News Release

Aviva plc preliminary results for the year ended 31 December 2009

A YEAR OF SIGNIFICANT PROGRESS WITH A STRONG RETURN TO PROFIT

Strong financial performance reflects management actions	– Return to total profit: IFRS profit after tax £1,315m (FY08: £885m loss) – Operating profit £2,022m on an IFRS basis (FY08: £2,297m); £3,483m on an MCEV basis (FY08: £3,367m) – IGD solvency surplus more than doubled to £4.5bn (FY08: £2.0bn) – Group return on equity 16.2% (2008: 11%) – Total dividend per share of 24 pence
Proven strategy delivering results	– Reshaped composite portfolio: successful IPO of Delta Lloyd realised €1.1 billion; sale of subscale Australian life business for 16 times IFRS profits – Strategic restructuring: sustainable cost savings target of £500m exceeded one year early; 19% global headcount reduction over two years – Delivering for our customers: successful move to a single global brand; customer numbers up at 53 million and customer satisfaction increased
Clear plans to drive value, earnings and dividend	– Capitalise on leadership positions to grow our business, with a primary focus on UK and Europe – Rigorous allocation of capital to deliver highest returns – Build value in our customer franchise by exploiting global brand and expertise – Grow our general insurance portfolio and lower our combined operating ratio – Leverage improved investment performance to grow third party assets under management

Andrew Moss, group chief executive, commented:

"2009 was a year of significant progress for Aviva; a year of strong financial performance and delivery against our strategic plans. Against a challenging economic backdrop we focused on profitability and made clear choices to optimise our capital and reshape our portfolio through the successful IPO of Delta Lloyd and the sale of our Australian life business. We've taken out costs by creating simpler, more modern ways of doing business which reflect the changing way customers choose to deal with us.

"In driving Aviva forward we will retain our disciplined approach to capital and profitability. 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 have a refreshed executive team and a clear strategy. We aim to grow our life and general insurance businesses profitably, increase third party assets under management and continue to maximise the benefits of being a single global group. As economies begin to recover we will seek to take market share based on the strength of our brand, products, distribution and customer franchise. We will improve our productivity by controlling costs as we grow, thus creating value for shareholders and our 53 million customers."

Investor contacts	Media contacts	Timings
Andrew Moss +44 (0)20 7662 2286	Hayley Stimpson +44 (0)20 7662 7544	Newswire conference call 0815 GMT
Pat Regan +44 (0)20 7662 2228	Sue Winston +44 (0)20 7662 8221	Analyst presentation 0930 GMT
Charles Barrows +44 (0)20 7662 8115	Andrew Reid +44 (0)20 7662 3131	Live webcast www.aviva.com
Jonathan Price +44 (0)20 7662 2111	Ed Simpkins/ Conor McClafferty +44 (0)20 7251 3801	

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2009 key financial highlights

	IFRS			MCEV		
	2009 **£m**	Restated [1] 2008 £m	Change %	**2009** **£m**	Restated [2] 2008 £m	Change %
IFRS long-term business profit/ Life MCEV operating return	**1,887**	1,694	11%	**3,389**	2,810	21%
General insurance and health	**960**	1,198	(20)%	**960**	1,198	(20)%
Fund management	**133**	123	8%	**51**	42	21%
Other:						
Other operations and regional costs	**(214)**	(198)	(8)%	**(173)**	(163)	(6)%
Corporate centre	**(108)**	(141)	23%	**(108)**	(141)	23%
Group debt and other interest costs	**(636)**	(379)	(68)%	**(636)**	(379)	(68)%
Operating profit before tax	**2,022**	2,297	(12)%	**3,483**	3,367	3%
Profit/(loss) after tax	**1,315**	(885)		**2,935**	(7,707)	
Total dividend per share	**24.0p**	33.0p		**-**	-	
Net asset value per share (excluding IAS 19 pension deficit)	**436p**	444p		**533p**	518p	
Earnings per share	**37.8p**	(36.8)p		**101.7p**	(282.6)p	
Equity shareholders' funds	**£10,356m**	£11,179m		**£13,035m**	£13,162m	
Return on equity shareholders' funds	-	-		**16.2%**	11.0%	

Life and pensions new business

	Present value of new business premiums		Value of new business		New business margin	
	2009 **£m**	Restated 2008 £m	**2009** **£m**	Restated 2008 £m	**2009** **£m**	Restated 2008 £m
United Kingdom	**8,914**	11,858	**247**	204	**2.8%**	1.7%
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%

General insurance and health

	Net written premiums	
	2009 **£m**	Restated 2008 £m
United Kingdom	**4,298**	5,413
Europe	**3,046**	4,090
North America	**1,800**	1,601
Asia Pacific	**49**	33
Total general insurance and health	**9,193**	11,137

[1] Restated for a correction in the application of IAS 19 by Delta Lloyd in 2009

[2] Restated as for IFRS and the 2008 embedded value has also been restated for the US, primarily reflecting modelling corrections in the valuation of assets on a market consistent basis identified in 2009. For more detail on the restatements refer to the presentational changes note in the Preliminary Announcement

Chief Executive's statement

Proven strategy delivering results

2009 was a year of significant strategic progress for Aviva. The combination of disciplined and prudent management actions, a recovery in worldwide equity and credit markets and the resilience of our diversified composite business model enabled Aviva to deliver a strong set of results in an extremely challenging environment.

We also made excellent progress in delivery of our 'One Aviva' strategy in 2009, including the move to a global brand, the IPO of our Dutch business, the sale of our Australian life business, the reattribution of the inherited estate in the UK and the restructuring of Aviva's cost base.

Our strategy has enabled us to navigate successfully through the financial crisis, by ensuring we have remained focused on profitability and capital, and making clear choices to maximise returns. Aviva also benefits from the scale and resilience of the in-force life book and general insurance business, which make a sizeable and reliable contribution to earnings, accounting for over 80% of our profits.

Two years ago we initiated a programme to create a simplified and more modern way of doing business, to improve efficiency and reflect customers' changing preferences, such as their demand for greater self-service. By investing in new technology and streamlining our processes we have been able to respond to customers' needs and improve service, while making substantial and sustainable cost savings.

This fundamental change in the way we operate means our business is now fitter for the future, with improved capacity and productivity. We have achieved our cost savings target of £500 million one year ahead of plan and Aviva now has 10,700 fewer employees than at this time two years ago, a reduction of 19%. We have managed this transition as sensitively as possible, making full use of natural turnover and redeployment opportunities. In our UK business, we reduced the number of operational centres for our general insurance business from 27 to nine, while improving customer service. We have also made effective use of outsourcing; for example in our UK life business where we have simplified our operations by decommissioning over 300 IT systems. As Aviva continues to grow, these changes and other initiatives will enable us benefit further from our scale and therefore further improve our profitability.

Strong financial performance reflects management actions

Aviva has delivered a strong return to profit with IFRS total profit after tax at £1,315 million. On an MCEV basis the total profit after tax was £2,935 million compared to a loss of £7,707 million in 2008. This turnaround 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.

The decline in financial markets at the end of 2008 put predictable downward pressure on our operating earnings but, to a significant degree, we have been able to counteract this through the actions we have taken to make Aviva's business more resilient by reducing costs and operating more efficiently. As a result, our earnings per share increased to 37.8 pence, from a loss of 36.8 pence in 2008.

Our long-term savings business contributed £1,887 million to IFRS operating profit, an increase of 11% compared with the previous year, which was a resilient result in a tough market, showing the benefit of improved investment returns and our disciplined approach to writing new business. On an MCEV basis the life operating profit was £3,389 million, an increase of 21%.

The general insurance businesses focused on writing for profit, which impacted sales volumes. The adverse weather in Europe and creditor claims in the UK meant that our combined operating ratio for 2009 was 99%, slightly above our 98% 'meet or beat' target.

Net asset value per share, excluding the impact of the IAS 19 pension deficit, was 436 pence on an IFRS basis at 31 December 2009 and 533 pence on an MCEV basis. Including the impact of the IAS 19 pension deficit, net asset value per share was 374 pence on an IFRS basis and 471 pence on an MCEV basis. Return on equity shareholders' funds was 16.2%.

