
(126)	Changes in minority interest in existing subsidiaries	**(111)**	(65)
(60)	Shares acquired by employee trusts	**(53)**	(29)
64	Reserves credit for equity compensation plans	**56**	39
18	Aggregate tax effect – shareholder tax	**17**	16
20,980	**Total equity**	**18,462**	17,432
(4,816)	Minority interests	**(4,237)**	(3,080)
16,164	**Balance at 31 December**	**14,225**	14,352

Condensed consolidated statement of financial position – MCEV basis

2009 €m		2009 £m	Restated 2008 £m
	Assets		
3,842	Goodwill	3,381	3,578
3,250	Acquired value of in-force business and intangible assets	2,860	4,038
3,835	Additional value of in-force long-term business[1]	3,376	2,859
1,933	Interests in, and loans to, joint ventures	1,701	1,737
1,456	Interests in, and loans to, associates	1,281	1,246
856	Property and equipment	753	964
14,116	Investment property	12,422	14,426
46,681	Loans	41,079	42,237
	Financial investments		
182,398	Debt securities	160,510	150,398
49,253	Equity securities	43,343	43,351
39,575	Other investments	34,826	36,511
8,605	Reinsurance assets	7,572	7,894
1,394	Deferred tax assets	218	2,642
408	Current tax assets	359	622
10,946	Receivables and other financial assets	9,632	9,816
6,388	Deferred acquisition costs and other assets	5,621	6,147
4,095	Prepayments and accrued income	3,604	3,762
28,609	Cash and cash equivalents	25,176	23,643
60	Assets of operations classified as held for sale	53	1,550
407,700	**Total assets**	357,767	357,421
	Equity		
786	Ordinary share capital	692	664
5,089	Capital reserves	4,478	4,505
2,320	Other reserves	2,042	3,570
(77)	Shares held by employee trusts	(68)	(33)
3,892	Retained earnings	3,425	3,902
2,803	Additional retained earnings on an MCEV basis[1]	2,466	554
14,813	**Equity attributable to ordinary shareholders of Aviva plc**	13,035	13,162
1,352	Preference share capital and direct capital instruments	1,190	1,190
4,814	Minority interests[1]	4,237	3,080
20,979	**Total equity**	18,462	17,432
	Liabilities		
194,423	Gross insurance liabilities	171,092	174,850
125,017	Gross liabilities for investment contracts	110,015	107,559
4,393	Unallocated divisible surplus	3,866	2,325
11,243	Net asset value attributable to unitholders	9,894	6,918
4,523	Provisions	3,980	2,984
2,326	Deferred tax liabilities	1,038	3,063
218	Current tax liabilities	192	642
17,045	Borrowings	15,000	15,201
23,343	Payables and other financial liabilities	20,542	20,840
4,152	Other liabilities	3,653	4,386
38	Liabilities of operations classified as held for sale	33	1,221
386,721	**Total liabilities**	339,305	339,989
407,700	**Total equity and liabilities**	357,767	357,421

The summarised consolidated statement of financial position presented above is unaltered from the corresponding IFRS summarised consolidated statement of financial position with the exception of the following:

1. Adding the excess of the Life MCEV, including minority interests, over the corresponding Life IFRS net assets represented as the additional value of in-force long-term business; corresponding item within equity represented by the additional retained profit on an MCEV basis; and, corresponding adjustments to minority interests.

Reconciliation of shareholders' equity on IFRS and MCEV bases

For the year ended 31 December 2009

2009 £m	IFRS £m	Adjustment £m	MCEV £m
Ordinary share capital	**692**	**—**	**692**
Capital reserves	**4,478**	**—**	**4,478**
Other reserves	**1,829**	**213**	**2,042**
Shares held by employee trusts	**(68)**	**—**	**(68)**
Retained earnings	**3,425**	**—**	**3,425**
Additional retained earnings on an MCEV basis	**—**	**2,466**	**2,466**
Equity attributable to ordinary shareholders of Aviva plc	**10,356**	**2,679**	**13,035**
Preference share capital	**200**	**—**	**200**
Direct capital instruments	**990**	**—**	**990**
Minority interests	**3,540**	**697**	**4,237**
Total equity	**15,086**	**3,376**	**18,462**

2008 £m	IFRS £m	Adjustment £m	Restated MCEV £m
Ordinary share capital	664	—	664
Capital reserves	4,505	—	4,505
Other reserves	2,141	1,429	3,570
Shares held by employee trusts	(33)	—	(33)
Retained earnings	3,902	—	3,902
Additional retained earnings on an MCEV basis	—	554	554
Equity attributable to ordinary shareholders of Aviva plc	11,179	1,983	13,162
Preference share capital	200	—	200
Direct capital instruments	990	—	990
Minority interests	2,204	876	3,080
Total equity	14,573	2,859	17,432

Reconciliation of IFRS total equity to MCEV net worth

For the year ended 31 December 2009

	2009 £m	Restated 2008 £m
Net assets on a statutory IFRS net basis	**15,086**	14,573
Adjusting for general business and other net assets on a statutory IFRS net basis	**2,231**	2,008
Life and related businesses net assets on a statutory IFRS net basis	**17,317**	16,581
Goodwill and other intangibles	**(2,606)**	(2,947)
Acquired value of in-force business	**(1,493)**	(2,490)
Adjustment for share of joint ventures and associates	**(377)**	(472)
Adjustment for assets to regulatory value net of tax	**(19)**	1,474
Adjustment for DAC and DIR net of tax	**(2,653)**	(2,680)
Adjustment for differences in technical provisions	**1,414**	406
Other accounting and tax differences	**630**	937
MCEV net worth	**12,213**	10,809
MCEV value of in-force	**6,226**	5,770
MCEV[1]	**18,439**	16,579

1. Comprises embedded value of £15,001 million (31 December 2008: £14,212 million) and minority interest in long-term business assets of £3,438 million (31 December 2008: £2,367 million).

Group MCEV analysis of earnings

2009 £m	Covered business[1] £m A	Non-covered but related to life business[2] £m B	Total life business[3] £m A+B	Non-covered relating to non-life £m C	Total non-covered business £m B+C	Total £m A+B+C
Opening group MCEV	**14,212**	**2,639**	**16,851**	**(2,499)**	**140**	**14,352**
Opening adjustments	**—**	**—**	**—**	**—**	**—**	**—**
Adjusted opening group MCEV	**14,212**	**2,639**	**16,851**	**(2,499)**	**140**	**14,352**
Operating MCEV earnings	**2,178**	**—**	**2,178**	**15**	**15**	**2,193**
Non-operating MCEV earnings	**1,215**	**(99)**	**1,116**	**(496)**	**(595)**	**620**
Total MCEV earnings	**3,393**	**(99)**	**3,294**	**(481)**	**(580)**	**2,813**
Other movements in IFRS net equity	**—**	**(266)**	**(266)**	**(839)**	**(1,105)**	**(1,105)**
Capital and dividend flows	**(250)**	**—**	**(250)**	**(283)**	**(283)**	**(533)**
Foreign exchange variances	**(743)**	**(218)**	**(961)**	**224**	**6**	**(737)**
Acquired/divested businesses	**(1,611)**	**(1)**	**(1,612)**	**1,047**	**1,046**	**(565)**
Closing group MCEV	**15,001**	**2,055**	**17,056**	**(2,831)**	**(776)**	**14,225**
Preference share capital and direct capital instruments						**(1,190)**
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						**13,035**

1. Covered business represents the business that the MCEV calculations cover, as detailed in the Basis of preparation note. The embedded value is presented net of minority interests and tax.
2. Non-covered but related to life business represents the adjustments to the MCEV, including goodwill, to calculate the long-term business net assets on an MCEV basis. An analysis of net assets on an MCEV basis gross of minority interests is provided on page 298.
3. Net assets for the total life businesses on an MCEV basis presented net of minority interests.

Restated 2008 £m	Covered business[1] £m A	Non-covered but related to life business[2] £m B	Total life business[3] £m A+B	Non-covered relating to non-life £m C	Total non-covered business £m B+C	Total £m A+B+C
Opening group MCEV	18,389	2,059	20,448	977	3,036	21,425
Opening adjustments	—	—	—	—	—	—
Adjusted opening group MCEV	18,389	2,059	20,448	977	3,036	21,425
Operating MCEV earnings	1,760	—	1,760	509	509	2,269
Non-operating MCEV earnings	(8,678)	(53)	(8,731)	(1,203)	(1,256)	(9,934)
Total MCEV earnings	(6,918)	(53)	(6,971)	(694)	(747)	(7,665)
Other movements in IFRS net equity	—	(28)	(28)	(994)	(1,022)	(1,022)
Capital and dividend flows	(63)	—	(63)	(712)	(712)	(775)
Foreign exchange variances	2,717	567	3,284	(895)	(328)	2,389
Acquired/divested businesses	87	94	181	(181)	(87)	—
Closing group MCEV	14,212	2,639	16,851	(2,499)	140	14,352
Preference share capital and direct capital instruments						(1,190)
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis						13,162

1. Covered business represents the business that the MCEV calculations cover, as detailed in the Basis of preparation note. The embedded value is presented net of minority interests and tax.
2. Non-covered but related to life business represents the adjustments to the MCEV, including goodwill, to calculate the long-term business net assets on an MCEV basis. An analysis of net assets on an MCEV basis gross of minority interests is provided on page 298.
3. Net assets for the total life businesses on an MCEV basis presented net of minority interests.

M1 – Basis of preparation

The condensed consolidated income statement and condensed consolidated statement of financial position on pages 284 to 286 present the group's results and financial position for the life and related businesses on the Market Consistent Embedded Value (MCEV) basis and for its non-life businesses on the International Financial Reporting Standards (IFRS) basis. The MCEV methodology adopted is in accordance with the MCEV Principles published by the CFO Forum in October 2009.

The directors consider that the MCEV methodology gives useful insight into the drivers of financial performance of the group's life and related businesses. This basis values future cash flows from assets consistently with market prices, including more explicit allowance for the impact of uncertainty in future investment returns and other risks.

Embedded value is also consistent with the way pricing is assessed and the business is managed.

The results for 2009 and 2008 have been audited by our auditors, Ernst & Young. Their report in respect of 2009 can be found on page 316 in the Report and Accounts.

CFO Forum principles update

The CFO Forum issued updated MCEV Principles and Guidance in October 2009, replacing the guidance issued in June 2008. The main change was to permit the use of liquidity premium on contracts with predictable cashflows. Aviva's methodology of applying liquidity premium to contracts where backing assets can be held to maturity is unchanged. Further details are given on page 308. Aviva's methodology is compliant with the updated CFO Forum Principles.

Covered business

The MCEV calculations cover the following lines of business: life insurance, long-term health and accident insurance, savings, pensions and annuity business written by our life insurance subsidiaries, including managed pension fund business and our share of the other life and related business written in our associated undertakings and joint ventures, as well as the equity release business written in the UK.

Covered business includes the group's share of our joint ventures including our arrangement with The Royal Bank of Scotland Group (RBSG) and our associated undertakings in India, China, Turkey, Malaysia, Taiwan and South Korea. In addition, the results of group companies providing significant administration, fund management and other services and of group holding companies have been included to the extent that they relate to covered business. Together these businesses are referred to as "Life and related businesses".

New business premiums

New business premiums include:
— premiums arising from the sale of new contracts during the period;
— non-contractual additional premiums, including future Department of Work and Pensions (DWP) rebate premiums; and
— expected renewals on new contracts and expected future contractual alterations to new contracts.

The group's definition of new business under MCEV includes contracts that meet the definition of "non-participating investment" contracts under IFRS.

For products sold to individuals, premiums are considered to represent new business where a new contract has been signed, or where underwriting has been performed. Renewal premiums include contractual renewals, non-contractual variations that are reasonably predictable and recurrent single premiums that are pre-defined and reasonably predictable.

For group products, new business includes new contracts and increases to aggregate premiums under existing contracts. Renewal premiums are based on the level of premium received during the reporting period and allow for premiums expected to be received beyond the expiry of any guaranteed premium rates.

Life and pensions operating earnings

For life and pensions operating earnings, Aviva uses normalised investment returns. The use of asset risk premia reflects management's long-term expectations of asset returns in excess of the swap yield from investing in different asset classes.

Within the 2008 results, the normalised investment returns were calculated by reference to the one year swap rate in the relevant currency plus an appropriate risk premium for bonds, equities and properties. For 2009, the group considers that the return over the typical duration of the assets held is more appropriate and is more consistent with the group's expectation of long-term rates of return.

Therefore, the expected return on equities and properties has been calculated by reference to the 10 year swap rate in the relevant currency plus an appropriate risk premium. The expected return on bonds has been calculated by reference to the swap rate consistent to the duration of the backing assets in the relevant currency plus an appropriate risk premium.

This assumption does not impact the embedded value as asset risk premia are not recognised until earned.

MCEV methodology

Overview

Under the MCEV methodology, profit is recognised as it is earned over the life of products defined within covered business. The total profit recognised over the lifetime of a policy is the same as under the IFRS basis of reporting, but the timing of recognition is different.

Calculation of the embedded value

The shareholders' interest in the life and related businesses is represented by the embedded value. The embedded value is the total of the net worth of the life and related businesses and the value of in-force covered business. Calculations are performed separately for each business and are based on the cash flows of that business, after allowing for both external and intra-group reinsurance. Where one life business has an interest in another, the net worth of that business excludes the interest in the dependent company.

The embedded value is calculated on an after-tax basis applying current legislation and practice together with future known changes. Where gross results are presented, these have been calculated by grossing up post-tax results at the full rate of corporation tax for each country based on opening period tax rates, apart from the US, where a nil tax rate has been used in the post-tax results, and consequently for 'grossing up'.

Net worth

The net worth is the market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets, and consists of the required capital and free surplus.

Required capital is the market value of assets attributed to the covered business over and above that required to back liabilities for covered business, for which distribution to shareholders is restricted. Required capital is reported net of implicit items permitted on a local regulatory basis to cover minimum solvency margins which are assessed at a local entity level. The level of required capital for each business unit is set equal to the higher of:

— The level of capital at which the local regulator is empowered to take action;
— The capital requirement of the business unit under the group's economic capital requirements; and
— The target capital level of the business unit.

This methodology reflects the level of capital considered by the directors to be appropriate to manage the business, and includes any additional shareholder funds not available for distribution, such as the reattributed inherited estate in the UK. The same definition of required capital is used for both existing and new business.

The free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business at the valuation date. The level of required capital across the business units expressed as a percentage of the EU minimum solvency margin (or equivalent) can be found on page 308.

Value of in-force covered business (VIF)

The value of in-force covered business consists of the following components:

— present value of future profits;
— time value of financial options and guarantees;
— frictional costs of required capital; and
— cost of residual non-hedgeable risks.

Present value of future profits (PVFP)

This is the present value of the distributable profits to shareholders arising from the in-force covered business projected on a best estimate basis.

Distributable profits generally arise when they are released following actuarial valuations. These valuations are carried out in accordance with any local statutory requirements designed to ensure and demonstrate solvency in long-term business funds. Future distributable profits will depend on experience in a number of areas such as investment return, discontinuance rates, mortality, administration costs, as well as management and policyholder actions. Releases to shareholders arising in future years from the in-force covered business and associated required capital can be projected using assumptions of future experience.