At the half year, we took the decision to reduce the interim dividend by 31%, in light of Aviva's lower IFRS operating earnings, the continuing economic uncertainty and our desire to retain financial flexibility. Our aim is to position the dividend at a sustainable level from which it can grow. The final dividend will be 15 pence, a reduction of 25% on the 2008 final dividend, bringing the total 2009 dividend to 24 pence, slightly ahead of the interim position. Aviva's dividend policy remains unchanged and the total dividend is 1.8 times covered which is within our 1.5 to 2.0 times dividend cover target range (based on IFRS operating earnings after tax).

Excellent strategic progress

We have made significant progress in maximising the value of Aviva as a single, global group. In the past 12 months we have increased the pace of transformation and have been restructuring our portfolio, giving us the opportunity to reallocate capital to markets and products which will deliver the highest returns. We completed two significant, strategic moves to reshape our portfolio in 2009; the sale of Aviva's Australian life business to National Australia Bank, which generated a return of 16 times IFRS earnings and the IPO of our Dutch business, Delta Lloyd, which raised total gross cash proceeds of €1.1 billion.

In the UK we completed our successful brand change to Aviva with sector-leading levels of awareness throughout the year and Aviva now ranks among the UK's top ten most valuable brands, according to the 2010 Brand Finance Global 500 survey. We fully adopted the Aviva name in Ireland at the start of 2010 and our Polish business will complete their move in June.

We also made an innovative move to reattribute the inherited estate of two of the with-profit funds in the UK, which resulted in a positive outcome for Aviva's customers and shareholders. Customers voted overwhelmingly in favour of the reattribution and by the end of March 2010 Aviva will have distributed a total of £471 million to 800,000 policyholders. As a result of the reattribution Aviva's shareholders are expected to gain access to around £650 million of additional capital over five years, to fund new business growth.

In the UK, we have also brought our long-term savings and general insurance businesses closer together under one UK CEO. This single view of our business will enable us to serve our customers more effectively, bring further scale benefits and underpin future growth.

Capturing life and pensions growth in Europe

We consider that Europe as a whole represents the largest and most attractive life and pensions market in the world, given its scale, the current level of savings and the opportunities created as the 'baby boomer' generation moves into retirement. We have invested strategically over time to build our presence and distribution in Europe and now have 43 million customers and a significant market share in most of the markets in which we operate. This has enabled us to take advantage of the substantial commercial opportunities and capture the strong life and pensions growth that has emerged.

Looking ahead, the life and pensions market, including our home market of the UK, is set to deliver the greatest absolute growth over the next five years, totalling some $1.7 trillion, outstripping Asia (excluding Japan) and North America. We have positioned our business to maximise this opportunity for Aviva.

Through our "Quantum Leap" programme in mainland Europe we are creating value for our customers and shareholders by integrating the operations of 12 separate businesses outside the UK into one single organisation with pan-European distribution channels and simplified product ranges.

High quality balance sheet

We have strengthened Aviva's capital position substantially over the past year and the IGD solvency surplus has more than doubled to £4.5 billion, reflecting a number of capital management initiatives and a recovery in investment markets. The increase also reflects beneficial effects of the strategic moves we made in selling our Australian life business (£0.4 billion) and the IPO of Delta Lloyd (£0.5 billion). We take a disciplined approach to risk management and continue to manage our equity and credit exposures. In the event of a 40% fall in equity markets the group would still have an IGD surplus of £3.8 billion.

Our asset portfolio continues to be of high quality. At £98 million, Aviva's default and impairment losses on debt securities in 2009 were less than one third the level of the previous year. Aviva's UK commercial mortgages and corporate bond portfolios did not experience any material defaults in 2009 and the £1.1 billion default provisions held in 2008 remained unused.

Aviva's exposure to sovereign debt is well within our risk appetite. We hold these assets for the long-term and believe that the risk of European countries defaulting on their sovereign debt is low.

Our liquidity position also remains very strong, with £2.2 billion of liquid assets held at the centre of the group. We also have £2.1 billion of undrawn committed credit facilities, provided by a range of leading international banks. Financial leverage, which is the ratio of our external senior and subordinated debt to MCEV capital and reserves, was 31.8% (31 December 2008: 34.0%) and when Aviva's centre assets are offset against this debt financial leverage falls to 19.0% (31 December 2008: 25.4%).

Long-term savings: robust sales and solid margins

Our long-term savings businesses delivered a robust sales performance in the year, with total new business of £36 billion, down 11% on 2008 (17% on a local currency basis). We managed new business flows with a strict focus on capital efficiency and profitability. The new business margin improved to 2.2% (2008: 2.1%). The strongest margins were in our European business at 3.9%, while the biggest improvement was in the UK where we increased the margin from 1.7% to 2.8%. This performance offset falls in the US and Delta Lloyd. Our long-term savings sales picked up across all regions in the fourth quarter, giving encouraging signs of consumers returning to saving. Sales in Europe were the strongest, up 5% over the year and 39% higher in the fourth quarter compared to the previous quarter.

Sales through our bancassurance partners continued to perform strongly, making a substantial contribution to the group result. Our bancassurance expertise is a key point of differentiation for Aviva, accounting for almost one third of our global life and pensions sales. Sales through this channel increased by 7% on the previous year, underlining the resilience of bancassurance and the continued importance of insurance earnings to banks.

General insurance: delivering for customers when it matters most

Aviva's general insurance businesses are a vital component of our composite model, bringing diversification of earnings and giving Aviva further resilience.

General insurance and health premiums were lower at £9,193 million (2008: £11,137 million), although they were only reduced by 7% when allowing for the sale of the Delta Lloyd health business at the start of the year.

Our group expense ratio improved to 12.6% from 13.4% in 2008, reflecting increased productivity. The combined operating ratio for 2009 was 99%, having been impacted by increased unemployment claims from UK creditor customers and the adverse weather in Europe. This claims experience, together with the reduced investment return on a lower asset base, resulted in a 20% decrease in the general insurance operating profit, to £960 million.

We continued to deliver excellent service to our customers when they needed us most. For example, in Ireland, we took the unprecedented step of launching an advance payment mechanism to help householders and businesses facing hardship in the aftermath of the severe floods.

Asset management: global approach driving increased operating profit

We have made strong progress in the development of a single, globally integrated asset manager in Aviva Investors. Total operating profit from our asset management businesses increased by 8% to £133 million, which includes higher performance fees earned by Aviva Investors. We also improved our investment performance significantly and made good progress in delivering higher client satisfaction.

Clear plans to drive value, earnings and dividend growth

Aviva is strong today, with clear plans in place for profitable growth. Already this is a global business that is delivering a 16% return on equity to shareholders, with a 13% IRR in its two biggest markets and which generates £2.5 billion of capital each year from its existing portfolio.

Our composite business model, strong capital position and highly experienced management team with an excellent track record of operational delivery, have all given us the ability to withstand the economic downturn.

Our executive team has been further enhanced, with Pat Regan joining as Chief Financial Officer, bringing with him a wealth of experience in the industry. Mark Hodges now leads our life and general insurance businesses in the UK, while Igal Mayer has moved to head our operations in North America and Robin Spencer has become Chief Risk Officer.

We have ambitious plans in place to enhance Aviva's IFRS earnings per share significantly. We will continue to develop our global composite model, with a focus on profitable growth across our life and general insurance businesses. Our priority will be on increasing Aviva's penetration of existing markets, through our strong and effective distribution networks. We will manage the value of our life in-force business and further improve margins. In our general insurance businesses we will aim to improve our COR in line with our 'meet or beat' target of 98%. Aviva Investors will continue to grow third party assets under management.

The economic climate remains uncertain, but consumer confidence is slowly returning. We will continue to deliver against our 'One Aviva' strategy, which has helped us to navigate the global economic crisis so well. 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.

Andrew Moss
Group Chief Executive

Regional performance

United Kingdom: A leader in our home market

- Life IFRS operating profit of £672 million (31.12.08: £751 million)
- Life and pension sales of £8,914 million (31.12.08: £11,858 million)
- Life new business gross margin up to 2.8% (31.12.08: 1.7%)
- UK general insurance and health operating result at £535 million (31.12.08: £656 million) and general insurance COR of 99% (31.12.08: 99%)

2009 was a year of significant developments for us in our home market. We successfully adopted the Aviva brand and initiated the bringing together of our life and general insurance businesses under a single CEO. Our extensive transformation programmes enabled us to deliver cost savings of £450 million from our life and general insurance businesses a year ahead of plan, together with a simplified approach aimed at improving customer service and profitability. As a result of the disposal of non-core businesses and efficiency improvements in our life and general insurance business we have 9,600 fewer staff than two years ago, a reduction of 30%. We recognise that significant changes have an impact on our people and we have made full use of natural turnover and redeployment to reduce the effects.

Against a backdrop of lower consumer confidence and challenging economic conditions, we increased the profitability of our life new business through our strategic actions, such as the careful management of our product mix. We also benefitted from our broad product offering. Reduced commission levels, disciplined cost control and market-leading pricing all contributed to an increased margin of 2.8% from 1.7%. The internal rate of return on our new business is 14%.

Our focus on simplification and business efficiency has enabled us to meet our commitment to a zero cost overrun on existing business. To simplify our life and pensions business, we have moved the administration of almost three million UK life policies to Swiss Re, Scottish Friendly and International Data Services, which has enabled us to decommission over 300 IT systems. In response to the trend to self-service we enhanced our e-commerce offering during the year by launching on-line services, giving customers and advisers 24-hour access to their Aviva life portfolios. At the start of 2010, we completed our individual pensions proposition with the launch of Aviva's Sipp and Wrap platforms, and introduced a new offering giving advisers more flexible remuneration options in preparation for the Retail Distribution Review.

The reattribution of the inherited estate of our two largest with-profits funds represented a strategic milestone for the life business in 2009, bringing benefits for customers and shareholders alike. The ongoing net earnings will include the expected earnings on re-attributed assets of £30 million on an MCEV basis and £45 million on an IFRS basis.

We have reshaped our general insurance portfolio over the past 12 months. We made the decision to withdraw from less profitable business, and took action to improve claims management and enhance our risk selection. Our strategic initiatives, coupled with efficiency improvements, have resulted in lower expenses and commission. Higher levels of unemployment claims from creditor customers combined with lower prior year savings led to a COR of 99%.

RAC now has over two million individual members and around five million corporate customers. We are proud that in a period of severe winter weather in December RAC patrolmen provided assistance at more than 80,000 breakdowns in the UK. During the year we launched the RAC car insurance panel, which is growing rapidly and had already achieved a 3.5% share of new business in the UK personal motor market by the end of 2009.

Delivering profitable growth is a key focus for both our UK businesses in 2010. A return to top-line growth in general insurance is a key priority. Our marketing investment, recent re-entry into corporate risk business and development of the RAC franchise will contribute to this. We will also maximise the competitive advantage of our risk index, which will give insurance brokers fast and easy access to Aviva's best prices. In the life business, we will continue to offer a broad range of products, but will prioritise our retirement offering, the development of our Sipp and Wrap platforms, and sales of protection products.

We will maintain our rigorous cost discipline across the UK businesses as we grow, to deliver the benefits of scale. We are committed to ensuring that our customers receive market-leading service from Aviva. We will continue to look for new opportunities to enhance efficiency which will benefit customers, distributors and shareholders.

Europe: A single business across Europe with significant growth opportunities

Europe represents an extremely promising market for Aviva over the next five years, offering significant growth opportunities in both under-penetrated Western European markets and the developing insurance markets of Eastern Europe.

In October 2009 we announced our two-part strategy to capture the considerable opportunity in Europe: firstly Aviva Europe's 'Quantum Leap' transformation plan to create one pan-European business from 12 federated businesses and, secondly, the strategic development of our 58% holding in Delta Lloyd following the IPO in November 2009.

Aviva Europe

- IFRS operating profit of £797 million (31.12.08: £831 million)
- Life and pension sales of £13,523 million (31.12.08: £12,855 million)
- Life new business gross margin 3.9% (31.12.08: 4.0%)
- General insurance COR of 103% (31.12.08: 99%)

With our 'Quantum Leap' strategy we are moving to a single operating model with pan-European distribution, a streamlined suite of products, a simplified legal structure under a single holding company, a more flexible capital structure, sector-leading risk management processes and shared systems and processes across Europe.

The excellent progress we have made in our transformation plan enabled us to achieve a 12% reduction in costs in 2009, on a like for like basis. During the last quarter of the year, we created pan-European product centres in Poland and Ireland, and established our shared services bancassurance platform in Spain, which will be implemented across our markets over time. We have already started to streamline our product range, by removing 150 products which no longer meet customers' needs.

At the same time as making significant progress in transforming our business, we delivered a strong financial performance. Life IFRS operating profit increased by 11% and our life and pensions sales went up 5% (down 1% on a local currency basis), which was an excellent sales performance in the context of an extremely difficult market environment.

In 2009 our customers demonstrated a clear preference for savings products with guarantees. By taking pricing actions we have been able to meet this customer demand while maintaining our underlying margin at 3.9%.

During the year, our investment assets grew by 5%, an increase of 14% on a local currency basis, reflecting both an improvement in investment markets and a net capital inflow of £3.8 billion.

Our general insurance result was impacted by extreme weather events in Ireland and France, which resulted in the COR increasing to 103%. Despite the exceptional weather events, we improved the underlying COR by 1% as we began to see the first benefits of our pan-European claims programme.

In 2010 we will further develop Aviva's customer franchise in Europe and continue to transform our business through our 'Quantum Leap' strategy, while focusing on long-term, sustainable profit growth. By continuing to balance profit generation and investment opportunities, we aim to become a leader in every European market in which we choose to compete.

Delta Lloyd

- IFRS operating profit of £399 million (31.12.08: £310 million)
- Life and pensions sales of £3,665 million (31.12.08: £4,097 million)
- Life new business gross margin at (2.8) % (31.12.08: (1.1) %)
- General insurance COR of 97% (31.12.08: 94%)

The highlight of 2009 for Delta Lloyd, our Dutch subsidiary, was listing on the Amsterdam stock exchange in November. This represents a significant milestone in the strategic development of both Aviva and Delta Lloyd.

Delta Lloyd's full year results are on track to meet the profitability and capital management targets stated in the IPO prospectus. Its focus in 2010 will continue to be on reducing costs further and improving margins.

In 2009 Delta Lloyd completed the successful integration of the Swiss Life Belgium operation acquired in 2008 with the existing Delta Lloyd Belgium life operation. It also extended the ABN AMRO distribution arrangement to include Fortis branches when they are rebranded in 2010 and completed the sale of its health business.

North America: Profitable growth and diversification

- IFRS operating profit of £213 million (31.12.08: £149 million)
- Life and pensions sales of £4,545 million (31.12.08: £5,715 million)
- Life new business gross margin at 0.4% (31.12.08: 1.0%)
- General insurance COR of 100% (31.12.08: 99%)

Having successfully doubled the scale of our US business a year ahead of plan, in 2009 we focused on the profitability of the business we write by moderating the pace of annuity sales and growing our protection business. Operating profit on an IFRS basis increased substantially, as a result of the actions we took to improve the investment margin we earn on our new and existing equity indexed annuity business. We grew our US life protection sales by 40% in 2009 (19% on a local currency basis), when the market declined by 19% in the first nine months of the year. This growth reflects the work we have done to enhance our relationships with key distributors, including extending our presence in the Brokerage General Agency (BGA) channel, which represents groups of individual agents and investment advisors.

The acquisition of AmerUs in 2006 created a solid platform for Aviva's growth in the US long-term savings market. Our ambition is to grow market share, becoming a significant and diversified provider in the US life and savings market over time. To achieve this, we will broaden our product offering and distribution from our existing base. As the US economy begins to recover, we anticipate a growing demand for products which guarantee the security of the customer's original investment and we want to be able to capture that demand, without compromising our desire for improved profitability.

In Canada, where we are the second largest general insurer, we experienced good growth in the commercial lines market, which has had the desired benefit of beginning to diversify our portfolio away from personal motor. We experienced an unusually high frequency of weather-related property losses, large losses in commercial lines due to fire claims and higher personal motor claims in Ontario, all of which impacted our COR.