Future profits are projected using best estimate non-economic assumptions and market consistent economic assumptions. In principle, each cash flow is discounted at a rate that appropriately reflects the riskiness of that cash flow, so higher risk cash flows are discounted at higher rates. In practice, the PVFP is calculated using the "certainty equivalent" approach, under which the reference rate is used for both the investment return and the discount rate. This approach ensures that asset cash flows are valued consistently with the market prices of assets without options and guarantees. Further information on the risk-free rates is given in note M18.

The PVFP includes the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business. This is referred to as the "look through" into service company expenses. In addition, expenses arising in holding companies that relate directly to acquiring or maintaining covered business have been allowed for. Where external companies provide services to the life and related businesses, their charges have been allowed for in the underlying projected cost base.

M1 – Basis of preparation continued

Time value of financial options and guarantees (TVOG)

The PVFP calculation is based on a single (base) economic scenario. However, a single scenario cannot appropriately allow for the effect of certain product features. If an option or guarantee affects shareholder cash flows in the base scenario, the impact is included in the PVFP and is referred to as the intrinsic value of the option guarantee.

However, future investment returns are uncertain and the actual impact on shareholder profits may be higher or lower. The value of in-force business needs to be adjusted for the impact of the range of potential future outcomes. Stochastic modelling techniques can be used to assess the impact of potential future outcomes, and the difference between the intrinsic value and the total stochastic value is referred to as the time value of the option or guarantee.

Stochastic modelling typically involves projecting the future cash flows of the business under thousands of economic scenarios that are representative of the possible future outcomes for market variables such as interest rates and equity returns. Under a market consistent approach, the economic scenarios generated reflect the market's tendency towards risk aversion. Allowance is made, where appropriate, for the effect of management and/or policyholder actions in different economic conditions on future assumptions such as asset mix, bonus rates and surrender rates.

Stochastic models are calibrated to market yield curves and volatility levels at the valuation date. Tests are performed to confirm that the scenarios used produce results that replicate the market price of traded instruments.

Where evidence exists that persistency rates are linked to economic scenarios, dynamic lapse assumptions are set that vary depending on the individual scenarios. This cost is included in the TVOG. Dynamic lapses are modelled for parts of the US and French businesses. Asymmetries in non-economic assumptions that are linked to economic scenarios, but that have insufficient evidence for credible dynamic assumptions, are allowed for within mean best estimate assumptions.

Frictional costs of required capital

The additional costs to a shareholder of holding the assets backing required capital within an insurance company rather than directly in the market are called frictional costs. They are explicitly deducted from the PVFP. The additional costs allowed for are the taxation costs and any additional investment expenses on the assets backing the required capital. The level of required capital has been set out above in the net worth section.

Frictional costs are calculated by projecting forwards the future levels of required capital. Tax on investment return and investment expenses are payable on the assets backing required capital, up until the point that they are released to shareholders.

Cost of residual non-hedgeable risks (CNHR)

The cost of residual non-hedgeable risks (CNHR) covers risks not already allowed for in the time value of options and guarantees or the PVFP. The allowance includes the impact of both non-hedgeable financial and non-financial risks. The most significant risk not included in the PVFP or TVOG is operational risk.

The methodology includes a cost of non-hedgeable risk equivalent to a charge of 2.5% applied to group-diversified capital. The cost has been calculated as a 1.5% charge applied to business unit-level capital that is, allowing for diversification within a business unit, but not between business units. The charge was set so as to give an aggregate allowance that was in excess of the expected operational risk costs arising from the in-force covered business over its remaining lifetime.

The capital levels used are projected to be sufficient to cover non-hedgeable risks at the 99.5% confidence level one-year after the valuation date. The capital is equal to the capital from the ICA results for those risks considered. The capital has been projected as running off over the remaining life of the in-force portfolio in line with the drivers of the capital requirement.

In addition to the operational risk allowance, financial non-hedgeable risks and other product level asymmetries have been allowed for. These allowances are not material as significant financial non-hedgeable risks and product level asymmetries are either modelled explicitly and included in the TVOG or are included in the PVFP through the use of appropriate best estimate assumptions.

Asymmetric risks allowed for in the TVOG or PVFP are described earlier in the Basis of preparation. No allowance has been made within the cost of non-hedgeable risk for symmetrical risks as these are diversifiable by investors.

Participating business

Future regular bonuses on participating business are projected in a manner consistent with current bonus rates and expected future market-consistent returns on assets deemed to back the policies.

For with-profit funds in the UK and Ireland, for the purpose of recognising the value of the estate, it is assumed that terminal bonuses are increased to exhaust all of the assets in the fund over the future lifetime of the in-force with-profit policies. However, under stochastic modelling there may be some extreme economic scenarios when the total assets in the group's with-profit funds are not sufficient to pay all policyholder claims. The average additional shareholder cost arising from this shortfall has been included in the TVOG.

For profit sharing business in continental Europe, where policy benefits and shareholder value depend on the timing of realising gains, the apportionment of unrealised gains between policyholders and shareholders reflect contractual requirements as well as existing practice. Under certain economic scenarios where additional shareholder injections are required to meet policyholder payments, the average additional cost has been included in the TVOG.

The embedded value of the US spread-based products anticipates the application of management discretion allowed for contractually within the policies, subject to contractual guarantees. This includes the ability to change the crediting rates and indexed strategies available within the policy. Consideration is taken of the economic environment assumed in future projections and returns in excess of the reference rate are not assumed. Anticipated market and policyholder reaction to management action has been considered. The anticipated management action is consistent with current decision rules and has been approved and signed off by management and legal counsel.

M1 – Basis of preparation continued

Consolidation adjustments

The effect of transactions between group life companies such as loans and reinsurance arrangements have been included in the results split by territory in a consistent manner. No elimination is required on consolidation.

As the MCEV methodology incorporates the impact of profits and losses arising from subsidiary companies providing administration, investment management and other services to the group's life companies, the equivalent profits and losses have been removed from the relevant segment (non-insurance or fund management) and are instead included within the results of life and related businesses. In addition, the underlying basis of calculation for these profits has changed from the IFRS basis to the MCEV basis.

The capitalised value of the future profits and losses from such service companies are included in the embedded value and value of new business calculations for the relevant business, but the net assets (representing historical profits and other amounts) remain under non-insurance or fund management. In order to reconcile the profits arising in the financial period within each segment with the assets on the opening and closing statement of financial positions, a transfer of IFRS profits from life and related business to the appropriate segment is deemed to occur. An equivalent approach has been adopted for expenses within our holding companies. The assessments of goodwill, intangibles and pension schemes relating to life insurance business utilise the IFRS measurement basis.

Restatements

(i) Following a review, the scope of business using adjusted swap rates has been increased to cover all contracts that contain features similar to immediate annuity contracts. Prior year results have been restated to include the effect of adjusting the risk free rates on paid-up and single premium group deferred annuity business in Delta Lloyd and immediate annuities in France and Spain. At 31 December 2008, this increased the embedded value by £467 million and increased total earnings by £234 million in 2008. The impact of these changes by country at 31 December 2008 was Delta Lloyd (£352 million), France (£48 million) and Spain (£67 million).

(ii) The 2008 figures for present value of new business premiums and value of new business have been restated to reclassify premium on Annual Renewable Term (ART) business in Spain as other operating existing business variances rather than new business. There is no impact on profit.

(iii) The 2008 embedded value has been restated for the US, primarily reflecting modelling corrections in the valuation of assets on a market consistent basis identified in 2009.

(iv) During 2009, the Group undertook a review of our accounting policy for cash and cash equivalents. Previously, we defined these as normally having a maturity of three months or less from date of acquisition. To avoid ambiguity, our accounting policy has been refined to impose a cut-off date of exactly three months, allowing us to delete "normally" from the policy wording. This refinement of policy has resulted in a reclassification of certain short-dated instruments between cash and cash equivalents and financial investments.

The impact of this refinement has been to increase financial investments and reduce cash and cash equivalents in 2008 by £538 million compared to the amounts previously stated. As a consequence of this, cash flows from operating activities in 2008 have decreased by £58 million, with the effect of exchange rate movements accounting for the remaining £50 million.

(v) During 2009, the Group's Dutch subsidiary, Delta Lloyd, carried out a review of the way it had been applying IAS 19, *Employee Benefits*, in its own financial statements where the corridor method of smoothing actuarial gains and losses in its pension schemes is followed; in accounting for its self-insured pension obligations and intercompany eliminations; and in its reporting to Group where the corridor accounting is reversed. The review concluded that errors had been made locally in applying IAS 19 on the transition to IFRS and in subsequent years, such that gains on certain assets had been reported in provisions, to be released over time, rather than through other comprehensive income. The impact of correcting these errors is to reduce provisions by £129 million as at 1 January 2008, increase deferred tax liabilities by £33 million and increase retained earnings at that date by £96 million.

Exchange rates

The group's principal overseas operations during the period were located within the Eurozone and the United States. The results and cash flows of these operations have been translated at the average rates for that period and the assets and liabilities have been translated at the period end rates. Please refer to note 1 on page 151 of the IFRS financial statements.

M2 – Geographical analysis of MCEV operating earnings

Gross of tax and minority interests 2009 £m	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business	**247**	**169**	**12**	**124**	**55**	**151**	**10**	**521**	**(103)**	**418**	**16**	**11**	**18**	**29**	**710**
Earnings from existing business															
– expected existing business contribution (reference rate)	**113**	**161**	**22**	**15**	**67**	**39**	**22**	**326**	**43**	**369**	**55**	**11**	**15**	**26**	**563**
– expected existing business contribution (in excess of reference rate)	**402**	**282**	**18**	**5**	**4**	**119**	**—**	**428**	**270**	**698**	**249**	**15**	**1**	**16**	**1,365**
Experience variances															
– maintenance expense[1]	**37**	**—**	**6**	**(2)**	**14**	**(10)**	**5**	**13**	**(3)**	**10**	**—**	**6**	**(1)**	**5**	**52**
– project and other related expenses[1]	**(34)**	**(1)**	**(7)**	**—**	**—**	**(7)**	**(7)**	**(22)**	**(42)**	**(64)**	**(35)**	**—**	**—**	**—**	**(133)**
– mortality/morbidity[2]	**6**	**50**	**8**	**2**	**12**	**(6)**	**8**	**74**	**(22)**	**52**	**5**	**5**	**8**	**13**	**76**
– lapses[3]	**(30)**	**53**	**(23)**	**(46)**	**17**	**(52)**	**(17)**	**(68)**	**13**	**(55)**	**(17)**	**(38)**	**—**	**(38)**	**(140)**
– other[4]	**(8)**	**(80)**	**1**	**116**	**7**	**1**	**1**	**46**	**51**	**97**	**(40)**	**—**	**(3)**	**(3)**	**46**
	(29)	**22**	**(15)**	**70**	**50**	**(74)**	**(10)**	**43**	**(3)**	**40**	**(87)**	**(27)**	**4**	**(23)**	**(99)**
Operating assumption changes:															
– maintenance expense[5]	**1**	**(22)**	**5**	**(31)**	**54**	**(94)**	**10**	**(78)**	**275**	**197**	**(9)**	**(10)**	**8**	**(2)**	**187**
– project and other related expenses	**—**	**—**	**—**	**—**	**—**	**(13)**	**—**	**(13)**	**—**	**(13)**	**—**	**—**	**—**	**—**	**(13)**
– mortality/morbidity[6]	**5**	**64**	**7**	**12**	**58**	**(9)**	**(1)**	**131**	**(4)**	**127**	**(20)**	**(1)**	**5**	**4**	**116**
– lapses[7]	**(51)**	**(22)**	**(9)**	**(37)**	**83**	**(69)**	**(7)**	**(61)**	**(40)**	**(101)**	**(105)**	**(9)**	**4**	**(5)**	**(262)**
– other[8]	**(22)**	**3**	**12**	**1**	**(1)**	**—**	**(2)**	**13**	**(60)**	**(47)**	**96**	**(6)**	**(5)**	**(11)**	**16**
	(67)	**23**	**15**	**(55)**	**194**	**(185)**	**—**	**(8)**	**171**	**163**	**(38)**	**(26)**	**12**	**(14)**	**44**
Expected return on shareholders' net worth	**138**	**66**	**16**	**57**	**8**	**26**	**7**	**180**	**88**	**268**	**89**	**11**	**6**	**17**	**512**
Other operating variances[9]	**(17)**	**62**	**(4)**	**—**	**121**	**37**	**(2)**	**214**	**65**	**279**	**(18)**	**50**	**—**	**50**	**294**
Earnings before tax and minority interests	**787**	**785**	**64**	**216**	**499**	**113**	**27**	**1,704**	**531**	**2,235**	**266**	**45**	**56**	**101**	**3,389**

1. Maintenance expense experience in the UK relates to profits from existing business administration. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes. Project and other related expenses in Delta Lloyd relate to integration costs in Belgium.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Persistency experience has been volatile across most of our businesses, in part reflecting wider economic volatility. In France, positive persistency experience including the release of a short term provision, in line with positive underlying experience. In Poland, lapse experience continued to be better than the long-term assumptions for both Life and Pension products.
4. Other experience is favourable overall. Both France and Italy include one off adjustments reflecting final commission payments from prior years. The favourable impact in Italy reflects to one-off profit sharing on a reinsurance treaty. The favourable impact in Delta Lloyd relates to the revised investment and bonus strategy in Germany following the decision to close this operation to new business. The adverse impact in the USA relates to the cost of enhancing policyholder crediting rates.
5. Favourable expense assumption changes reflect the impact of cost reductions in Delta Lloyd and Poland, together with the impact of revisions to expense allocations in Delta Lloyd. The adverse impact in Spain relates to the capitalisation of certain governance costs in respect of bancassurance joint ventures.
6. Favourable mortality assumption changes in France, Poland reflecting recent experience. The adverse impact in the Delta Lloyd reflects the net impact of using updated mortality tables in the Netherlands, Germany and Belgium, following the issuance of revised advice from the respective actuarial associations.
7. Persistency assumptions have been strengthened across most of our businesses, in light of experience. In Poland, persistency assumptions have been weakened following sustained favourable experience.
8. Other assumption changes in the US primarily relate to the timing of management action in setting policyholder credited rates. In Delta Lloyd, the change represents tax effects resulting from a reallocation of assets.
9. Other operating variances in France, Poland and Asia have arisen as a result of more accurate modelling. In the Delta Lloyd, these relate to revisions to investment and bonus strategies and expenses in Delta Lloyd Germany following the decision to close this operation to new business. In Spain, these reflect the impact of re-pricing actions on risk products.