We have clear focus for 2010: in long-term savings we will continue to enhance capital efficiency and optimise returns, while selectively expanding and growing our core life insurance and annuity distribution and product capabilities. In general insurance we will take action to ensure we drive the COR down, including targeted price increases, enhanced risk selection, and introducing initiatives to manage medical and rehabilitation costs.

Asia Pacific: Building future value generation

- IFRS operating profit of £77 million (31.12.08: £36 million)
- Life and pension sales of £1,356 million (31.12.08: £1,720 million)
- Life new business gross margin 2.1% (31.12.08: 2.5%)

Our Asia Pacific region now covers eight markets and comprises both joint venture arrangements and wholly-owned businesses. During the year, we sold our Australian life business because it did not meet our strategic objective of focusing on key growth markets in Asia in which we can achieve a leading position. We continue to have asset management capability in Australia through Aviva Investors.

Our portfolio includes the priority markets of India and China. The predicted rates of economic growth in these two markets mean that they will generate a significant part of Aviva's future growth in Asia Pacific.

Trading conditions in the Asia Pacific region were challenging in 2009, especially in the first half of the year. However, excluding the Australian business, Aviva's life and pension sales increased by 20% between the third and fourth quarters of 2009, indicating a positive change in consumer sentiment. At the same time, consumers continue to be cautious and we have therefore tailored our proposition set to offer more protection products.

During the year we continued to focus on conserving capital and reducing costs in the region. While sales volumes were lower partly because of the global economic crisis, we also chose to pull back on sales of capital intensive products, for example in Hong Kong, Taiwan and Malaysia.

We made some notable progress in developing Aviva's existing businesses in the region. For example we extended our franchise in China, opening our tenth provincial branch ahead of our 2010 target and in South Korea we opened 13 new branches around Seoul. South Korea was a new market entry for Aviva in 2008 and already accounts for over 21% of our Asia Pacific life and pensions sales. Our partnership with DBS Bank has been extended until 2015 and this will give us access to additional distribution in India, China and Taiwan.

Looking ahead, we expect economic recovery in Asia Pacific to be steady. In 2010, we will continue to focus on value generation and deepening our existing footprint in Asia Pacific.

Aviva Investors: Increasing third party assets under management

- IFRS operating profit of £115 million (31.12.08: £114 million)
- Aviva Investors managed £250 billion (31.12.08: £236 billion) of the group's £379 billion funds under management (31.12.08: £374 billion)
- Net new business flows of £0.9 billion, comprising third party inflows of £2.4 billion and Aviva group outflows of £1.5 billion

In 2009 we made strong progress in the development of a single, globally integrated asset management business. Of critical importance is the globalisation of our business development and marketing capabilities to institutions, intermediaries and investment consultants, which has resulted in a strong pipeline of external new business.

We also improved our investment performance significantly for clients which enabled us to generate record performance fees. 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 performances in France, Australia and Poland.

Throughout the global economic crisis we remained committed to investing in our asset management capability, which enabled Aviva to gain some competitive advantage. For example, in 2009, Aviva Investors moved into the top quartile for the UK in the Greenwich Quality Index, which measures investment quality and both clients' and advisors perceptions of asset management businesses. This demonstrates that our firm focus on fund management performance and excellent client service has already delivered significant results.

We made good progress in broadening our product range in 2009, supporting our aim of offering our clients bespoke investment solutions drawn from a best of breed product suite. In 2010 we aim to introduce absolute return products in all sectors.

Despite the downturn we have retained our number one position in the UK property investment sector and Aviva Investors Property Trust – which is the largest retail fund in the UK – remained open throughout the period for the benefit of our customers. In the fourth quarter of 2009, we saw significant growth in our pipeline of real estate opportunities, indicating an improvement in investor sentiment.

Early in 2010 we completed the acquisition of US equity manager River Road. This move will simultaneously support our objective of increasing our third-party institutional business and will allow us to provide our clients with a broader range of investment solutions in North America.

In the coming year we will continue to focus on the key strategic priorities of maximising sales to third party clients and maintaining strong investment performance, while continuing to deliver outstanding service, and increasing the efficiency and effectiveness of our asset management business.

Information

Newswires:

There will be a conference call today for real time media at 0815 hours (GMT). The conference call will be hosted by Andrew Moss, group chief executive.

Analysts:

A presentation to investors and analysts will take place at 0930 hours (GMT) at Aviva plc, 1 Undershaft, London EC3P 3DQ. The investors and analysts presentation is being filmed for live webcast and can be viewed on the Group's website www.aviva.com or on www.cantos.com. A replay will be available on these websites later today.

There will also be a live teleconference link to the investor and analyst meeting on +44(0)20 7138 0843. A replay facility will be available until 18 March 2010 on +44 (0)20 7111 1244. The pass code is 3593349# for the whole presentation including Question & Answer session or 7664358# for Question & Answer session only.

The presentation slides will be available on the group's website, www.aviva.com/investor-relations/presentations/ from 0900 hours (GMT).

The Aviva media centre at www.aviva.com/media includes images, company information and news release archive. Photographs are available on the Aviva media centre at www.aviva.com/media. You can follow Aviva on Twitter at avivaplc.

Notes to editors

- Aviva is a leading provider of life and pension products in Europe (including the UK) with substantial positions in other markets around the world, making it the world's fifth largest insurance group based on gross worldwide premiums at 31 December 2008.
- Aviva's principal business activities are long-term savings, fund management and general insurance, with worldwide total sales* of £45.1 billion and funds under management of £379 billion at 31 December 2009.

  * Based on 2009 published life and pensions PVNBP on an MCEV basis, total investment sales and general insurance and health net written premiums, including share of associates' premiums.

  The Aviva media centre at www.aviva.com/media includes images, company and product information and a news release archive.
- All figures have been translated at average exchange rates applying for the period. The average rates employed in this announcement are 1 euro = £0. 88 (12 months to 31 December 2008: 1 euro = £0.80) and £1 = US$1.57 (12 months to 31 December 2008: £1 = US$1.85).
- Income statements and cash flows of foreign entities are translated at average exchange rates while their balance sheets are translated at the closing exchange rates on 31 December 2009.
- Definition: Present value of new business premiums (PVNBP)

  PVNBP is derived from the single and regular premiums of the products sold during the financial period and are expressed at the point of sale. The PVNBP calculation is equal to total single premium sales received in the period plus the discounted value of regular premiums expected to be received over the term of the new contracts. The discount rate used reflects the appropriate risk-free rate for the country and duration of business. The projection assumptions used to calculate PVNBP for each product are the same as those used to calculate new business contribution. The discounted value of regular premiums is also expressed as annualised regular premiums multiplied by a Weighted Average Capitalisation Factor (WACF). The WACF will vary over time depending on the mix of new products sold, the average outstanding term of the new contracts and the projection assumptions.
- Cautionary statements:

  This should be read in conjunction with the documents filed by Aviva plc (the "**Company**" or "**Aviva**") with the United States Securities and Exchange Commission ("**SEC**").

  This announcement contains, and we may make verbal statements containing, "forward-looking statements" with respect to certain of Aviva's plans and current goals and expectations relating to future financial condition, performance, results, strategic initiatives and objectives. Statements containing the words "believes", "intends", "expects", "plans", "seeks", "aims", "may", "could", "outlook", "estimates" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in these statements. Aviva believes these factors include, but are not limited to: the impact of difficult conditions in the global capital markets and the economy generally; the impact of new government initiatives related to the financial crisis; defaults in our bond, mortgage and structured credit portfolios; the impact of volatility in the equity, capital and credit markets on our profitability and ability to access capital and credit; changes in general economic conditions, including foreign currency exchange rates, interest rates and other factors that could affect our profitability; risks associated with arrangements with third parties, including joint ventures; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; a decline in our ratings with Standard & Poor's, Moody's, Fitch and A.M. Best; increased competition in the U.K. and in other countries where we have significant operations; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, lapse rates and policy renewal rates), longevity and endowments; a cyclical downturn of the insurance industry; changes in local political, regulatory and economic conditions, business risks and challenges which may impact demand for our products, our investment portfolio and credit quality of counterparties; the impact of actual experience differing from estimates on amortisation of deferred acquisition costs and acquired value of in-force business; the impact of recognising an impairment of our goodwill or intangibles with indefinite lives; changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities; the effect of various legal proceedings and regulatory investigations; the impact of operational risks; the loss of key personnel; the impact of catastrophic events on our results; changes in government regulations or tax laws in jurisdictions where we conduct business; funding risks associated with our pension schemes; the effect of undisclosed liabilities, integration issues and other risks associated with our acquisitions; and the timing impact and other uncertainties relating to acquisitions and disposals and relating to other future acquisitions, combinations or disposals within relevant industries.