M2 – Geographical analysis of MCEV operating earnings continued

Gross of tax and minority interests 2008 Restated £m	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business[1]	204	135	15	71	65	202	29	517	(47)	470	55	30	13	43	772
Earnings from existing business															
– expected existing business contribution (reference rate)	338	188	39	30	91	60	19	427	107	534	86	9	25	34	992
– expected existing business contribution (in excess of reference rate)	210	38	8	6	8	22	—	82	78	160	53	4	2	6	429
Experience variances															
– maintenance expense	20	2	(2)	(6)	6	(1)	(1)	(2)	(35)	(37)	—	(2)	—	(2)	(19)
– project and other related expenses[2]	(62)	(10)	(7)	—	—	(6)	(6)	(29)	(26)	(55)	(14)	—	—	—	(131)
– mortality/morbidity[3]	18	42	2	2	20	4	1	71	19	90	—	5	2	7	115
– lapses[4]	(23)	(8)	(7)	(15)	26	(24)	(10)	(38)	(11)	(49)	(5)	(4)	3	(1)	(78)
– other[5]	7	(45)	(42)	(15)	(8)	2	(1)	(109)	34	(75)	(31)	(1)	(11)	(12)	(111)
	(40)	(19)	(56)	(34)	44	(25)	(17)	(107)	(19)	(126)	(50)	(2)	(6)	(8)	(224)
Operating assumption changes:															
– maintenance expense[6]	(15)	(12)	(2)	(9)	4	—	(12)	(31)	(167)	(198)	(5)	(3)	—	(3)	(221)
– project and other related expenses	13	—	—	—	—	—	—	—	9	9	—	—	—	—	22
– mortality/morbidity[7]	54	—	25	11	4	(1)	—	39	(79)	(40)	—	1	(1)	—	14
– lapses[8]	(73)	108	7	(9)	(10)	(19)	(20)	57	—	57	—	(12)	1	(11)	(27)
– other[9]	16	(1)	23	3	24	—	13	62	(28)	34	1	(10)	6	(4)	47
	(5)	95	53	(4)	22	(20)	(19)	127	(265)	(138)	(4)	(24)	6	(18)	(165)
Expected return on shareholders' net worth	166	107	34	63	13	23	8	248	204	452	61	14	8	22	701
Other operating variances[10]	10	148	(15)	(1)	(2)	24	3	157	138	295	—	—	—	—	305
Earnings before tax and minority interests	883	692	78	131	241	286	23	1,451	196	1,647	201	31	48	79	2,810

1. In Spain £34 million has been reclassified from value of new business to other operating variances.
2. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes. Expenses in Delta Lloyd reflect an overrun in Belgium following the acquisition of Swiss Life Belgium, and restructuring within the intermediary division.
3. Mortality experience continues to be better than the assumptions set across a number of our businesses.
4. Lapse experience has been volatile, in part reflecting wider economic volatility. In Poland, lapse experience continued to be better than the long-term assumptions for both life and pension products.
5. In France, other experience profits include the reduction in value arising from reductions in fees and commissions received. In Ireland, certain statutory provisions were increased following a review. The movement in Delta Lloyd reflects changes on group pension scheme contribution. In the USA, other experience reflects the cost of enhancing policyholder crediting rates.
6. In Delta Lloyd, expense assumptions have been updated following a review of expense allocations.
7. In UK, favourable mortality assumption changes are in respect of mortality and morbidity changes across a range of products. In Delta Lloyd, mortality assumption changes reflect the impact of using a new industry mortality basis.
8. In the UK, an additional lapse provision has been set up in anticipation of higher short-term recession related withdrawals (pre tax £50 million) and higher mortgage and income protection claims (pre tax £20 million) to reflect rising unemployment. In France, persistency assumptions have been weakened following continual favourable experience on AFER products.
9. In the UK, other operating assumption changes include the impact of the with-profit special distribution. In Ireland, other assumption changes reflect a reduction in the assumed future tax charges. In Poland, other assumptions reflect a change in the pattern of future mortality charging structure.
10. Other operating variances in France are mainly in respect of the impact of the mutualisation of funds following the merger of two legal entities. In Delta Lloyd, changes are mainly in respect of aligning the profit sharing policy for existing group business in Belgium, following the acquisition of Swiss Life Belgium.

M2 – Geographical analysis of MCEV operating earnings continued

Net of tax and minority interests 2009	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business	177	94	8	38	39	51	8	238	(78)	160	16	9	13	22	375
Earnings from existing business															
– expected existing business contribution (reference rate)	81	100	15	5	47	15	17	199	29	228	55	6	11	17	381
– expected existing business contribution (in excess of reference rate)	289	170	12	2	3	44	—	231	171	402	249	12	—	12	952
Experience variances															
– maintenance expense	27	—	4	(1)	10	(8)	4	9	4	13	—	5	—	5	45
– project and other related expenses[1]	(26)	—	(5)	—	—	(3)	(6)	(14)	(21)	(35)	(35)	—	—	—	(96)
– mortality/morbidity[2]	4	30	5	1	9	(3)	6	48	(17)	31	5	3	5	8	48
– lapses[3]	(22)	36	(16)	(15)	12	(20)	(14)	(17)	5	(12)	(17)	(31)	—	(31)	(82)
– other[4]	(4)	(49)	1	37	5	1	1	(4)	35	31	(40)	(1)	(2)	(3)	(16)
	(21)	17	(11)	22	36	(33)	(9)	22	6	28	(87)	(24)	3	(21)	(101)
Operating assumption changes:															
– maintenance expense[5]	—	(14)	3	(10)	38	(69)	7	(45)	197	152	(9)	(9)	6	(3)	140
– project and other related expenses	—	—	—	—	—	(5)	—	(5)	—	(5)	—	—	—	—	(5)
– mortality/morbidity[6]	4	42	4	4	42	(3)	1	90	1	91	(20)	—	3	3	78
– lapses[7]	(36)	(13)	(6)	(12)	58	(24)	(5)	(2)	(25)	(27)	(105)	(6)	3	(3)	(171)
– other[8]	(16)	2	8	1	(1)	—	(3)	7	(48)	(41)	96	(5)	(3)	(8)	31
	(48)	17	9	(17)	137	(101)	—	45	125	170	(38)	(20)	9	(11)	73
Expected return on shareholders' net worth	100	38	11	18	6	10	6	89	57	146	89	7	4	11	346
Other operating variances[9]	(11)	34	(3)	—	83	12	1	127	14	141	(18)	40	—	40	152
Earnings after tax and minority interests	567	470	41	68	351	(2)	23	951	324	1,275	266	30	40	70	2, 178

1. Maintenance expense experience in the UK relates to profits from existing business administration. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes. Project and other related expenses in Delta Lloyd relate to integration costs in Belgium.
2. Mortality experience continues to be better than the assumptions set across a number of our businesses.
3. Persistency experience has been volatile across most of our businesses, in part reflecting wider economic volatility. In France, positive persistency experience including the release of a short term provision, in line with positive underlying experience. In Poland, lapse experience continued to be better than the long-term assumptions for both Life and Pension products.
4. Other experience is favourable overall. Both France and Italy include one off adjustments reflecting final commission payments from prior years. The favourable impact in Italy reflects to one-off profit sharing on a reinsurance treaty. The favourable impact in Delta Lloyd relates to the revised investment and bonus strategy in Germany following the decision to close this operation to new business. The adverse impact in the USA relates to the cost of enhancing policyholder crediting rates.
5. Favourable expense assumption changes reflect the impact of cost reductions in Delta Lloyd and Poland, together with the impact of revisions to expense allocations in Delta Lloyd. The adverse impact in Spain relates to the capitalisation of certain governance costs in respect of bancassurance joint ventures
6. Favourable mortality assumption changes in France, Poland reflecting recent experience. The adverse impact in the Delta Lloyd reflects the net impact of using updated mortality tables in the Netherlands, Germany and Belgium, following the issuance of revised advice from the respective actuarial associations.
7. Persistency assumptions have been strengthened across most of our businesses, in light of experience. In Poland, persistency assumptions have been weakened following sustained favourable experience.
8. Other assumption changes in the US primarily relate to the timing of management action in setting policyholder credited rates. In Delta Lloyd, the change represents tax effects resulting from a reallocation of assets.
9. Other operating variances in France, Poland and Asia have arisen as a result of more accurate modelling. In the Delta Lloyd, these relate to revisions to investment and bonus strategies and expenses in Delta Lloyd Germany following the decision to close this operation to new business. In Spain, these reflect the impact of re-pricing actions on risk products.

M2 – Geographical analysis of MCEV operating earnings continued

Net of tax and minority interests 2008 Restated	UK £m	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Other Europe £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	North America £m	Asia £m	Australia £m	Asia Pacific £m	Total £m
Value of new business[1]	147	79	10	21	46	68	24	248	(48)	200	36	24	9	33	416
Earnings from existing business															
– expected existing business contribution (reference rate)	244	115	26	9	64	23	15	252	74	326	56	10	18	28	654
– expected existing business contribution (in excess of reference rate)	151	24	5	2	6	9	—	46	56	102	35	2	1	3	291
Experience variances															
– maintenance expense	15	1	(1)	(2)	4	—	(1)	1	(22)	(21)	—	(3)	—	(3)	(9)
– project and other related expenses[2]	(45)	(7)	(5)	—	—	(4)	(5)	(21)	(18)	(39)	(9)	—	—	—	(93)
– mortality/morbidity[3]	13	26	1	1	15	—	1	44	12	56	—	4	1	5	74
– lapses[4]	(17)	(4)	(5)	(5)	18	(10)	(9)	(15)	(1)	(16)	(2)	(3)	2	(1)	(36)
– other[5]	5	(29)	(27)	(6)	(6)	1	(1)	(68)	29	(39)	(20)	(1)	(8)	(9)	(63)
	(29)	(13)	(37)	(12)	31	(13)	(15)	(59)	—	(59)	(31)	(3)	(5)	(8)	(127)
Operating assumption changes:															
– maintenance expense[6]	(11)	(8)	(1)	(3)	3	—	(10)	(19)	(109)	(128)	(3)	(3)	—	(3)	(145)
– project and other related expenses	9	—	—	—	—	—	—	—	4	4	—	—	—	—	13
– mortality/morbidity[7]	39	—	16	4	3	(1)	—	22	(77)	(55)	—	1	(1)	—	(16)
– lapses[8]	(53)	65	4	(3)	(8)	(7)	(16)	35	—	35	—	(10)	1	(9)	(27)
– other[9]	12	—	15	1	18	—	11	45	(13)	32	—	(8)	4	(4)	40
	(4)	57	34	(1)	16	(8)	(15)	83	(195)	(112)	(3)	(20)	4	(16)	(135)
Expected return on shareholders' net worth	119	66	23	20	10	10	6	135	145	280	39	8	6	14	452
Other operating variances[10]	7	98	(11)	(1)	(1)	8	2	95	104	199	—	3	—	3	209
Earnings after tax and minority interests	635	426	50	38	172	97	17	800	136	936	132	24	33	57	1,760

1. In Spain £12 million has been reclassified from value of new business to other operating variances.
2. Project and other related expenses in the UK reflect project costs associated with strategic initiatives, including developments designed to offer a wider range of products to customers, and the simplification of systems and processes. Expenses in Delta Lloyd reflect an overrun in Belgium following the acquisition of Swiss Life Belgium, and restructuring within the intermediary division.
3. Mortality experience continues to be better than the assumptions set across a number of our businesses.
4. Lapse experience has been volatile, in part reflecting wider economic volatility. In Poland, lapse experience continued to be better than the long-term assumptions for both life and pension products.
5. In France, other experience profits include the reduction in value arising from reductions in fees and commissions received. In Ireland, certain statutory provisions were increased following a review. The movement in Delta Lloyd reflects changes on group pension scheme contribution. In the USA, other experience reflects the cost of enhancing policyholder crediting rates.
6. In Delta Lloyd, expense assumptions have been updated following a review of expense allocations.
7. In UK, favourable mortality assumption changes are in respect of mortality and morbidity changes across a range of products. In Delta Lloyd, mortality assumption changes reflect the impact of using a new industry mortality basis.
8. In the UK, an additional lapse provision has been set up in anticipation of higher short-term recession related withdrawals (pre tax £50 million) and higher mortgage and income protection claims (pre tax £20 million) to reflect rising unemployment. In France, persistency assumptions have been weakened following continual favourable experience on AFER products.
9. In the UK, other operating assumption changes include the impact of the with-profit special distribution. In Ireland, other assumption changes reflect a reduction in the assumed future tax charges. In Poland, other assumptions reflect a change in the pattern of future mortality charging structure.
10. Other operating variances in France are mainly in respect of the impact of the mutualisation of funds following the merger of two legal entities. In Delta Lloyd, changes are mainly in respect of aligning the profit sharing policy for existing group business in Belgium, following the acquisition of Swiss Life Belgium.

M3 – Geographical analysis of fund management operating earnings

The summarised consolidated income statement – MCEV basis, includes earnings from the group's fund management operations as analysed below. This excludes the proportion of the results of Aviva Investors fund management businesses and other fund management operations within the group that arise from the provision of fund management services to our Life businesses. These results are included within the Life MCEV operating earnings.

	2009 £m	2008 £m
United Kingdom	**42**	34
Europe	**6**	9
North America	**(7)**	(3)
Asia Pacific	**(1)**	1
Aviva Investors	**40**	41
United Kingdom	**(14)**	(18)
Aviva Europe	**3**	4
Delta Lloyd	**21**	2
Europe	**24**	6
Asia Pacific	**1**	13
Total	**51**	42

M4 – Analysis of other operations and regional costs

Where subsidiaries provide services to our life business, that proportion has been excluded. These results are included within the Life MCEV operating return.

	2009			2008		
	Regional costs £m	**Other operations £m**	**Total £m**	Regional costs £m	Other Operations £m	Total £m
United Kingdom	**—**	**(28)**	**(28)**	—	(12)	(12)
Aviva Europe	**(36)**	**(41)**	**(77)**	(28)	(37)	(65)
Delta Lloyd	**—**	**(30)**	**(30)**	—	(51)	(51)
Europe	**(36)**	**(71)**	**(107)**	(28)	(88)	(116)
North America	**(19)**	**3**	**(16)**	(14)	2	(12)
Asia Pacific	**(20)**	**(2)**	**(22)**	(23)	—	(23)
Total	**(75)**	**(98)**	**(173)**	(65)	(98)	(163)

M5 – Segmentation of condensed consolidated statement of financial position

	2009			Restated 2008		
	Life and related businesses £m	**General business and other £m**	**Group £m**	Life and related businesses £m	General business and other £m	Group £m
Total assets before acquired value of in-force long-term business	**307,117**	**45,880**	**352,997**	305,562	46,634	352,196
Acquired additional value of in-force long-term business	**1,394**	**—**	**1,394**	2,366	—	2,366
Total assets included in the IFRS statement of financial position	**308,511**	**45,880**	**354,391**	307,928	46,634	354,562
Liabilities of the long-term business	**(291,194)**	**—**	**(291,194)**	(291,347)	—	(291,347)
Liabilities of the general insurance and other businesses	**—**	**(48,111)**	**(48,111)**	—	(48,642)	(48,642)
Net assets on a statutory IFRS basis	**17,317**	**(2,231)**	**15,086**	16,581	(2,008)	14,573
Additional value of in-force long-term business[1]	**3,376**	**—**	**3,376**	2,859	—	2,859
Net assets on an MCEV basis[2]	**20,693**	**(2,231)**	**18,462**	19,440	(2,008)	17,432
Equity capital, capital reserves, shares held by employee trusts and other reserves			**7,144**			8,706
IFRS basis retained earnings			**3,425**			3,902
Additional MCEV basis retained earnings			**2,466**			554
Equity attributable to ordinary shareholders of Aviva plc on an MCEV basis			**13,035**			13,162
Preference share capital and direct capital instruments			**1,190**			1,190
Minority interests			**4,237**			3,080
MCEV basis total equity			**18,462**			17,432

1. The analysis between the group's and minority interests' share of the additional value of in-force long-term business is as follows:

	2009 £m	Restated 2008 £m	Movement in year £m
Group's share included in shareholders' funds	**2,466**	554	1,912
Minority interests' share	**697**	876	(179)
Movements in AFS securities	**213**	1,429	(1,216)
Additional value of in-force long-term business	**3,376**	2,859	517

2. Analysis of net assets on an MCEV basis is made up as follows:

	2009 £m	Restated 2008 £m
Embedded value	**15,001**	14,212
Minority interests	**3,438**	2,367
	18,439	16,579
Goodwill and intangible assets allocated to long-term business[3]	**2,606**	2,947
Notional allocation of IAS19 pension fund deficit to long-term business[4]	**(352)**	(86)
Long-term business net assets on an MCEV basis	**20,693**	19,440

3. Goodwill and intangible assets includes amounts related to associated undertakings and joint ventures.
4. The value of the Aviva Staff Pension Schemes deficit has been notionally allocated between segments, based on current funding and the Life proportion has been included within the long-term business net assets on an MCEV basis. The pension fund deficit notionally allocated to long-term business is net of the agreed funding borne by the UK with-profit funds.

M6 – Analysis of life and pension earnings

The following table provides an analysis of the movement in embedded value for covered business. The analysis is shown separately for free surplus, required capital and the value of in-force covered business, and includes amounts transferred between these categories. All figures are shown net of tax and minority interests.

2009	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
Opening group MCEV	**1,348**	**8,148**	**4,716**	**14,212**
Opening adjustments	—	—	—	—
Adjusted opening group MCEV	**1,348**	**8,148**	**4,716**	**14,212**
New business value	**(1,571)**	**983**	**963**	**375**
Expected existing business contribution (reference rate)	—	—	**381**	**381**
Expected existing business contribution (in excess of reference rate)	—	—	**952**	**952**
Transfers from VIF and required capital to the free surplus	**1,869**	**(738)**	**(1,131)**	—
Experience variances	**(198)**	**135**	**(38)**	**(101)**
Assumption changes	**48**	**6**	**19**	**73**
Expected return on shareholders' net worth	**164**	**182**	—	**346**
Other operating variance	**10**	**(141)**	**283**	**152**
Operating MCEV earnings	**322**	**427**	**1,429**	**2,178**
Economic variances	**1,317**	**(324)**	**(42)**	**951**
Other non-operating variances	**(238)**	**909**	**(407)**	**264**
Total MCEV earnings/(loss)	**1,401**	**1,012**	**980**	**3,393**
Capital and dividend flows[2]	**(250)**	—	—	**(250)**
Foreign exchange variance	**6**	**(556)**	**(193)**	**(743)**
Acquired/divested business	**(301)**	**(1,058)**	**(252)**	**(1,611)**
Closing MCEV	**2,204**	**7,546**	**5,251**	**15,001**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. Included within capital and dividend flows is the transfer to Life and related businesses from other segments consisting of service company profits and losses during the reported period that have emerged from the value of in-force. Since the "look through" into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value.

We have reported other non operating variances of £264 million for 2009 (2008: loss £232 million). This represents the impact on the Life MCEV of the reattribution of the inherited estate in the UK and the adverse impact of legislation changes relating to the capping of management changes on pension funds in Poland. In 2008 the impact related to the settlement agreed by Delta Lloyd for its unit-linked policyholders, following an industry-wide challenge on the level of fees. Acquired/divested businesses consist of the disposal of our Australian life and pensions business and the IPO of Delta Lloyd in 2009.

Restated 2008	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
Opening MCEV	3,204	6,240	8,945	18,389
Opening adjustments	—	—	—	—
Adjusted opening group MCEV	3,204	6,240	8,945	18,389
New business value	(1,867)	1,109	1,174	416
Expected existing business contribution (reference rate)	—	—	654	654
Expected existing business contribution (in excess of reference rate)	—	—	291	291
Transfers from VIF and required capital to the free surplus	1,926	(637)	(1,289)	—
Experience variances	154	3	(284)	(127)
Assumption changes	563	(114)	(584)	(135)
Expected return on shareholders' net worth	270	182	—	452
Other operating variance	44	(29)	194	209
Operating MCEV earnings	1,090	514	156	1,760
Economic variances	(3,140)	(433)	(4,873)	(8,446)
Other non-operating variances	(104)	19	(147)	(232)
Total MCEV earnings/(loss)	(2,154)	100	(4,864)	(6,918)
Capital and dividend flows[2]	(63)	—	—	(63)
Foreign exchange variance	459	1,597	661	2,717
Acquired/divested business	(98)	211	(26)	87
Closing MCEV	1,348	8,148	4,716	14,212

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. Included within capital and dividend flows is the transfer to Life and related businesses from other segments consisting of service company profits and losses during the reported period that have emerged from the value of in-force. Since the "look through" into service companies includes only future profits and losses, these amounts must be eliminated from the closing embedded value.

M7 – Life MCEV operating earnings

	FY 2009 £m	FY 2008 £m
Value of new business	**710**	772
Earnings from existing business		
– expected returns at the reference rate	**563**	992
– expected returns in excess of the reference rate	**1,365**	429
– expected returns	**1,928**	1,421
– experience variances	**(99)**	(224)
– operating assumption changes	**44**	(165)
Other operating variance	**294**	305
Expected return on shareholders' net worth	**512**	701
Life and Pensions operating earnings before tax	**3,389**	2,810
Economic Variances	**759**	(12,469)
Other non-operating variances	**364**	(329)
Life and Pensions earnings/(loss) before tax	**4,512**	(9,988)
Tax on operating earnings	**(875)**	(823)
Tax on other activities	**(144)**	3,822
Life and Pensions earnings/(loss) after tax	**3,493**	(6,989)

Key indicators

	FY 2009		FY 2008	
	Net of minorities and tax £m	**Gross of minorities and tax £m**	Net of minorities and tax £m	Gross of minorities and tax £m
Value of new business	**375**	**710**	**416**	**772**
Life and pensions operating return	**2,178**	**3,389**	**1,760**	**2,810**
Life and pensions earnings	**3,393**	**4,512**	**(6,918)**	**(9,988)**

M8 – Present value of life new business premiums

31 December 2009	Regular premiums £m	WACF £m	Present value of regular premiums £m	Single premiums £m	Present value of new business premiums £m
United Kingdom	**531**	**5.3**	**2,803**	**6,111**	**8,914**
France	**92**	**6.6**	**608**	**4,283**	**4,891**
Ireland	**78**	**4.3**	**337**	**735**	**1,072**
Italy	**111**	**5.3**	**592**	**3,015**	**3,607**
Poland	**71**	**13.1**	**927**	**152**	**1,079**
Spain	**128**	**6.1**	**782**	**1,672**	**2,454**
Other Europe	**82**	**4.5**	**365**	**55**	**420**
Aviva Europe	**562**	**6.4**	**3,611**	**9,912**	**13,523**
Delta Lloyd[1]	**207**	**9.3**	**1,935**	**1,730**	**3,665**
Europe	**769**	**7.2**	**5,546**	**11,642**	**17,188**
North America	**90**	**9.6**	**861**	**3,684**	**4,545**
Asia	**185**	**4.5**	**828**	**267**	**1,095**
Australia	**49**	**4.0**	**196**	**65**	**261**
Asia Pacific	**234**	**4.4**	**1,024**	**332**	**1,356**
Total life and pensions	**1,624**	**6.3**	**10,234**	**21, 769**	**32,003**

M8 – Present value of life new business premiums continued

31 December 2008	Regular premiums £m	WACF £m	Present value of regular premiums £m	Restated Single premiums £m	Restated Present value of new business premiums £m
United Kingdom	660	4.8	3,180	8,678	11,858
France	95	6.9	651	3,229	3,880
Ireland	129	4.3	557	742	1,299
Italy	132	6.0	796	1,535	2,331
Poland	106	11.2	1,183	659	1,842
Spain[1]	174	6.0	1,042	1,447	2,489
Other Europe	117	7.7	906	108	1,014
Aviva Europe	753	6.8	5,135	7,720	12,855
Delta Lloyd	197	9.0	1,775	2,322	4,097
Europe	950	7.3	6,910	10,042	16,952
North America	68	8.8	600	5,115	5,715
Asia	174	5.4	941	410	1,351
Australia	60	3.6	217	152	369
Asia Pacific	234	5.0	1,158	562	1,720
Total life and pensions	1,912	6.2	11,848	24,397	36,245

1. The restatement in Spain of £38 million in 2008 is due to the reclassification of incremental premiums on annual renewable term contracts from new business to existing business.

M9 – Geographical analysis of value of new business

Life and pensions (gross of tax and minority interest)	Present value of new business premiums 2009 £m	Present value of new business premiums 2008 £m	Value of new business 2009 £m	Value of new business Restated 2008 £m	New business margin 2009 %	New business margin Restated 2008 %
United Kingdom	**8,914**	11,858	**247**	204	**2.8%**	1.7%
France	**4,891**	3,880	**169**	135	**3.5%**	3.5%
Ireland	**1,072**	1,299	**12**	15	**1.1%**	1.2%
Italy	**3,607**	2,331	**124**	71	**3.4%**	3.0%
Poland	**1,079**	1,842	**55**	65	**5.1%**	3.5%
Spain[1]	**2,454**	2,489	**151**	202	**6.2%**	8.1%
Other Europe	**420**	1,014	**10**	29	**2.4%**	2.9%
Aviva Europe	**13,523**	12,855	**521**	517	**3.9%**	4.0%
Delta Lloyd	**3,665**	4,097	**(103)**	(47)	**(2.8)%**	(1.1)%
Europe	**17,188**	16,952	**418**	470	**2.4%**	2.8%
North America	**4,545**	5,715	**16**	55	**0.4%**	1.0%
Asia Pacific	**1,356**	1,720	**29**	43	**2.1%**	2.5%
Total life and pensions	**32,003**	36,245	**710**	772	**2.2%**	2.1%

1. The restatement in Spain of £38 million in 2008 is due to the reclassification of incremental premiums on annual renewable term contracts from new business to existing business.

Life and pensions (net of tax and minority interest)	Present value of new business premiums 2009 £m	Present value of new business premiums Restated 2008 £m	Value of new business 2009 £m	Value of new business Restated 2008 £m	New business margin 2009 %	New business margin Restated 2008 %
United Kingdom	**8,914**	11,858	**177**	147	**2.0%**	1.2%
France	**4,111**	3,281	**94**	79	**2.3%**	2.4%
Ireland	**804**	974	**8**	10	**1.0%**	1.0%
Italy	**1,614**	980	**38**	21	**2.4%**	2.1%
Poland	**933**	1,604	**39**	46	**4.2%**	2.9%
Spain[1]	**1,326**	1,357	**51**	68	**3.8%**	5.0%
Other Europe	**420**	1,014	**8**	24	**1.9%**	2.4%
Aviva Europe	**9,208**	9,210	**238**	248	**2.6%**	2.7%
Delta Lloyd	**3,235**	3,868	**(78)**	(48)	**(2.4)%**	(1.2)%
Europe	**12,443**	13,078	**160**	200	**1.3%**	1.5%
North America	**4,545**	5,715	**16**	36	**0.4%**	0.6%
Asia Pacific	**1,348**	1,713	**22**	33	**1.6%**	1.9%
Total life and pensions	**27,250**	32,364	**375**	416	**1.4%**	1.3%

1. The restatement in Spain of £38 million in 2008 is due to the reclassification of incremental premiums on annual renewable term contracts from new business to existing business.

M10 – Post tax internal rate of return and payback period on life and pensions new business

31 December 2009	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m	Payback period years
United Kingdom	**14%**	**109**	**133**	**242**	**8**
France	**9%**	**53**	**169**	**222**	**9**
Ireland	**6%**	**56**	**23**	**79**	**10**
Italy	**10%**	**27**	**156**	**183**	**7**
Poland	**22%**	**20**	**9**	**29**	**5**
Spain	**26%**	**25**	**72**	**97**	**3**
Other Europe	**12%**	**43**	**7**	**50**	**8**
Aviva Europe	**13%**	**224**	**436**	**660**	**7**
Delta Lloyd	**6%**	**116**	**140**	**256**	**33**
Europe	**11%**	**340**	**576**	**916**	**15**
North America	**7%**	**162**	**376**	**538**	**14**
Asia	**6%**	**58**	**25**	**83**	**25**
Australia	**11%**	**2**	**34**	**36**	**8**
Asia Pacific	**8%**	**60**	**59**	**119**	**20**
Total	**10.0%**	**671**	**1,144**	**1,815**	**14**

31 December 2008	Internal rate of return %	Initial capital £m	Required capital £m	Total invested capital £m	Payback period years
United Kingdom	14%	157	136	293	8
France	9%	35	118	153	9
Ireland	8%	53	24	77	9
Italy	14%	9	48	57	6
Poland	21%	31	12	43	4
Spain	37%	28	75	103	3
Other Europe	13%	57	9	66	6
Aviva Europe	17%	213	286	499	7
Delta Lloyd	5%	277	244	521	n/a
Europe[1]	11%	490	530	1,020	7
North America	11%	124	489	613	6
Asia	13%	64	23	87	8
Australia	12%	3	30	33	8
Asia Pacific	12%	67	53	120	8
Total[1]	11.4%	838	1,208	2,046	7

1. For Delta Lloyd, the 2008 value of new business is a loss on a real world basis and so it is not possible to calculate a meaningful payback period. Consequently the total and Europe average payback period excludes Delta Lloyd.

M11 – Free surplus emergence

2009	Existing business: Transfer from VIF to net worth £m	Return on net worth £m	Impact of experience variances and assumption changes on net worth £m	Release of required capital to free surplus £m	Total existing business surplus generation £m	New business: Impact on net worth £m	Reduction in free surplus from required capital £m	Total new business surplus generation £m	Total business: Total free surplus generation £m
United Kingdom	**220**	**99**	**62**	**(70)**	**311**	**(53)**	**(130)**	**(183)**	**128**
Aviva Europe	495	89	27	112	723	(177)	(281)	(458)	265
Delta Lloyd	175	57	(124)	55	163	(111)	(124)	(235)	(72)
Europe	**670**	**146**	**(97)**	**167**	**886**	**(288)**	**(405)**	**(693)**	**193**
North America	**159**	**90**	**(100)**	**457**	**606**	**(192)**	**(390)**	**(582)**	**24**
Asia Pacific	**82**	**11**	**(5)**	**2**	**90**	**(55)**	**(58)**	**(113)**	**(23)**
Total	**1,131**	**346**	**(140)**	**556**	**1,893**	**(588)**	**(983)**	**(1,571)**	**322**

M11 – Free surplus emergence continued

2008	Transfer from VIF to net worth £m	Return on net worth £m	Impact of experience variances and assumption changes on net worth £m	Release of required capital to free surplus £m	Total existing business surplus generation £m	Impact on net worth £m	Reduction in free surplus from required capital £m	Total new business surplus generation £m	Total free surplus generation £m
	Existing business					New business			Total business
United Kingdom	403	119	736	85	1,343	(147)	(159)	(306)	1,037
Aviva Europe	501	135	(50)	248	834	(168)	(197)	(365)	469
Delta Lloyd	118	145	(42)	77	298	(270)	(225)	(495)	(197)
Europe	619	280	(92)	325	1,132	(438)	(422)	(860)	272
North America	194	39	(24)	197	406	(118)	(475)	(593)	(187)
Asia Pacific	73	14	1	(12)	76	(55)	(53)	(108)	(32)
Total	1,289	452	621	595	2,957	(758)	(1,109)	(1,867)	1,090

M12 – Maturity profile of business

(a) Total in-force business

To show the profile of the VIF emergence, the value of VIF in the statements on financial position has been split into five year tranches depending on the date when the profit is expected to emerge.