  For a more detailed description of these risks, uncertainties and other factors, please see Item 3, "Risk Factors", and Item 5, "Operating and Financial Review and Prospects" in Aviva's registration statement on Form 20-F as filed with the SEC on 7 October 2009. Aviva undertakes no obligation to update the forward-looking statements in this announcement or any other forward-looking statements we may make. Forward-looking statements in this announcement are current only as of the date on which such statements are made.

Aviva plc is a company registered in England No. 2468686.
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Contents

Key financial highlights

	IFRS			MCEV		
	2009 £m	Restated 2008 £m	Change %	**2009 £m**	Restated 2008 £m	Change %
Long-term business IFRS profit/MCEV earnings	**1,887**	1,694	11%	**3,389**	2,810	21%
General insurance and health	**960**	1,198	(20)%	**960**	1,198	(20)%
Fund management	**133**	123	8%	**51**	42	21%
Other operations and regional costs	**(214)**	(198)	(8)%	**(173)**	(163)	(6)%
Corporate centre	**(108)**	(141)	23%	**(108)**	(141)	23%
Group debt and other interest costs	**(636)**	(379)	(68)%	**(636)**	(379)	(68)%
Operating profit before tax	**2,022**	2,297	(12)%	**3,483**	3,367	3%
Profit/(loss) after tax	**1,315**	(885)		**2,935**	(7,707)	
Total dividend per share	**24.0p**	33.0p		**—**	—	
Net asset value per share	**374p**	421p		**471p**	495p	
Net asset value per share (excluding IAS19 pension deficit)	**436p**	444p		**533p**	518p	
Earnings /(loss) per share	**37.8p**	(36.8)p		**101.7p**	(282.6)p	
Equity shareholders' funds	**£10,356m**	£11,179m		**£13,035m**	£13,162m	
Return on equity shareholders' funds	**—**	—		**16.2%**	11.0%	
New business margin	**—**	—		**2.2%**	2.1%	
Combined operating ratio	**99%**	98%		**—**	—	
Total sales	**45,068**	51,377		**—**	—	

2008 IFRS: Restated for a correction in the application of IAS19 by Delta Lloyd in 2009.
2008 MCEV: Restated as for IFRS and also the 2008 embedded value has been restated for the US business, primarily reflecting modelling corrections in the valuation of assets on a market consistent basis identified in 2009.
For more detail on the restatements refer to the presentational changes note in the Preliminary Announcement.

Increasing pace of transformation	– Successful initial public offering (IPO) of Delta Lloyd, with Aviva now holding a 58% stake, raised gross proceeds of €1.1 billion. – Completed sale of Australian life business to National Australia Bank, a return of 16 times IFRS earnings. – Reattribution of inherited estate on the 1 October 2009 with payment of £0.5 billion to policyholders completing in March 2010. – In October 2009 we established a secondary listing in the US and started trading on the New York Stock Exchange through its level two ADR programme. – New executive team responsibilities and new CFO announced in year.
Rebound in IFRS profit after tax to £1,315 million **MCEV profit after tax of £2,935 million**	– Strong improvement in profit after tax, on both bases, benefiting from resilient operating result and improved market conditions. – Earnings per share on an IFRS basis increased to 37.8 pence (2008: (36.8) pence loss).
IFRS operating profit of £2,022 million **MCEV operating profit of £3,483 million**	– IFRS operating profits of £2,022 million (2008: £2,297 million) down due to the economic turmoil, mitigated by management action. Lower corporate costs following cost saving initiatives. – Swap rates have fallen significantly compared with the previous year and, as a result, the benefit from moving to the 10 year swap rate has been offset by the overall reduction in rates. The net impact of these factors on an IFRS basis was to reduce profit by around £200 million, while on MCEV the impact was broadly neutral. – MCEV operating profits increased by 3% to £3,483 million, reflecting an improved long-term business result, partly offset by lower general insurance result.
IFRS long-term business operating profit up 11% to £1,887 million	– Long-term business operating profit increased 11% supported by efficiency improvements and reduced new business volumes (resulting in lower new business strain). – Strong profits from in-force portfolios. – UK Life result includes benefit from the reattribution of the inherited estate, partly offset by reduced with-profit special distribution bonus of £86 million (2008: £124 million). – Asia Pacific benefited from a £68 million one-off release from reserves following an actuarial review of risk margins in H1 2009.
General insurance and health operating profit down 20% to £960 million	– General insurance and health operating profit decreased by 20% (2008: £1,198 million). – Group underwriting result lower at £104 million (2008: £181 million), as a result of lower general insurance reserve releases of £372 million (2008: £690 million), from previous accident years net of reinsurance, and the impact of adverse weather in Europe. – Longer-term investment return down 15% to £875 million (2008: £1,025 million) driven by lower asset values and lower interest rates when compared to the prior year. – Net written premiums down 17% to £9,193 million (down 7% excluding Delta Lloyd Healthcare), with reductions in the UK partially offset by increases in other regions. – COR of 99% is above our 98% 'meet or beat' target, being adversely impacted by creditor in the UK and adverse weather in Europe.

Key financial highlights continued

Fund management up to £133 million on an IFRS basis	– Operating profit increased 8% to £133 million (2008: £123 million) reflecting higher performance fees earned in Aviva Investors. – Aviva Investors net in-flows totalled £0.9 billion, of which £2.4 billion were from third party clients offset by outflows of £1.5 billion from Aviva Group companies. – Total group funds under management of £379 billion (2008: £374 billion).
Underlying costs down by 13%	– Underlying cost base, excluding foreign exchange and restructuring costs, reduced by 13% over the last 12 months. – Previously announced cost savings targets of £500 million was delivered ahead of plan. Overall headcount reduced by 10,700 from 57,000 at the start of 2008 to 46,300 by the end of the year.
IFRS net asset value of 374 pence per share **MCEV net asset value of 471 pence per share** **IFRS NAV of 436 pence and MCEV NAV of 533 pence per share excluding IAS 19 pension deficit**	– Reduction in NAV to 374 pence at 31 December 2009 (2008: 421 pence). Retained earnings were offset by the adverse impact of exchange movements (£777 million) and the increase in the pension schemes deficit (£1,071 million). – Delta Lloyd IPO resulted in a reduction in the NAV of 20 pence (£530 million). – MCEV NAV was 471 pence at 31 December 2009 (2008: 495 pence). As for IFRS, strong retained earnings were offset by the adverse impact of exchange movements, the increase in the pension schemes deficit and the DL IPO. – Excluding the IAS 19 pension deficit would increase NAV by 62 pence to 436 pence on an IFRS basis and 533 pence on an MCEV basis.
New business margin of 2.2%	– New business margin of 2.2%, compared with 2.1% at 1H 2009 and full year 2008, with particular improvement in the UK where margin increased from 1.7% to 2.8%, offsetting falls elsewhere. – IRR on life and pension new business for the group was 10.0% (2008: 11.4%) – Worldwide long-term new business sales, including investment products, of £35,875 million, a reduction of 11% compared with 2008 (down 17% in local currency), reflects the tough external environment in 2009 and management's decision to focus on value over volume. The fourth quarter saw sales improvements across all regions. – Bancassurance remains a significant contributor, accounting for almost a third of our global life and pensions sales. Sales through bancassurance channels were £9.3 billion for 2009 (2008: £8.6 billion).
Long-term business MCEV operating earnings up 21% to £3,389 million	– Life MCEV operating earnings up by 21% to £3,389 million (2008: £2,810 million), with improvements in Europe, US and Asia Pacific. – Net operating variances and assumption changes were £(55) million unfavourable (2008: £(389) million unfavourable). – UK Life result includes benefit from the reattribution of the inherited estate. – In contrast to EEV, MCEV does not include the value of any future spread earnings. In 2009 these were around £500 million (after tax and minority interest). If a capitalisation factor of 5 times were applied to this amount, this would give an additional embedded value of £2.5 billion in respect of these earnings.
Increase in IGD solvency to £4.5 billion	– Strong growth in IGD to £4.5 billion (2008: £2.0 billion) reflects a combination of operating and market performance as well as the benefit of capital management initiatives. – IGD solvency includes the £0.4 billion uplift from the sale of the Australian business and the additional £0.5 billion from the Delta Lloyd IPO, partly offset by the deduction of £0.5 billion for policyholder incentive payments as part of the reattribution of the inherited estate. – 40% fall in equities would reduce IGD surplus by £0.7 billion.
Liquidity	– Strong liquidity position with direct access to £2.2 billion of liquid assets (2008: £1.4 billion). – £2.1 billion of undrawn committed credit facilities provided by a range of leading international banks.
Full year dividend of 24 pence	– Final dividend for 2009 of 15 pence, a reduction of 25% from 2008, broadly in line with the reduction at half year, bringing total dividend to 24 pence
Group's rating from Standard and Poors is AA- ("very strong")	– The group's rating from Standard and Poors 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 . – Ratings continue to reflect our strong competitive position, positive strategic management, strong and diversified underlying earnings profile, and robust liquidity.
Asset quality	– Prudent management of investments has limited our exposure to market volatility and toxic assets. – In UK Life, the default provision set up in 2008 remained unutilised in 2009, with no material deterioration in default experience in either our commercial or corporate bond portfolio. – Interest service cover on our commercial mortgage portfolio remains stable at 1.3 times and our commercial mortgage portfolio average LTV has reduced to 94% (HY09: 106%). – In the US, there was a net unrealised gain on debt securities of £0.1 billion at 31 December 2009 following improvements in the US credit markets in 2009. Net unrealised losses at 31 December 2008 were £2.4 billion. After allowing for movements in shadow DAC this improvement contributed 43 pence to NAV. – Net default and impairment losses on debt securities in 2009 were £98 million (2008: £400 million). – Aviva's exposure to sovereign debt is well within our risk appetite. We hold these assets for the long term and believe that the risk of European countries defaulting on their sovereign debt is low.
Foreign exchange	– Total foreign currency movements during 2009 resulted in a gain recognised in profit before tax of £155 million (2008: £327 million loss)

Group performance – IFRS basis

Pro-forma reconciliation of group operating profit to profit after tax - IFRS basis

For the year ended 31 December 2009

	2009 £m	2008 £m
Operating profit before tax attributable to shareholders' profits		
Long-term business		
United Kingdom	**672**	751
Europe	**1,038**	881
North America	**85**	16
Asia Pacific	**92**	46
Total long-term business	**1,887**	1,694
General insurance and health		
United Kingdom	**535**	656
Europe	**275**	397
North America	**144**	145
Asia Pacific	**6**	—
Total general insurance and health	**960**	1,198
Fund Management		
Aviva Investors	**115**	114
United Kingdom	**(14)**	(18)
Europe	**31**	14
Asia Pacific	**1**	13
Total fund management	**133**	123
Other		
Other operations and regional costs	**(214)**	(198)
Regional operating profit	**2,766**	2,817
Corporate centre	**(108)**	(141)
Group debt costs and other interest	**(636)**	(379)
Operating profit before tax attributable to shareholders	**2,022**	2,297
Adjusted for the following:		
Investment return variances and economic assumption changes on long-term business	**(75)**	(1,631)
Short-term fluctuation in return on investments on non-long-term business	**95**	(819)
Economic assumption changes on general insurance and health business	**57**	(94)
Impairment of goodwill	**(62)**	(66)
Amortisation and impairment of intangibles	**(144)**	(117)
Profit on the disposal of subsidiaries and associates	**153**	7
Integration and restructuring costs	**(286)**	(326)
Exceptional items	**45**	(551)
Profit/(loss) before tax	**1,805**	(1,300)
Tax on operating profit	**(547)**	(487)
Tax on other activities	**57**	902
	(490)	415
Profit/(loss) after tax	**1,315**	(885)

1 – Geographical analysis of long-term business IFRS operating profit

	2009 £m	2008 £m
With-profit	**177**	289
Non-profit	**495**	462
United Kingdom	**672**	751
France	**272**	275
Ireland	**50**	61
Italy	**128**	48
Poland	**152**	162
Spain	**160**	155
Other Europe	**(1)**	(16)
Aviva Europe	**761**	685
Delta Lloyd	**277**	196
Europe	**1,038**	881
North America	**85**	16
Asia Pacific	**92**	46
Total	**1,887**	1,694

IFRS long-term business operating profit before shareholder tax was £1,887 million (2008: £1,694 million), an increase of 11% on the prior period.

Swap rates, which are used as the basis for the calculation of LTIR, have fallen significantly compared with the previous year and, as a result, the benefit from moving to the 10 year rate has been offset by the overall reduction in swap rates. The net impact of these factors was to reduce profit by around £200 million on an IFRS basis.

United Kingdom
IFRS operating profit was 11% lower at £672 million (2008: £751 million). The decline in operating profit reflects the impact of 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.

The reattribution of the inherited estate on the 1 October 2009 resulted in an operating loss of £5 million (being the net impact of the value of the estate, less 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 contributed operating profits of £79 million. We would not expect ongoing profits to continue at this level. On an ongoing basis, profits will arise from earnings on the re-attributed estate (estimated at £45 million per year on an IFRS basis), the financial unwind of guarantee costs, the movement in value in any un-hedged assets backing the guarantees, and any demographic profits / losses (e.g. lapses) resulting from policyholder action.

Europe
In Europe, operating profit was £1,038 million (2008: £881 million), an 18% increase on the prior period reflecting stronger existing business profits and the benefit of euro strengthening.

Aviva Europe
Aviva Europe's life operating profit increased by 11% to £761 million (2008: £685 million) mainly reflecting a significant increase in profits from existing business in Italy and France and the benefit of currency strengthening, offset by reduced expected returns due to lower opening asset values. In Italy, prior year operating profit included a structured bond default provision which was not repeated in 2009. In France, existing business profits increased following favourable experience in claims and surrenders in the year. This was partly offset in both countries by increased new business strain, principally due to strong new business growth in Italy and France, where sales grew by 40% and 14% respectively on a local currency basis.

Delta Lloyd
The operating profit increased by 41% to £277 million (2008: £196 million) with the benefits of lower new business strain, driven by a decrease in corporate pension sales, and expense savings, and strengthening of the Euro.

North America
In the US, operating profit increased to £85 million (2008: £16 million). The significant improvement follows actions taken by management to improve the investment margin earned on existing equity indexed annuity business and lower new business commissions and the growth in the existing book of business. Review of deferred acquisition cost assumptions and amortization led to a £52 million improvement in the operating result.

Asia Pacific
Operating profit increased to £92 million (2008: £46 million), benefiting from a one-off release of reserves in Singapore of £68 million following an actuarial review of risk margins. Excluding this benefit the underlying decrease is mainly a result of the sale of the Australian life business on 1 October 2009.