2009 £m	**0-5**	**6-10**	**11-15**	**16-20**	**20+**	**Total gross of minority interest**	**Total net of minority interest**
United Kingdom	**289**	**629**	**490**	**288**	**369**	**2,065**	**2,065**
Aviva Europe	1,613	1,149	656	350	342	4,110	3,271
Delta Lloyd	36	99	118	101	(156)	198	68
Europe	**1,649**	**1,248**	**774**	**451**	**186**	**4,308**	**3,339**
North America	**(238)**	**(251)**	**28**	**13**	**54**	**(394)**	**(394)**
Asia Pacific	**102**	**72**	**29**	**18**	**26**	**247**	**241**
Total	**1,802**	**1,698**	**1,321**	**770**	**635**	**6,226**	**5,251**

Restated 2008 £m	0-5	6-10	11-15	16-20	20+	Total gross of minority interest	Total net of minority interest
United Kingdom	634	542	385	279	213	2,053	2,053
Aviva Europe	1,836	1,189	669	362	214	4,270	3,336
Delta Lloyd	(34)	255	110	98	194	623	511
Europe	1,802	1,444	779	460	408	4,893	3,847
North America	(66)	(245)	(238)	(211)	(342)	(1,446)	(1,446)
Asia Pacific	108	71	47	28	16	270	262
Total	2,177	1,733	967	565	328	5,770	4,716

(b) New business

To show the profile of the VIF emergence, the value of new business has been split into five year tranches depending on the date when the profit is expected to emerge.

2009 £m	**0-5**	**6-10**	**11-15**	**16-20**	**20+**	**Total gross of minority interest**	**Total net of minority interest**
United Kingdom	**107**	**30**	**34**	**19**	**40**	**230**	**230**
Aviva Europe	286	126	80	37	43	572	414
Delta Lloyd	(20)	45	49	38	(70)	42	35
Europe	**266**	**171**	**129**	**75**	**(27)**	**614**	**449**
North America	**20**	**6**	**64**	**52**	**66**	**208**	**208**
Asia Pacific	**46**	**14**	**8**	**4**	**5**	**77**	**76**
Total	**439**	**221**	**235**	**150**	**84**	**1,129**	**963**

Restated 2008 £m	0-5	6-10	11-15	16-20	20+	Total gross of minority interest	Total net of minority interest
United Kingdom	91	74	69	50	10	294	294
Aviva Europe	250	120	73	47	65	555	417
Delta Lloyd	(46)	22	28	26	201	231	220
Europe	204	142	101	73	265	786	637
North America	112	45	8	1	(12)	154	154
Asia Pacific	48	17	10	5	10	90	89
Total	455	278	188	129	273	1,324	1,174

M13 – Segmental analysis of life and related business embedded value

2009	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
United Kingdom[2]	**1,270**	**2,568**	**2,065**	**5,903**
France[3]	**(71)**	**1,592**	**1,252**	**2,773**
Ireland	**175**	**226**	**487**	**888**
Italy	**263**	**268**	**129**	**660**
Poland	**60**	**131**	**950**	**1,141**
Spain	**135**	**212**	**265**	**612**
Other Europe	**38**	**33**	**188**	**259**
Aviva Europe	**600**	**2,462**	**3,271**	**6,333**
Delta Lloyd	**368**	**1,095**	**68**	**1,531**
Europe	**968**	**3,557**	**3,339**	**7,864**
North America[3,4]	**(152)**	**1,240**	**(394)**	**694**
Asia	**118**	**181**	**241**	**540**
Australia	**—**	**—**	**—**	**—**
Asia Pacific	**118**	**181**	**241**	**540**
Total	**2,204**	**7,546**	**5,251**	**15,001**

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. The large increase in required capital in the UK reflects the additional capital locked in following the Reattribution of the Inherited Estate.
3. France and Aviva USA have a positive surplus on a statutory basis.
4. Aviva USA's holding company debt amounting to £810 million at 31 December 2009 has been included within non-covered business.

Restated 2008	Free surplus £m	Required capital[1] £m	VIF £m	Total MCEV £m
United Kingdom	1,357	1,477	2,053	4,887
France[2]	(92)	1,567	1,092	2,567
Ireland	135	252	603	990
Italy	261	235	149	645
Poland	115	134	979	1,228
Spain	143	225	354	722
Other Europe	43	34	159	236
Aviva Europe	605	2,447	3,336	6,388
Delta Lloyd	(333)	2,284	511	2,462
Europe	272	4,731	3,847	8,850
North America[2,3]	(362)	1,528	(1,446)	(280)
Asia	72	159	193	424
Australia	9	253	69	331
Asia Pacific	81	412	262	755
Total	1,348	8,148	4,716	14,212

1. Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2. France, Delta Lloyd and Aviva USA have a positive surplus on a statutory basis.
3. Aviva USA's holding company debt amounting to £1,128 million at 31 December 2008 has been included within non-covered business.

M14 – Risk allowance within present value of in-force (VIF)

Within the VIF in the tables, there are additional allowances for risks not included within the basic present value of future profits calculation.

2009	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	**2,572**	**(285)**	**(197)**	**(25)**	**2,065**
France	**2,048**	**(144)**	**(155)**	**(497)**	**1,252**
Ireland	**517**	**(9)**	**(21)**	**—**	**487**
Italy	**189**	**(22)**	**(11)**	**(27)**	**129**
Poland	**1,050**	**(17)**	**(74)**	**(9)**	**950**
Spain	**326**	**(16)**	**(28)**	**(17)**	**265**
Other Europe	**198**	**(3)**	**(5)**	**(2)**	**188**
Aviva Europe	**4,328**	**(211)**	**(294)**	**(552)**	**3,271**
Delta Lloyd	**487**	**(129)**	**(80)**	**(210)**	**68**
Europe	**4,815**	**(340)**	**(374)**	**(762)**	**3,339**
North America	**80**	**(9)**	**(45)**	**(420)**	**(394)**
Asia	**324**	**(19)**	**(30)**	**(34)**	**241**
Australia	**—**	**—**	**—**	**—**	**—**
Asia Pacific	**324**	**(19)**	**(30)**	**(34)**	**241**
Total	**7,791**	**(653)**	**(646)**	**(1,241)**	**5,251**

M14 – Risk allowance within present value of in-force (VIF) continued

Within the VIF in the tables, there are additional allowances for risks not included within the basic present value of future profits calculation.

Restated 2008	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	2,470	(176)	(165)	(76)	2,053
France	1,827	(174)	(147)	(414)	1,092
Ireland	637	(10)	(24)	—	603
Italy	196	(22)	(12)	(13)	149
Poland	1,074	(14)	(73)	(8)	979
Spain	422	(18)	(32)	(18)	354
Other Europe	169	(4)	(4)	(2)	159
Aviva Europe	4,325	(242)	(292)	(455)	3,336
Delta Lloyd	1,208	(246)	(132)	(319)	511
Europe	5,533	(488)	(424)	(774)	3,847
North America	(1,224)	(29)	(43)	(150)	(1,446)
Asia	262	(20)	(23)	(26)	193
Australia	132	(27)	(26)	(10)	69
Asia Pacific	394	(47)	(49)	(36)	262
Total	7,173	(740)	(681)	(1,036)	4,716

M15 – Implied discount rates (IDR)

In the valuation of a block of business, the implied discount rate is the rate of discount such that a traditional embedded value for the business equates to the MCEV.

The cash flows projected are the expected future cash flows including expected investment cash flows from equities, bonds and properties earning a risk premium in excess of risk free, statutory reserves and required capital. The risk premiums used are consistent with those used in the expected existing business contribution within operating earnings. As the risk premiums are positive, a discount rate higher than risk-free is required to give a value equal to the market-consistent embedded value.

Average derived risk discount rates are shown below for the embedded value.

2009	**2009 %**
United Kingdom	**10.6%**
France	**10.8%**
Ireland	**4.8%**
Italy	**9.2%**
Poland	**7.1%**
Spain	**8.4%**
Other Europe	**8.9%**
Aviva Europe	**8.9%**
Delta Lloyd	**8.1%**
Europe	**8.6%**
North America	**41.2%**
Asia	**9.2%**
Australia	**—**
Asia Pacific	**9.2%**
Total	**10.8%**

M16 – Analysis of fund management and service company business within embedded value

The MCEV methodology incorporates the impact of earnings arising from subsidiary undertakings providing administration, fund management and other services where these arise in relation to covered business. The principal subsidiaries of the Aviva group providing such services include Aviva Life Services Limited (UK) and Aviva Investors. The following table provides an analysis of the elements within the life and other related business embedded value:

	2009			2008		
	Fund management £m	**Other operations £m**	**Total £m**	Fund management £m	Other operations £m	Total £m
United Kingdom	**167**	**(132)**	**35**	162	(170)	(8)
France	**175**	**62**	**237**	164	48	212
Delta Lloyd	**120**	**(111)**	**9**	131	(154)	(23)
United States	**228**	**—**	**228**	209	—	209
Other	**61**	**(74)**	**(13)**	55	14	69
Total	**751**	**(255)**	**496**	721	(262)	459

The "look-through" value attributable to fund management is based on the level of after-tax profits expected to be earned in the future over the outstanding term of the covered business in respect of services provided to the group's life operations. The MCEV basis income statement excludes the actual statutory basis profits arising from the provision of fund management services to the group's life businesses. The MCEV income statement records the impact on new business, experience profit or loss compared to the assumed profitability, the expected return on the in-force value and the effect on the in-force value of changes to economic assumptions.

In the United Kingdom, Aviva Life Services Limited (UK) (ALS) is the main provider of administration services to the UK Life business. ALS incurs substantially all of the UK businesses' operating expenditure, comprising acquisition, maintenance and project costs. Costs are recharged to the UK Life companies (the product companies) on the basis of predetermined Management Services Agreements (MSAs).

M17 – Summary of minority interest in life and related businesses' MCEV results

2009	**France £m**	**Ireland £m**	**Italy £m**	**Poland £m**	**Spain £m**	**Aviva Europe £m**	**Delta Lloyd £m**	**Europe £m**	**Asia Pacific £m**	**Total £m**	**Share-holders' interest £m**	**Group £m**
Value of new business, after tax	**16**	**2**	**47**	**5**	**56**	**126**	**3**	**129**	**—**	**129**	**375**	**504**
Life MCEV operating earnings after tax	**45**	**14**	**79**	**53**	**81**	**272**	**64**	**336**	**1**	**336**	**2,178**	**2,515**
Life MCEV (loss)/earnings after tax	**51**	**1**	**64**	**17**	**57**	**190**	**(90)**	**100**	**—**	**100**	**3,393**	**3,493**
Closing covered businesses' embedded value	**320**	**290**	**762**	**162**	**586**	**2,120**	**1,304**	**3,424**	**14**	**3,438**	**15,001**	**18,439**

Restated 2008	France £m	Ireland £m	Italy £m	Poland £m	Spain £m	Aviva Europe £m	Delta Lloyd £m	Europe £m	Asia Pacific £m	Total £m	Share-holders' interest £m	Group £m
Value of new business, after tax	9	3	27	7	73	119	12	131	—	131	416	547
Life MCEV operating earnings after tax	29	17	50	24	102	222	5	227	—	227	1,760	1,987
Life MCEV (loss)/earnings after tax	18	(21)	(30)	20	(36)	(49)	(22)	(71)	—	(71)	(6,918)	(6,989)
Closing covered businesses' embedded value	304	323	727	177	617	2,148	204	2,352	15	2,367	14,212	16,579

The minority interest for Delta Lloyd has increased due to the IPO in 2009.

M18 – Principal economic assumptions

(a) Economic assumptions – Deterministic calculations

Economic assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each reporting period.

In setting the risk-free rate we have, wherever possible used the mid-price swap yield curve for an AA-rated bank. The curve is extrapolated if necessary to get rates suitable to the liabilities. For markets in which there is no reliable swap yield curve the relevant government bond yields are used.

Required capital is shown as a multiple of the EU statutory minimum solvency margin or equivalent.

The adjustments made to swap rates to derive a risk-free rate for immediate annuity type contracts and all US contracts are shown below the reference rate table.

The principal economic assumptions used are as follows:

Reference rate (spot, swap rates) and expense inflation

	United Kingdom		
	2009	2008	2007
Reference rate			
1 year	**1.2%**	2.8%	5.7%
5 years	**3.5%**	3.2%	5.1%
10 years	**4.3%**	3.5%	5.0%
15 years	**4.6%**	3.8%	4.9%
20 years	**4.6%**	3.8%	4.8%
Expense inflation	**3.3%**	2.4%	3.6%

	Delta Lloyd[1]		
	2009	2008	2007
Reference rate			
1 year	**1.3%**	2.5%	4.7%
5 years	**2.9%**	3.3%	4.6%
10 years	**3.7%**	3.8%	4.7%
15 years	**4.1%**	4.0%	4.9%
20 years	**4.2%**	3.9%	5.0%
Expense inflation	**2.4%**	2.5%	3.0%

1. The economic assumptions used in Delta Lloyd differ from those in the Eurozone as the Dutch bank swap rate is used by Delta Lloyd.

	Eurozone (excluding Delta Lloyd)		
	2009	2008	2007
Reference rate			
1 year	**1.3%**	2.5%	4.8%
5 years	**2.8%**	3.3%	4.6%
10 years	**3.7%**	3.8%	4.7%
15 years	**4.1%**	3.9%	4.9%
20 years	**4.2%**	3.9%	4.9%
Expense inflation	**2.5%**	2.1%	2.9%

	Poland		
	2009	2008	2007
Reference rate			
1 year	**4.5%**	4.4%	6.2%
5 years	**5.8%**	4.3%	5.8%
10 years	**5.8%**	4.2%	5.5%
15 years	**5.7%**	4.1%	5.4%
20 years	**5.5%**	4.0%	5.4%
Expense inflation	**3.0%**	2.9%	4.7%

	United States		
	2009	2008	2007
Reference rate			
1 year	**0.7%**	1.3%	4.2%
5 years	**3.1%**	2.2%	4.2%
10 years	**4.2%**	2.6%	4.7%
15 years	**4.6%**	2.9%	4.9%
20 years	**4.8%**	2.9%	5.0%
Expense inflation	**3.0%**	3.0%	3.5%

M18 – Principal economic assumptions continued

For service companies, expense inflation relates to the underlying expenses rather than the fees charged to the life company.