2 – Analysis of general insurance and health

	Net written premiums 2009 £m	Net written premiums 2008 £m	Underwriting result 2009 £m	Underwriting result 2008 £m	Longer term investment return 2009 £m	Longer term investment return 2008 £m	Operating profit 2009 £m	Operating profit 2008 £m
General insurance								
United Kingdom[1,2]	**3,911**	5,024	**98**	70	**439**	579	**520**	642
France	**729**	678	**15**	28	**55**	53	**70**	81
Ireland[2]	**422**	494	**(11)**	(3)	**62**	67	**49**	63
Other Europe	**457**	417	**(62)**	—	**40**	45	**(22)**	45
Aviva Europe	**1,608**	1,589	**(58)**	25	**157**	165	**97**	189
Delta Lloyd	**1,163**	1,028	**38**	54	**105**	92	**143**	146
Europe	**2,771**	2,617	**(20)**	79	**262**	257	**240**	335
North America	**1,800**	1,601	**(4)**	21	**148**	124	**144**	145
Asia Pacific	**10**	6	**—**	(5)	**1**	1	**1**	(4)
	8,492	9,248	**74**	165	**850**	961	**905**	1,118
Health insurance								
United Kingdom	**387**	389	**8**	8	**7**	6	**15**	14
France	**223**	204	**10**	11	**17**	15	**27**	26
Ireland	**52**	19	**7**	4	**1**	1	**8**	5
Aviva Europe	**275**	223	**17**	15	**18**	16	**35**	31
Delta Lloyd[3]	**—**	1,250	**—**	(11)	**—**	42	**—**	31
Europe	**275**	1,473	**17**	4	**18**	58	**35**	62
Asia Pacific	**39**	27	**5**	4	**—**	—	**5**	4
	701	1,889	**30**	16	**25**	64	**55**	80
Total	**9,193**	11,137	**104**	181	**875**	1,025	**960**	1,198

1. United Kingdom includes Aviva Re and agencies in run-off.
2. Operating profit includes an unfavourable impact of £19 million resulting from unwind of discount (2008: £8 million;), £17 million relating to UK GI (2008: £7 million) and £2 million for Ireland (2008: £1 million)
3. Delta Lloyd health was sold 1 January 2009.

Group operating profit from general insurance and health businesses decreased by 20% to £960 million (2008: £1,198 million). The general insurance and health underwriting result decreased to £104 million (2008: £181 million).

We continue to apply our reserving policy consistently and the reserves in the group are set at a robust level to cover the expected cost of claims with an allowance for uncertainty. Much of our business is relatively short tail in nature and loss development experience is overall reasonably stable. Primarily as a result of better than expected claims experience, operating profit has benefited from releases of £372 million, net of reinsurance, in 2009 which reflect releases from the 2008 accident year and prior (2008: £690 million).

The worldwide general insurance combined operating ratio (COR) was 99% (2008: 98%), above our 98% target following bad weather in Europe and the impact of increased creditor claims in the UK. The worldwide GI expense ratio has decreased to 12.6% (2008: 13.4%) reflecting improvements in productivity, cost savings from our efficiency programmes and actions taken across the group to manage the cost base.

The longer term investment return (LTIR) on general insurance and health business assets was lower at £875 million (2008: £1,025 million) due to the lower opening asset base and returns when compared to last year.

United Kingdom
The result for our general insurance businesses in the United Kingdom includes our UK general insurance business, our group captive reinsurer Aviva Re and agencies in run-off. Operating profit of £520 million (2008: £642 million) includes a contribution of £91 million (2008: £97 million) from Aviva Re. UK Health remained broadly in line with the previous year at £15 million (2008: £14 million). All subsequent commentary relates solely to UK General Insurance.

The UK General Insurance operating profit for 2009 has reduced by 25% to £424 million (2008: £566 million). Within this result we continue to see a marked improvement in current year profitability with 2009 current year operating profits up £38 million on 2008, despite the fact that investment returns have declined from £549 million in 2008 to £417 million in 2009 (due to a combination of lower interest rates, investment mix and lower asset values) and an increase in creditor claims resulting from the recession. The overall result has also been impacted by a reduction in savings on prior year claims development to £105 million in 2009 (2008: £285 million).

The improvement in the current year profitability illustrates the success that our strategic initiatives, to reshape our book of business, build core insurance capability and deliver on the promise of scale, are now starting to have on our results and represents solid performance against a backdrop of difficult economic and market conditions.

The combined operating ratio at 99% is in line with the previous year. The focus we have placed on controlling our costs has resulted in a 4% reduction in our distribution ratio compared with 2008. Within this, our commission ratio has improved to 22% (2008: 25%), reflecting our work to reshape the book, so that the business we write through brokers and partners is on more sustainably profitable terms as well as a reduction in creditor business. Our expense ratio has fallen to 11.5% (2008: 12.1%) as we continue to realise the benefits from our expense saving programmes. These programmes, which are on track to deliver total annualised savings of more than £350 million by 2010, have also given us greater flexibility in managing the cost base to an appropriate level in the light of lower net written premiums. As a result of these actions we have seen our distribution ratio fall from a peak of 40% in 2007 to 33% in 2009.

The improvement in the commission and expense ratios has been offset by deterioration in the claims ratio, reflecting the lower levels of prior year savings and increased creditor claims. However, the current year claims ratio has improved across most classes of business, with the notable exception being creditor, reflecting the benefit that our strategic initiatives have had on underlying performance.

Net written premiums in 2009 reduced to £3,866 million from £4,981 million in 2008. This trend is consistent with that published at half year and continues to reflect a combination of the action we have taken to exit unprofitable business and the challenging market conditions, most notably in creditor and commercial (where the economic conditions have resulted in the market shrinking due to more business failures, fewer start-ups and reduced levels of exposure). However, the actions we have taken have resulted in some encouraging signs of recovery in the second half of 2009.

Europe
In Europe, net written premiums were £3,046 million (2008: £4,090 million). Adjusting for the sale of Delta Lloyd health (2008: £1,250 million), net written premiums were broadly in line with 2008 on a local currency basis. Lower operating profit of £275 million (2008: £397 million) reflects the impact of extreme weather mainly in Ireland and France and the absence of the Delta Lloyd health result (2008: £31 million).

Aviva Europe
Net written premiums increased by 4% to £1,883 million (2008: £1,812 million), a 6% decrease on a local currency basis. In 2009, our Irish business focused on profitability and took positive rating and risk selection actions in a soft market, which had an adverse impact on volumes. This is offset by growth in France and Italy. The Irish Health business continued to perform strongly with net written premiums of £52 million (2008: £19 million) following the acquisition of VIVAS Health in May 2008.

General insurance and health operating profit was £132 million, down 40% (2008: £220 million). This was driven by £91 million adverse impact from extreme weather leading to an underwriting loss of £41 million (2008: £40 million profit). Longer-term investment return decreased by 3% to £175 million (2008: £181 million) reflecting a fall in interest rates across the Eurozone.

Our combined operating ratio for the year is 103% (2008: 99%). The 4% deterioration reflects a number of factors, most significantly extreme weather which has had a 6% adverse impact on COR this year, with the biggest weather losses in Ireland and France. Over 2009 we have released excess reserve margin in Ireland and France, and strengthened reserves in Italy (shown within 'Other Europe' in the table above) partially in response to a court ruling on the cost of bodily injury claims. The net impact of reserve releases is positive though less material than in the prior year. On an underlying basis there is a 1% improvement in COR, including the first benefits of our claims transformation programme.

Delta Lloyd
In Delta Lloyd, general insurance (excluding health), net written premiums were £1,163 million (2008: £1,028 million) and operating profit £143 million (2008: £146 million), both benefiting from the strengthening of the Euro and the inclusion of a full years contribution from Swiss Life Belgium. The general insurance COR worsened to 97% (2008: 94%) due to pressure on motor premium rates and a deterioration in fire claims experience, partly offset by expense savings. The 2008 overall Delta Lloyd result included £31 million of operating profit and £1,250 million of net written premiums from the healthcare business that was sold on 1 January 2009.

North America
Net written premiums of our Canadian business increased by 12% to £1,800 million (2008: £1,601 million), an underlying increase of 3% after the impact of foreign exchange. Commercial lines continue to show growth in volumes despite a competitive market with limited opportunities for rate increases. Personal line premiums grew, driven by increased sales in homeowner despite rate increases in the year. Personal auto premiums were maintained at a similar level to 2008 as we focused on profitability over volume growth.

Operating profit of £144 million was broadly in line with prior year (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. The underwriting result was a loss of £(4) million (2008: profit £21 million), reflecting a higher frequency of current year large losses and lower favourable prior year development compared to the previous year. This more than offset the benefits coming through from reduced expenses and commissions, resulting in an increased combined operating ratio of 100% (2008: 99%). Long-term investment return increased to £148 million (2008: £124 million) mainly driven by an improved investment strategy and the benefit of foreign exchange movements.

2 – Analysis of general insurance and health continued

Asia Pacific
Net written premiums in the general insurance and health businesses increased to £49 million (2008: £33 million), primarily due to new business initiatives in Singapore.