In current markets, the following adjustments are made to the swap rate for immediate annuity type contracts and all US contracts. The risk-free rate is taken as the swap yield curve for the currency of the liability, adjusted by:

						New business		Embedded value
	4Q 2009	**3Q 2009**	**1H 2009**	4Q 2008	3Q 2008	1H 2008	**2009**	2008
UK	**0.90%/0.45%**	**1.10%/0.95%**	**1.50%**	1.45%	0.85%	0.55%	**1.00%**	1.50%
France	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	**0.30%**	1.00%
Spain	**0.30%**	**0.75%**	**1.00%**	0.95%	0.55%	0.35%	**0.30%**	1.00%
Delta Lloyd	**0.20%**	**0.40%**	**1.50%**	0.75%	0.45%	0.30%	**0.15%**	0.80%
US immediate annuities	**1.05%**	**1.50%**	**3.00%**	2.00%	0.65%	0.55%	**0.65%**	3.00%
US deferred annuities and all other contracts	**0.90%**	**1.25%**	**2.50%**	1.50%	0.65%	0.55%	**0.55%**	2.50%

Risk premium – used for operating profit, Implied Discount Rates (IDR), Internal Rates of Return (IRR) and payback period

For life and pensions operating earnings, Aviva uses normalised investment returns. For 2008, the normalised investment returns were expressed as one year swap returns plus an asset risk premium. For 2009, the normalised investment returns are expressed as a swap rate based on the typical duration of the assets held plus an asset risk premium. More detail is given in note M1 – Basis of Preparation.

The use of asset risk premia only impacts operating earnings as expected returns reflect management's long-term expectations of asset returns in excess of the reference rate from investing in different asset classes. This assumption does not impact the embedded value or value of new business as asset risk premia are not recognised until earned. The asset risk premia set out in the table below are added to the ten year swap rate to calculate expected returns.

			All territories
	2009	2008	2007
Equity risk premium	**3.5%**	3.5%	3.5%
Property risk premium	**2.0%**	2.0%	2.0%

Future returns on corporate fixed interest investments are calculated from prospective yields less an adjustment for credit risk.

Required capital and tax

			Tax rates[5]		Required capital (% EU minimum or equivalent)
	2009	2008	2007	**2009**	2008
United Kingdom[1]	**28.0%**	28.0%	28.0%	**100%/110%**	100%/110%
France	**34.4%**	34.4%	34.4%	**110%**	110%
Ireland	**12.5%**	12.5%	12.5%	**150%**	150%
Italy[2]	**32.4%**	32.4%	32.4%	**115%/184%**	115%/184%
Poland	**19.0%**	19.0%	19.0%	**150%**	150%
Spain[3]	**30.0%**	30.0%	30.0%	**110%/125%**	110%/125%
Delta Lloyd[4]	**25.5%**	25.5%	25.5%	**139%**	168%
United States	**0.0%**	0.0%	35.0%	**325%**	325%

1. The required capital in the United Kingdom under MCEV is 100% for unit-linked and other non-participating business and 110% for annuity business. with 200% for an immaterial amount of BPA business. In addition, the reattribution of the inherited Estate has led to additional capital being locked in to support the with profit business, and this has been included within required capital.
2. Required capital in Italy under MCEV is 184% of the EU minimum for Eurovita and 115% for other companies.
3. Required capital in Spain is 125% of the EU minimum for Aviva Vida y Pensiones and 110% for bancassurance companies.
4. This capital level is the aggregate capital required for Delta Lloyd.
5. Current tax legislation and rates have been assumed to continue unaltered except where changes in future tax rates have been announced.

Other economic assumptions

Required capital relating to with-profit business is generally assumed to be covered by the surplus within the with-profit funds and no effect has been attributed to shareholders. Where the fund is insufficient, and additional shareholder support is required, this is included within required capital, including the RIEESA in the UK. Bonus rates on participating business have been set at levels consistent with the economic assumptions. The distribution of profit between policyholders and shareholders within the with-profit funds assumes that the shareholder interest in conventional with-profit business in the United Kingdom and Ireland continues at the current rate of one-ninth of the cost of bonus.

(b) Economic Assumptions – Stochastic calculations

The calculation of time value of options and guarantees allows for expected management and policyholder actions in response to varying future investment conditions. The management actions modelled include changes to asset mix, bonus rates and rates of interest and other guarantees granted to policyholders. Modelled policyholder actions are described under "Other assumptions".

The embedded value of the US spread based products anticipates the application of management discretion allowed for contractually within the policies, subject to contractual guarantees. This includes the ability to change the crediting rates and indexed strategies available within the policy. Consideration is taken of the economic environment assumed in future projections and returns in excess of the reference rate are not assumed. Anticipated market and policyholder reaction to management action has been considered. The anticipated management action is consistent with current decision rules and has been approved and signed off by management and legal counsel.

M18 – Principal economic assumptions continued

Model – United Kingdom, Europe (excluding Delta Lloyd) and North America

Swap rates are generated by a model, the LIBOR Market Model (LMM), that projects a full swap curve at monthly intervals. Forward rates are assumed to have a log-normal distribution which guarantees non-negative interest rates. The model is calibrated to at-the-money swaptions of a variety of terms and tenors. Swaption volatilities are taken from Bloomberg. Tests have been performed to ensure that sufficient scenarios have been used that the result converges to the stochastic value of the business being valued.

The total annual return on equities is calculated as the return on one-year swaps plus an excess return. This excess return is modelled using a log-normal model where volatility varies by time horizon. This allows the model to capture the term structure of implied volatilities. The model is calibrated to at-the-money options of a variety of terms. Option volatilities are taken from a survey of investment banks.

The model also generates property total returns and real yield curves, although these are not significant asset classes for Aviva outside the UK. In the absence of liquid market data, the volatilities of these asset classes are based on historic data.

Assumptions for correlations between asset classes have been set based on historic data.

Model – Delta Lloyd

In Delta Lloyd, yield curves are based on De Nederlandsche Bank (DNB) yield curve data.

The interest rate model used is a short rate G2++ model. The model is calibrated to the DNB yield curve and the swaption implied volatilities. Swaption implied volatilities are taken from Bloomberg. The equity model is a Heston model.

Asset classes

The significant asset classes for UK participating business are equities, property and long-term fixed rate bonds. The most significant assumption is the distribution of future long-term interest rates, since this is the most important factor in the cost of guaranteed annuity options.

For many businesses, including US, France and Delta Lloyd, the most important assets are fixed rate bonds of various durations.

Summary statistics

Swaption implied volatilities

The implied volatility is that determined by Black-Scholes' formula to reproduce the market price of the option. The following table sets out the model swaption implied volatilities.

	2009 Swap length				2008 Swap length			
Option length	**10 years**	**15 years**	**20 years**	**25 years**	10 years	15 years	20 years	25 years
UK sterling								
10 years	**n/a**	**n/a**	**14.1%**	**n/a**	n/a	n/a	11.8%	n/a
15 years	**n/a**	**n/a**	**14.6%**	**n/a**	n/a	n/a	11.9%	n/a
20 years	**n/a**	**n/a**	**14.4%**	**n/a**	n/a	n/a	12.1%	n/a
25 years	**n/a**	**n/a**	**14.0%**	**n/a**	n/a	n/a	12.4%	n/a
Euro								
10 years	**17.9%**	**17.8%**	**17.7%**	**17.6%**	11.7%	11.7%	11.7%	11.8%
15 years	**18.0%**	**17.6%**	**17.3%**	**16.9%**	10.9%	10.9%	10.4%	10.9%
20 years	**17.1%**	**16.7%**	**16.3%**	**15.7%**	10.5%	10.4%	10.4%	10.3%
25 years	**16.2%**	**15.6%**	**15.0%**	**14.4%**	10.0%	10.0%	9.9%	9.5%
Delta Lloyd								
10 years	**14.5%**	**15.3%**	**17.3%**	**18.6%**	11.6%	11.6%	11.7%	11.7%
15 years	**15.2%**	**15.8%**	**17.8%**	**18.9%**	10.8%	10.7%	10.6%	10.8%
20 years	**15.8%**	**16.7%**	**18.1%**	**18.5%**	10.5%	10.3%	10.2%	10.3%
25 years	**16.8%**	**17.5%**	**18.2%**	**18.3%**	10.0%	9.8%	9.8%	9.7%
US dollar								
10 years	**20.0%**	**18.9%**	**18.0%**	**17.3%**	15.2%	14.4%	14.0%	14.0%
15 years	**17.5%**	**16.4%**	**15.6%**	**15.0%**	13.9%	13.0%	12.8%	12.7%
20 years	**15.5%**	**14.5%**	**13.8%**	**13.2%**	13.3%	12.4%	12.1%	12.1%
25 years	**13.7%**	**12.9%**	**12.2%**	**11.6%**	12.9%	11.9%	11.6%	11.7%

For businesses, where stochastic scenarios are calibrated before the year end, the closing embedded value has been adjusted for the subsequent decrease in market volatilities up to the year end.

Equity implied volatilities

The implied volatility is that determined by the Black-Scholes' formula to reproduce the market price of the option. The following tables set out the model equity implied volatilities.

	2009							2008						
Option length	**UK**	**France**	**Italy**	**Ireland**	**Delta Lloyd**	**Spain**	**US**	UK	France	Italy	Ireland	Delta Lloyd	Spain	US
5 years	**25.3%**	**29.2%**	**26.9%**	**27.7%**	**27.5%**	**27.0%**	**26.9%**	25.8%	24.9%	24.4%	24.5%	26.1%	26.3%	24.6%
10 years	**26.6%**	**29.0%**	**26.5%**	**27.3%**	**29.1%**	**25.7%**	**27.8%**	27.2%	26.3%	n/a	26.2%	26.8%	28.8%	27.3%
15 years	**27.3%**	**30.0%**	**26.4%**	**28.1%**	**30.5%**	**26.5%**	**29.1%**	27.7%	n/a	n/a	27.0%	27.1%	n/a	28.9%

M18 – Principal economic assumptions continued

Property implied volatilities

Best estimate levels of volatility have been used, in the absence of meaningful option prices from which implied levels of volatility can be derived.

For the UK and Delta Lloyd, model property implied volatility is 15% for 31 December 2009 (31 December 2008: 15%).

Demographic assumptions

Assumed future mortality, morbidity and lapse rates have been derived from an analysis of Aviva's recent operating experience with a view to giving a best estimate of future experience. We have anticipated future changes in experience where that is appropriate, e.g. we have allowed for improvements in future policyholder longevity.

We have set the assumptions based on a best estimate of shareholder outcomes. In particular, where the policyholder behaviour varies with economic experience, we have set assumptions which are dynamic, i.e. vary depending on the economic assumptions. For example, surrender and option take up rate assumptions that vary according to the investment scenario under consideration have been used in the calculation of the time value of options and guarantees, based on our assessment of likely policyholder behaviour in different investment scenarios.

Additionally, where demographic experience is not driven by economic scenarios but is asymmetric on a stand-alone basis, the best estimate assumption considers the weighted-average expected experience, not simply the median or most likely outcome.

Expense assumptions

Management expenses and operating expenses of holding companies attributed to life and related businesses have been included in the MCEV calculations and split between expenses relating to the acquisition of new business, the maintenance of business in-force and project expenses. Future expense assumptions include an allowance for maintenance expenses and a proportion of recurring project expenses. Certain expenses of an exceptional nature, when they occur, are identified separately and are generally charged as incurred. No future productivity gains have been anticipated.

Where subsidiary companies provide administration, investment management or other services to our life businesses, the value of profits or losses arising from these services have been included in the embedded value and value of new business.

Non-hedgeable risk

A charge of 2.5% has been applied to the group-diversified capital required on a 1-in-200 one-year basis over the remaining lifetime of in-force business.

(c) Other assumptions

Valuation of debt

Borrowings in the MCEV consolidated statement of financial position are valued on an IFRS basis, consistent with the primary financial statements. At 31 December 2009 the market value of the group's external debt, subordinated debt, preference shares including General Accident plc preference shares of £250 million (classified as minority interests) and direct capital instrument was £6,634 million (31 December 2008: £4,911 million).

	2009 £m	2008 £m
Borrowings per summarised consolidated statement of financial position – MCEV basis	**15,000**	15,201
Add: amount included within held for sale	**—**	—
Less: Securitised mortgage funding	**(7,329)**	(7,785)
Borrowings excluding non-recourse funding – MCEV basis	**7,671**	7,416
Less: Operational financing by businesses	**(2,182)**	(1,891)
External debt and subordinated debt – MCEV basis	**5,489**	5,525
Add: Preference shares (including General Accident plc) and direct capital instrument	**1,440**	1,440
External debt, subordinated debt, preference shares and direct capital instrument – MCEV basis	**6,929**	6,965
Effect of marking these instruments to market	**(295)**	(2,054)
Market value of external debt, subordinated debt, preference shares and direct capital instrument	**6,634**	4,911

Other

It has been assumed that there will be no changes to the methods and bases used to calculate the statutory technical provisions and current surrender values, except where driven by varying future investment conditions under stochastic economic scenarios.

M19 – Sensitivity analysis

(a) Economic assumptions

The following tables show the sensitivity of the embedded value and the value of new business to:
— 10 basis point increase in the adjustment to risk free rates for immediate annuity type contracts and all US contracts;
— one and two percentage point increase and decrease in the risk-free rate, including all consequential changes (including assumed investment returns for all asset classes, market values of fixed interest assets, risk discount rates);
— 10% increase and decrease in market values of equity and property assets;
— 25% increase in equity and swaption volatilities;
— 50 basis point increase and decrease in credit spreads; and
— decrease in the level of required capital to 100% EU minimum (or equivalent).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised economic conditions. For example, future bonus rates are automatically adjusted to reflect sensitivity changes to future investment returns. Some of the sensitivity scenarios may have consequential effects on valuation bases, where the basis for certain blocks of business is actively updated to reflect current economic circumstances. Consequential valuation impacts on the sensitivities are allowed for where an active valuation basis is used. Where businesses have a target asset mix, the portfolio is re-balanced after a significant market movement otherwise no re-balancing is assumed.

For new business, the sensitivities reflect the impact of a change immediately after inception of the policy.

In general, the magnitude of the sensitivities will reflect the size of the embedded values, though this will vary as the sensitivities have different impacts on the different components of the embedded value. In addition, other factors can have a material impact, such as the nature of the options and guarantees, as well as the types of investments held.

The credit spread sensitivities assume that the change relates to credit risk and not liquidity risk; in practice, credit spread movements may be partially offset due to changes in liquidity risk.

Sensitivities will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. Options and guarantees are the main reason for the asymmetry of the sensitivities where the guarantee impacts to different extents under the different scenarios. This can be seen in the sensitivity of a 1%–2% movement in the interest rate for Delta Lloyd and US, where there is a significant amount of business with investment return guarantees.

Embedded value

			Interest rates			
2009 Embedded value (net of tax and minority interest)	As reported on page 304 £m	10bp increase in adjustment to risk-free rates £m	1% increase £m	1% decrease £m	2% increase £m	2% decrease £m
United Kingdom	**5,903**	**120**	**(155)**	**85**	**(350)**	**255**
France	**2,773**	**5**	**(170)**	**100**	**(380)**	**60**
Ireland	**888**	**—**	**(30)**	**35**	**(60)**	**55**
Italy	**660**	**—**	**20**	**(25)**	**25**	**(80)**
Poland	**1,141**	**—**	**(50)**	**60**	**(100)**	**135**
Spain	**612**	**5**	**(10)**	**10**	**(25)**	**20**
Other Europe	**259**	**—**	**(5)**	**10**	**(15)**	**15**
Aviva Europe	**6,333**	**10**	**(245)**	**190**	**(555)**	**205**
Delta Lloyd	**1,531**	**50**	**250**	**(460)**	**380**	**(1,210)**
Europe	**7,864**	**60**	**5**	**(270)**	**(175)**	**(1,005)**
North America	**694**	**110**	**235**	**(225)**	**(5)**	**(1,275)**
Asia	**540**	**—**	**15**	**(30)**	**15**	**(120)**
Australia	**—**	**—**	**—**	**—**	**—**	**—**
Asia Pacific	**540**	**—**	**15**	**(30)**	**15**	**(120)**
Total	**15,001**	**290**	**100**	**(440)**	**(515)**	**(2,145)**

M19 – Sensitivity analysis continued

2009 Embedded value (net of tax and minority interest)	As reported on page 304 £m	Equity/property Market values 10% increase £m	10% decrease £m	Volatility 25% increase £m
United Kingdom	5,903	205	(215)	(250)
France	2,773	125	(115)	(140)
Ireland	888	15	(15)	—
Italy	660	5	(5)	—
Poland	1,141	5	(5)	—
Spain	612	10	(10)	(5)
Other Europe	259	—	—	—
Aviva Europe	6,333	160	(150)	(145)
Delta Lloyd	1,531	220	(215)	(25)
Europe	7,864	380	(365)	(170)
North America	694	—	—	—
Asia	540	15	(15)	—
Australia	—	—	—	—
Asia Pacific	540	15	(15)	—
Total	15,001	600	(595)	(420)

2009 Embedded value (net of tax and minority interest)	As reported on page 304 £m	Swaption implied volatilities 25% increase £m	Corporate bond credit spread 50bps increase £m	50bps decrease £m	EU minimum capital or equivalent £m
United Kingdom	5,903	—	(665)	730	10
France	2,773	(190)	(65)	145	15
Ireland	888	—	—	—	5
Italy	660	—	—	—	5
Poland	1,141	—	—	—	5
Spain	612	—	(45)	40	—
Other Europe	259	—	—	—	5
Aviva Europe	6,333	(190)	(110)	185	35
Delta Lloyd	1,531	115	(80)	85	30
Europe	7,864	(75)	(190)	270	65
North America	694	(245)	(515)	390	5
Asia	540	(5)	(15)	15	15
Australia	—	—	—	—	—
Asia Pacific	540	(5)	(15)	15	15
Total	15,001	(325)	(1,385)	1,405	95

New business

2009 Value of new business (net of tax and minority interest)	As reported on page 295 £m	10bp increase in adjustment to risk-free rates £m	Interest rates 1% increase £m	1% decrease £m	2% increase £m	2% decrease £m
United Kingdom	177	11	(7)	7	(14)	13
France	94	—	7	(6)	19	(10)
Ireland	8	—	1	(2)	2	(2)
Italy	38	—	(2)	2	(4)	—
Poland	39	—	(2)	3	(5)	6
Spain	51	1	(2)	2	(3)	2
Other Europe	8	—	(1)	1	(2)	3
Aviva Europe	238	1	1	—	7	(1)
Delta Lloyd	(78)	5	37	(85)	60	(223)
Europe	160	6	38	(85)	67	(224)
North America	16	23	(5)	37	(65)	(12)
Asia	9	—	3	(5)	5	(17)
Australia	13	—	(1)	1	(2)	2
Asia Pacific	22	—	2	(4)	3	(15)
Total	375	40	28	(45)	(9)	(238)

M19 – Sensitivity analysis continued

2009 Value of new business (net of tax and minority interest)	As reported on page 295 £m	Equity/property Market values 10% increase £m	Equity/property Market values 10% decrease £m	Equity/property Volatility 25% increase £m
United Kingdom	177	2	(2)	—
France	94	5	(4)	(8)
Ireland	8	—	—	—
Italy	38	—	—	—
Poland	39	—	—	—
Spain	51	—	—	—
Other Europe	8	—	—	—
Aviva Europe	238	5	(4)	(8)
Delta Lloyd	(78)	20	(21)	—
Europe	160	25	(25)	(8)
North America	16	—	—	—
Asia	9	—	—	—
Australia	13	—	—	—
Asia Pacific	22	—	—	—
Total	375	27	(27)	(8)

2009 Value of new business (net of tax and minority interest)	As reported on page 295 £m	Swaption implied volatilities 25% increase £m	Corporate bond credit spread 50bps increase £m	Corporate bond credit spread 50bps decrease £m	EU minimum capital or equivalent £m
United Kingdom	177	—	(53)	59	—
France	94	—	(2)	—	1
Ireland	8	—	—	—	1
Italy	38	—	—	—	1
Poland	39	—	—	—	—
Spain	51	—	(4)	4	—
Other Europe	8	—	—	—	—
Aviva Europe	238	—	(6)	4	3
Delta Lloyd	(78)	4	(7)	6	5
Europe	160	4	(13)	10	8
North America	16	(62)	(75)	62	1
Asia	9	—	—	—	2
Australia	13	—	—	—	—
Asia Pacific	22	—	—	—	2
Total	375	(58)	(141)	131	11

M19 – Sensitivity analysis continued

(b) Non-economic assumptions

The following tables below show the sensitivity of the embedded value and the value of new business to the following changes in non-economic assumptions:

— 10% decrease in maintenance expenses (a 10% sensitivity on a base expense assumption of £10 pa would represent an expense assumption of £9 pa). Where there is a "look through" into service company expenses the fee charged by the service company is unchanged while the underlying expense decreases;
— 10% decrease in lapse rates (a 10% sensitivity on a base assumption of 5% pa would represent a lapse rate of 4.5% pa); and
— 5% decrease in both mortality and morbidity rates disclosed separately for life assurance and annuity business.

No future management actions are modelled in reaction to the changing non-economic assumptions. In each sensitivity calculation all other assumptions remain unchanged. No changes to valuation bases have been included.

Embedded value

2009 Embedded value (net of tax)	As reported on page 304 £m	10% decrease in maintenance expenses £m	10% decrease in lapse rates £m	5% decrease in mortality/ morbidity rates – life assurance £m	5% decrease in mortality/ morbidity rates – annuity business £m
United Kingdom	5,903	185	50	40	(250)
France	2,773	45	50	35	(15)
Ireland	888	20	25	5	(5)
Italy	660	10	—	—	—
Poland	1,141	40	50	15	—
Spain	612	10	45	15	(5)
Other Europe	259	10	15	5	—
Aviva Europe	6,333	135	185	75	(25)
Delta Lloyd	1,531	100	5	10	(70)
Europe	7,864	235	190	85	(95)
North America	694	65	(60)	55	(20)
Asia	540	15	10	5	—
Australia	—	—	—	—	—
Asia Pacific	540	15	10	5	—
Total	15,001	500	190	185	(365)

New business

2009 Value of new business (net of tax)	As reported on page 295 £m	10% decrease in maintenance expenses £m	10% decrease in lapse rates £m	5% decrease in mortality/ morbidity rates – life assurance £m	5% decrease in mortality/ morbidity rates – annuity business £m
United Kingdom	177	12	13	6	(10)
France	94	2	2	1	—
Ireland	8	1	2	—	—
Italy	38	2	1	1	—
Poland	39	2	3	2	—
Spain	51	1	8	2	—
Other Europe	8	1	4	1	—
Aviva Europe	238	9	20	7	—
Delta Lloyd	(78)	11	3	2	(3)
Europe	160	20	23	9	(3)
North America	16	10	(11)	13	—
Asia	9	3	2	1	—
Australia	13	1	2	1	—
Asia Pacific	22	4	4	2	—
Total	375	46	29	30	(13)

Statement of directors' responsibilities in respect of the Market Consistent Embedded Value (MCEV) basis

When compliance with the European Insurance CFO Forum Market Consistent Embedded Value Principles (MCEV Principles), published in October 2009, is stated, those principles require the directors to prepare supplementary information in accordance with the methodology contained in the MCEV Principles and to disclose and explain any non-compliance with the guidance included in the MCEV Principles.

In preparing this supplementary information, the directors have done so in accordance with these MCEV Principles and have also fully complied with all the guidance included therein. Specifically, the directors have:

— determined assumptions on a realistic basis, having regard to past, current and expected future experience and to relevant external data, and then applied them consistently;
— made estimates that are reasonable and consistent; and,
— provided additional disclosures when compliance with the specific requirements of the MCEV Principles is insufficient to enable users to understand the impact of particular transactions, other events and conditions and the group's financial position and financial performance.

By order of the Board

Patrick Regan
Chief Financial Officer
3 March 2010

Independent auditor's report to the directors of Aviva plc on the consolidated Market Consistent Embedded Value (MCEV) financial statements

We have audited the consolidated MCEV financial statements of Aviva plc for the year ended 31 December 2009 which comprise an MCEV basis Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Statement of Financial Position, the Reconciliation of Shareholders' Equity on IFRS and MCEV bases, the Reconciliation of IFRS Total Equity to MCEV Net Worth, the Group MCEV Analysis of Earnings and the related notes M1 to M19. The consolidated MCEV financial statements have been properly prepared in accordance with the Market Consistent Embedded Value Principles issued in October 2009 by the CFO Forum ("the MCEV Principles") and the basis of preparation set out on pages 289 to 292.

We have reported separately on the statutory Group financial statements of Aviva plc for the year ended 31 December 2009. The information contained in the consolidated MCEV financial statements should be read in conjunction with the financial statements prepared on an IFRS basis.

This report is made solely to the Company in accordance with our engagement letter dated 5 August 2009. Our audit work has been undertaken so that we might state to the Company those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the consolidated MCEV financial statements in accordance with the MCEV Principles.

Our responsibilities, as independent auditor, in relation to the MCEV financial statements, are set out in our engagement letter dated 5 August 2009. We report to you our opinion as to whether the consolidated MCEV financial statements have been properly prepared in all material respects in accordance with the MCEV Principles and the basis of preparation set out on pages 289 to 292. We also report to you if we have not received all the information and explanations we require for our audit of the consolidated MCEV financial statements.

We read other information contained in the Annual Report and Accounts and consider whether it is consistent with the consolidated MCEV financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated MCEV financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated MCEV financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated MCEV financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated MCEV financial statements.

Opinion

In our opinion the consolidated MCEV financial statements for the year ended 31 December 2009 have been properly prepared, in all material respects, in accordance with the MCEV Principles and the basis of preparation set out on pages 289 to 292.

Ernst & Young LLP
London
3 March 2010

Other information

In this section

Glossary

Product Definitions

Annuities
A type of policy that pays out regular amounts of benefit, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or/her dependents or on a bulk purchase basis for groups of people. Deferred annuities are accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked.

Bonds and savings
These are accumulation products with single or regular premiums and unit-linked or guaranteed investment returns. Our product ranges include single premium investment bonds, regular premium savings plans and mortgage endowment products.

Critical illness cover
Critical illness cover pays out a lump sum if the insured person is diagnosed with a serious illness that meets the plan definition. The cover is often provided in conjunction with other benefits under a protection contract.

Deferred annuities
An annuity (or pension) due to be paid from a future date or when the policyholder reaches a specified age. A deferred annuity may be funded by a policyholder by payment of a series of regular contributions or by a capital sum (the latter often provided from a pension fund).

Group pensions
A pension plan that covers a group of people, which is typically purchased by a company and offered to their employees.

Guaranteed annuities
A policy that pays out a fixed regular amount of benefit for a defined period.

Income drawdown
The policyholder can transfer money from any pension fund to an income drawdown plan from which they receive an income. The remainder of the pension fund continues to be invested, giving it the potential for growth.

Index linked annuities
An index linked annuity is a type of deferred annuity whose credited interest is linked to an equity index. It guarantees a minimum interest rate and protects against a loss of principal.

Investment sales
Comprise retail sales of mutual fund type products such as unit trusts, individual savings accounts (ISAs) and Open Ended Investment Companies (OEICs).

ISAs
Individual savings accounts – Tax efficient plans for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits. Introduced in the UK in 1999.

Monolines
Financial companies specialising in a single line of products such as credit cards, mortgages or home equity loans.

Mortgage endowment
An insurance contract combining savings and protection elements which is designed to repay the principal of a loan or mortgage.

Mortgage life insurance
A protection contract designed to pay off the outstanding amount of a mortgage or loan in the event of death of the insured.

Non profits
Long-term savings and insurance products sold in the UK other than "With profits" (see definition below) products.

OEIC
Open ended investment company is a collective investment fund structured as a limited company in which investors can buy and sell shares.

Pensions
A means of providing income in retirement for an individual and possibly his/her dependants. Our pensions products include personal and group pensions, stakeholder pensions and income drawdown.

Personal pensions
A pension plan tailored to the individual policyholder, which includes the options to stop, start or change their payments.

Protection
An insurance contract that protects the policyholder or his/her dependants against financial loss on death or ill-health. Our product ranges include term assurance, mortgage life insurance, flexible whole life and critical illness cover.

Regular premium
A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract.

SICAVs
Société d'investissement à capital variable (variable capital investment company). This is an open-ended investment fund, structured as a legally independent joint stock company, whose units are issued in the form of shares.

Product Definitions cont.

Single premium
A single lump sum is paid by the policyholder at commencement of the contract.

Stakeholder pensions
Low cost and flexible pension plans available in the UK, governed by specific regulations.

Superannuation
Superannuation is a pension product sold in Australia where employers pay a proportion of an employee's salaries and wages into a fund, which can be accessed when the employee retires.

Takaful
Insurance products that observe the rules and regulations of Islamic law.

Term assurance
A simple form of life insurance, offering cover over a fixed number of years during which a lump sum will be paid out if the life insured dies.

Unit trusts
A form of open ended collective investment constituted under a trust deed, in which investors can buy and sell units.

Unit-linked annuities
A unit-linked annuity is a type of deferred annuity which is invested in units of investment funds, whose value depends directly on the market value of assets in those funds.

Whole life
Whole life insurance is a protection policy that remains in force for the insured's whole life. Traditional whole life contracts have fixed premium payments that typically cannot be missed without lapsing the policy. Flexible whole life contracts allow the policyholder to vary the premium and/or amount of life cover, within certain limits.

With profits
A type of long-term savings and insurance product sold in the UK Under with profits policies premiums are paid into a separate fund. Policyholders receive a return on their policies through bonuses, which "smooth" the investment return from the assets which premiums are invested in. Bonuses are declared on an annual and terminal basis. Shareholders have a participating interest in the with-profit funds and any declared bonuses. Generally, policyholder and shareholder participation in with-profit funds in the UK is split 90:10.

Wrap investments
An account in which a broker or fund manager executes investment decisions on behalf of a client in exchange for a single quarterly or annual fee, usually based on the total assets in the account rather than the number of transactions.

General terms

Available for Sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity. These are shown at fair value on the statement of financial position and changes in value are taken straight to equity instead of the income statement.

Association of British Insurers (ABI)
Association of British Insurers – A major trade association for UK insurance companies, established in July 1985.

Acquired value of in force (AVIF)
An estimate of future profits that will emerge over the remaining term of all existing life and pensions policies for which premiums are being paid or have been paid at the statement of financial position date.

Bancassurance
An arrangement whereby banks and building societies sell insurance and investment products to their customers on behalf of other financial providers.

Combined Code on Corporate Governance
The Combined Code on Corporate Governance sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority requires companies listed in the UK to disclose, in relation to the Combined Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting year. Where the provisions have not been complied with, companies must provide an explanation for this.

Deferred acquisition costs (DAC)
The cost directly attributable to the acquisition of new business for insurance and participating investment contracts (excluding those written in the UK) are deferred to the extent that they are expected to be recoverable out of future margins in revenue on these contracts.

Fair value
The price that a reasonable buyer would be willing to pay and a reasonable seller would be willing to accept for a product on the open market.

FSA
The UK's Financial Services Authority – Main regulatory body appointed by the government to oversee the financial services industry in the UK. Since December 2001 it has been the single statutory regulator responsible for the savings, insurance and investment business.

General terms cont.

Funds under management
Represents all assets actively managed or administered by or on behalf of the Group including those funds managed by third parties.

Funds under management by Aviva
Represents all assets actively managed or administered by the fund management operations of the Group.

General insurance
Also known as non-life or property and casualty insurance. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage property of others. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks.

Gross written premiums
The total earnings or revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period.

"Hard" insurance market
A term used to describe the state of the general insurance market. A "hard" insurance market is characterised by high levels of underwriting profits and the ability of insurers to charge high premium rates. Hard insurance markets generally occur when capital is scarce and are the opposite of "soft" insurance markets.

Independent Financial Advisers (IFAs)
A person or organisation authorised to give advice on financial matters and to sell the products of all financial service providers. In the UK they are legally obliged to offer the product that best suits their clients' needs. Outside the UK IFAs may be referred to by other names.

IFRS
International Financial Reporting Standards. These are accounting regulations designed to ensure comparable statement of financial position preparation and disclosure, and are the standards that all publicly listed companies in the European Union are required to use.

Inherited estate
In the UK, the assets of the long-term with-profit funds less the realistic reserves for non-profit policies, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.

Long-term and savings business
Collective term for life insurance, pensions, savings, investments and related business.

Market Consistent Embedded Value
Aviva's Market Consistent Embedded Value (MCEV) methodology which is in accordance with the MCEV Principles published by the CFO Forum in June 2008 with the exception of the use of an adjusted risk-free yield due to current market conditions for immediate annuities in the UK and the Netherlands and for immediate annuity, deferred annuity and other contracts in the US.

Net written premiums
Total gross written premiums for the given period, minus premiums paid over or 'ceded' to reinsurers.

Present value of new business (PVNBP)
Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine the value of new business under Market Consistent Embedded Value (MCEV) principles published by the CFO Forum of major European listed and non-listed insurance companies.

"Soft" insurance market
A term used to describe the state of the general insurance market. A "soft" insurance market is characterised by low levels of profitability and market competition driving premium rates lower. Soft insurance markets generally occur when there is excess capital and are the opposite of "hard" insurance markets.

Turnbull Guidance on Internal Control
The Turnbull guidance sets out best practice on internal controls for UK listed companies, and provides additional guidance in applying certain sections of the Combined Code.

Market Consistent Embedded Value (MCEV) terms

Asymmetric risk
Risks that will cause shareholder profits to vary where the variation above and below the average are not equal in distribution.

CFO Forum
The CFO Forum www.cfoforum.nl is a high-level group formed by the Chief Financial Officers of major European listed and non-listed insurance companies. Its aim is to discuss issues relating to proposed new accounting regulations for their businesses and how they can create greater transparency for investors. The Forum was created in 2002, the Market Consistent Embedded Value principles were launched in June 2008 and CFO Forum members across Europe have agreed to adopt these for their 2009 published accounts. The principles are a further development of the European Embedded Value principles first launched in May 2004.

Market Consistent Embedded Value (MCEV) terms cont.

Cost of non-hedgeable risks
This is the cost of undertaking those risks for which a deep and liquid market in which to hedge that risk does not exist. This can include both financial risks and non-financial risks such as mortality, persistency and expense.

Covered business
The contracts to which the MCEV methodology has been applied.

EU solvency
The excess of assets over liabilities and the worldwide minimum solvency margins, excluding goodwill and the additional value of in-force long-term business, and excluding the surplus held in the group's life funds. The group solvency calculation is determined according to the UK Financial Services Authority application of EU Insurance Groups Directive rules.

Financial options and guarantees
Features of the covered business conferring potentially valuable guarantees underlying, or options to change, the level or nature of policyholder benefits and exercisable at the discretion of the policyholder, whose potential value is impacted by the behaviour of financial variables.

Free surplus
The amount of any capital and surplus allocated to, but not required to support, the in-force covered business.

Frictional costs
The additional taxation and investment costs incurred by shareholders through investing the Required Capital in the Company rather than directly.

Funds under management
Represents all assets actively managed or administered by or on behalf of the group including those funds managed by third parties.

Group MCEV
A measure of the total consolidated value of the group with covered life business included on an MCEV basis and non-covered business (including pension schemes and goodwill) included on an IFRS basis.

Gross risk-free yields
Gross of tax yields on risk-free fixed interest investments, generally swap rates under MCEV.

IFRS operating profit
From continuing operations on an IFRS basis, stated before tax attributable to shareholders' profits, impairment of goodwill and exceptional items.

Implicit items
Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.

Inherited estate
The assets of the long-term with-profit funds less the realistic reserves for non-profit policies, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.

Life business
Subsidiaries selling life and pensions contracts that are classified as covered business under MCEV.

Life MCEV
The MCEV balance sheet value of covered business as at the reporting date. Excludes non-covered business including pension schemes and goodwill.

Life MCEV operating earnings
Operating earnings on the MCEV basis relating to the lines of business included in the embedded value calculations. From continuing operations and is stated before tax, impairment of goodwill and exceptional items.

Life MCEV earnings
Total earnings on the MCEV basis relating to the lines of business included in the embedded value calculations. From continuing operations.

Look-through basis
Inclusion of the capitalised value of profits and losses arising from subsidiary companies providing administration, investment management and other services to the extent that they relate to covered business.

Long-term savings
Includes life and pension sales calculated under MCEV and retail investment sales.

Market consistent
A measurement approach where economic assumptions are such that projected asset cash flows are valued consistently with current market prices for traded assets.

Net asset value per ordinary share
Net asset value divided by the number of ordinary shares in issue. Net asset value is based on equity shareholders' funds.

Net worth
The market value of the shareholders' funds and the shareholders' interest in the surplus held in the non-profit component of the long-term business funds, determined on a statutory solvency basis and adjusted to add back any non-admissible assets, and consists of the required capital and free surplus.

Market Consistent Embedded Value (MCEV) terms cont.

New business margin
New business margins are calculated as the value of new business divided by the present value of new business premiums (PVNBP), and expressed as a percentage.

Present value of new business premiums (PVNBP)
Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine the value of new business.

Required capital
The amount of assets, over and above the value placed on liabilities in respect of covered business, whose distribution to shareholders is restricted.

Risk-free rate (reference rate in CFO Forum terminology)
In stable markets, including the period from 31 December 2006 to 30 June 2007, the risk-free rate is taken as the swap curve yield.
In current markets, including the period from 1 July 2007, the risk-free rate is taken as swaps except for all contracts that contain features similar to immediate annuities and are backed by appropriate assets, including paid up group deferred annuities in the Netherlands, and deferred annuities and all other contracts in the US. The adjusted risk-free rate is taken as swaps plus the additional return available for products and where backing asset portfolios can be held to maturity.

Service companies
Companies providing administration or fund management services to the covered business.

Solvency cover
The excess of the regulatory value of total assets over total liabilities, divided by the regulatory value of the required minimum solvency margin.

Spread business
Contracts where a significant source of shareholder profits is the taking of credit spread risk that is not passed on to policyholders. The most significant spread business in Aviva are immediate annuities and US deferred annuities and life business.

Statutory basis
The valuation basis and approach used for reporting financial statements to local regulators.

Stochastic techniques
Techniques that incorporate the potential future variability in assumptions.

Symmetric risks
Risks that will cause shareholder profits to vary where the variation above and below the average are equal and opposite. Financial theory says that investors do not require compensation for non-market risks that are symmetrical as the risks can be diversified away by investors.

Time value and intrinsic value
A financial option or guarantee has two elements of value, the time value and intrinsic value. The intrinsic value is the discounted value of the option or guarantee at expiry, assuming that future economic conditions follow best estimate assumptions. The time value is the additional value arising from uncertainty about future economic conditions.

Value of new business
Is calculated using economic assumptions set at the start of each quarter and the same operating assumptions as those used to determine the embedded values at the end of the reporting period and is stated after the effect of any frictional costs. Unless otherwise stated, it is also quoted net of tax and minority interests.

Shareholder services

Shareholder profile

The categories of shareholders and the range and size of shareholding as at 31 December 2009 are set out below:

Analysis of shareholders	No. of shareholders	%	No. of shares	%
Individual	590,483	97.34	252,515,052	9.13
Banks and nominee companies	12,461	2.05	2,451,903,945	88.62
Pension fund managers and insurance companies	94	0.02	125,276	0.01
Other corporate bodies	3,586	0.59	62,067,101	2.24
Total	**606,624**	**100**	**2,766,611,374**	**100**

Range of shareholdings	No. of shareholders	%	No. of shares	%
1–1,000	556,054	91.66	152,958,583	5.53
1,001–5,000	45,597	7.52	84,171,156	3.04
5,001–10,000	2,496	0.41	17,206,332	0.62
10,001–250,000	1,803	0.30	90,026,034	3.26
250,001–500,000	189	0.03	69,482,343	2.51
500,001 and above	484	0.08	2,350,241,926	84.95
ADRs	1	0.00	2,525,000+	0.09
Total	**606,624**	**100**	**2,766,611,374**	**100**

+ The number of registered ordinary shares represented by American Depositary Receipts (ADRs). Please note that each Aviva ADR represents two (2) ordinary Aviva plc shares.

Group financial calendar for 2010

Annual General Meeting	28 April 2010
Announcement of first quarter Interim Management Statement	11 May 2010
Announcement of unaudited half-year results	05 August 2010
Announcement of third quarter Interim Management Statement	04 November 2010

Annual General Meeting

Aviva's Annual General Meeting will be held at:

The Barbican Centre
Silk Street
London
EC2Y 8DS
on: Wednesday
28 April 2010
at 11.00am

The Notice of Meeting, together with details of the business to be conducted at the meeting, is available on the Company's website at www.aviva.com/agm

If you are unable to attend the meeting but would like to ask the Board of Directors a question regarding the business of the meeting, please do so via our website at www.aviva.com/agm. Alternatively, you can write to us directly either by email to agm.faq@aviva.com or by post to the Group Company Secretary, Freepost RLTE-RBXX-RBHB, Group Secretarial Department, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ. Answers to the most frequently asked questions will be available at the meeting and published on our website shortly after.

The voting results for the 2010 AGM, including proxy votes and votes withheld, will be accessible on our website at www.aviva.com/agm, shortly after the meeting.

Dividends

Dividends on our ordinary shares are normally paid in May and November; please see the following table for 2009 final dividend dates. Dividends paid on our preference shares are normally paid in March, June, September and December; please visit www.aviva.com/preferenceshares for the latest dividend payment dates.

Holders of ordinary and preference shares receive their dividends in sterling and holders of ADRs will receive any dividends paid by the Company in US dollars.

Ordinary shares – 2009 final dividend

Ex-dividend date	24 March 2010
Record date	26 March 2010
Scrip dividend price setting period	24, 25, 26, 29, 30 March 2010
Scrip dividend price announcement date	31 March 2010
Last date for receipt of Scrip elections	16 April 2010
Dividend payment date*	17 May 2010

* Please note that the ADR local payment date will be approximately five business days after the proposed dividend date for ordinary shareholders.

Share price

You can access the current share price of Aviva plc ordinary shares and ADRs at www.aviva.com/shareprice

If you would like to find out the price of Aviva preference shares, please visit the London Stock Exchange website via www.aviva.com/preferenceshares for a direct link.

Be on your guard – beware of fraudsters

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited advice:
— Make sure you get the correct name of the person and organisation
— Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register/

— Report the matter to the FSA either by calling 0300 500 5000 (calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes). If calling from overseas, please dial +44 20 7066 1000 or visit www.moneymadeclear.fsa.gov.uk
— If the calls persist, hang up.

More detailed information on this can be found on the FSA website www.moneymadeclear.fsa.gov.uk

Online Shareholder Services Centre – www.aviva.com/shareholderservices

The online shareholder services centre has been designed to meet the specific needs of our shareholders, preference shareholders and our American Depositary Receipt (ADR) holders and includes features to allow you to manage your holding in Aviva easily and efficiently.

Within the online centre you will be able to find our current and historic ordinary and ADR share prices, sharedealing information, news, updates, and when available, presentations from the Group Chief Executive. You will also be able to download an electronic copy of any current and past reports. There is also a range of frequently asked questions on holding ordinary shares, preference shares and ADRs in Aviva, which include practical help on transferring shares, dealing facilities and updating personal details.

Alternative format

If you would like to request a copy of our reports in an alternative format, for example, braille or audio, please contact our Registrar, Equiniti, by calling 0871 384 2953*.

Form 20-F

Aviva is a foreign private issuer in the US and as such is subject to the reporting requirements of the US Securities and Exchange Commission (SEC). Aviva files its Form 20-F with the SEC, copies of which can be found at www.aviva.com/reports

Managing your shareholding

If you have any queries regarding your shareholding in Aviva please contact our Registrar, Equiniti. Please quote Aviva plc, as well as the name and address in which the shares are held, and your Shareholder Reference Number, which you will find on your latest dividend stationery.

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone:
0871 384 2953*
+44 (0)121 415 7046 (for callers outside of the UK)
Email: aviva@equiniti.com

* Calls to 0871 numbers are charged at 8p per minute from a BT landline. Charges from other telephone providers may vary. Lines are open from 8.30am to 5.30pm, Monday to Friday.

Internet sites

Aviva owns various internet sites, most of which interlink with each other:

Aviva Group
www.aviva.com
UK Long-term savings and general insurance
www.aviva.co.uk
Asset management
www.avivainvestors.com
Aviva worldwide internet sites
www.aviva.com/websites

Other useful links for shareholders:
Aviva Shareholder Services Centre
www.aviva.com/shareholderservices
American Depositary Receipt holders
www.aviva.com/adr
Aviva preference shareholders
www.aviva.com/preferenceshares
Dividend information
www.aviva.com/dividends
Annual General Meeting information
www.aviva.com/agm
Electronic voting for Annual General Meeting†
www.aviva.com/agm
Aviva Share Price
www.aviva.com/shareprice

† This service will only be available until 48 hrs before the 2010 Annual General Meeting.

American Depositary Receipts (ADRs)

Aviva's ADRs are listed on the New York Stock Exchange and our stock is traded as American Depositary Shares (ADS). Aviva maintains a Level II ADR facility in the US, with each ADS representing two (2) Aviva plc ordinary shares. Aviva has a sponsored ADR facility administered by Citibank, NA. Any queries regarding Aviva ADRs can be directed to Citibank by post, telephone or email.

Citibank Shareholder Services
PO Box 43077
Providence, Rhode Island
USA 02940-5000

Email:
Citibank@shareholders-online.com
Telephone:
+ (1) 877 248 4237 (toll free for callers within the US)
+ (1) 781 575 4555 (for callers outside of the US)
Fax inquiries:
+ (1) 201 324 3284

For information about Aviva's ADR programme, please go to www.citi.com/dr for additional reference.

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