Total operating profit improved to £6 million (2008: nil). This result mainly reflected a £3 million benefit from a one-off release of reserves following a review of risk margins in the health business in Singapore and better claims performance in Malaysia following the exit from unprofitable business lines.

Combined operating ratios – general insurance only

	Claims ratio		Expense ratio		Combined operating ratio	
	2009 %	2008 %	**2009 %**	2008 %	**2009 %**	2008 %
United Kingdom[1]	**66.2%**	62.0%	**11.5%**	12.1%	**99%**	99%
France	**68.1%**	68.2%	**11.2%**	9.7%	**98%**	96%
Ireland	**73.6%**	74.3%	**19.6%**	16.9%	**103%**	103%
Aviva Europe[2]	**72.3%**	70.1%	**13.7%**	13.1%	**103%**	99%
Delta Lloyd	**63.0%**	57.2%	**14.7%**	18.2%	**97%**	94%
Europe	**68.4%**	64.0%	**14.1%**	15.1%	**101%**	97%
North America	**68.5%**	64.4%	**12.8%**	15.0%	**100%**	99%
Total	**66.7%**	62.6%	**12.6%**	13.4%	**99%**	98%

1. United Kingdom excludes Aviva Re and agencies in run-off.
2. Aviva Europe also includes Italy, Turkey and Poland

Ratios are measured in local currency. The total group ratios are based on average exchange rates applying to the respective periods.

Definitions:

Claims ratio	Incurred claims expressed as a percentage of net earned premiums.
Expense ratio	Written expenses excluding commissions expressed as a percentage of net written premiums.
Commission ratio	Written commissions expressed as a percentage of net written premiums.
Combined operating ratio	Aggregate of claims ratio, expense ratio and commission ratio.

3 – Geographical analysis of fund management operating profit

	2009 £m	2008 £m
United Kingdom	**66**	64
Europe	**28**	35
North America	**22**	14
Asia Pacific	**(1)**	1
Aviva Investors	**115**	114
United Kingdom	**(14)**	(18)
Aviva Europe	**3**	4
Delta Lloyd	**28**	10
Europe	**31**	14
Asia Pacific	**1**	13
Total	**133**	123

Aviva Investors
Aviva Investors reported an operating profit of £115 million (2008: £114 million) for the year. The underlying drivers to the variances compared to 2008 were broadly similar across each of our four regions, including the benefit of favourable movement in foreign exchange.

The downwards trend in global equity markets experienced since mid 2008 continued until Spring 2009, and despite their subsequent partial recovery, average 2009 levels tended to be lower than their 2008 comparatives with associated pressure on management fee income. However, this was offset by positive funds flows through our external distribution channels and good investment performance in all of our key manufacturing units, resulting in an increase in the level of performance fees recognised in the year. Additionally, capital appreciation in US corporate bond markets resulted in a significant increase in management fee income in North America.

We continue to maintain our focus on cost control, while investing in our operating platform to drive future increases in third party revenue streams. For example we have made a significant investment into externalising the excellent investment performance capabilities of our French asset management company and have further developed our presence in China, the cost of which has contributed towards the reduction in profit in these regions.

3 – Geographical analysis of fund management operating profit continued

Other fund management businesses
United Kingdom operating loss of £14 million (2008: £18 million loss) reflects the decline in sales, offset by operational efficiencies in our UK retail investment business and our collective investment business with Royal Bank of Scotland Group.

Delta Lloyd operating profit of £28 million (2008: £10 million) increased reflecting the higher funds under management during the year and lower expenses.

Asia Pacific, comprising our Navigator business in Australia and Singapore, contributed £1 million (2008: £13 million), as a result of lower investment returns and lower fees from reduced funds under management, and the loss of funds managed on behalf of the Australian Life business which was sold on 1 October 2009.

Total funds under management at 31 December 2009 of £379 billion (2008: £373 billion) were broadly in line with prior year.

			2009	2008[1]
	Life and related businesses £m	General business and other £m	Total £m	Restated Total £m
Total IFRS assets included in the balance sheet	**308,216**	**46,175**	**354,391**	354,562
Less: Third party funds included within consolidated IFRS assets	**—**	**(9,980)**	**(9,980)**	(6,025)
	308,216	**36,195**	**344,411**	348,537
Third party funds under management				
Unit trusts, OEICs, PEPs and ISAs			**21,618**	15,901
Segregated funds			**48,770**	52,322
			414,799	416,760
Non-managed assets			**(35,388)**	(44,176)
Funds under management			**379,411**	372,584
Managed by:				
Aviva Investors			**245,176**	236,178
Other Aviva managers			**113,786**	111,532
Total funds managed by Aviva			**358,962**	347,710
External fund managers			**20,449**	24,874
Funds under management			**379,411**	372,584

1. Third-party and total funds under management has been adjusted as a result of a double count of £6,782 million in 2008.

Funds managed by Aviva Investors were £250 billion (31 December 2008 £236 billion). The increase in the year is primarily a result of market appreciation as some of the previous equity market losses are reversed together with capital appreciation in some fixed income markets, offset by the impact of sterling appreciating against the Euro and US dollar.

4 – Analysis of other operations and regional costs

			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)**	**(63)**	**(99)**	(28)	(50)	(78)
Delta Lloyd	**—**	**(49)**	**(49)**	—	(73)	(73)
Europe	**(36)**	**(112)**	**(148)**	(28)	(123)	(151)
North America	**(19)**	**3**	**(16)**	(14)	2	(12)
Asia Pacific	**(20)**	**(2)**	**(22)**	(23)	—	(23)
Total	**(75)**	**(139)**	**(214)**	(65)	(133)	(198)

Other operations and regional costs increased to £214 million (2008: £198 million) driven by higher regional head office costs. The increase in Aviva Europe is due to an increase in Irish pension costs of £16 million over the prior year and the inclusion of £14 million of governance costs previously recognised within UK other operations. Delta Lloyd other operations includes the financial results of the holding companies which were in line with prior year and the banking operations which have benefited from improved interest margins as a result of lower funding costs and expenses.

5 – Corporate centre

	2009 £m	2008 £m
Project spend	**(11)**	(34)
Share award and other incentives	**(12)**	(10)
Central spend	**(85)**	(97)
Total	**(108)**	(141)

The corporate centre costs for the period reduced to £108 million (2008: £141 million) due to lower central and project spend. Central spend of £85 million (2008: £97 million) fell as a result of efficiency improvements. Project spend at £11 million (2008: £34 million) reflected completion of financial controls and MCEV projects initiated during 2008.

6 – Group debt costs and other interest

	2009 £m	2008 £m
External debt cost		
Subordinated debt	**(293)**	(229)
Other	**(42)**	(57)
Internal debt cost	**(227)**	(197)
Net finance (charge)/income on UK pension scheme	**(74)**	104
Total	**(636)**	(379)

Group debt costs and other interest of £636 million (2008: £379 million) comprise internal and external interest on borrowings, subordinated debt; intra-group loans not allocated to local business operations and the net finance change on the pension scheme. External interest costs increased to £335 million (2008: £286 million) reflecting higher interest on subordinated debt, due to the hybrid debt issued in 2008 and 2009, partly offset by lower commercial paper interest as proceeds from the hybrid 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 UK pension scheme net charge represents the difference between the expected return on pension scheme assets and the interest charged on pension scheme liabilities. The net pension charge increased to £74 million (2008: £104 million income) reflecting lower rates of return on lower asset values offset by the unwind of higher discount rates on liabilities.

7 – Long-term business investment return variances and economic assumption changes

(a) Definitions

Operating profit for long-term 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. 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 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 separately outside operating profit.

(b) Economic volatility

The investment variances and economic assumption changes excluded from the long-term business operating profit were as follows:

	Long-term business	
	2009 £m	2008 £m
Investment variances and economic assumptions	**(75)**	(1,631)

Positive variances on fixed interest assets in Europe and the United States were driven by the narrowing of credit spreads in the year. This impact was offset by losses from equity derivatives in Delta Lloyd reversing gains seen in these instruments in 2008. Credit default provisions for corporate bonds and commercial mortgages set up in 2008 were maintained in the UK and increased in Europe by £100 million.

(c) 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. At the half year we reported that the return over the typical duration of the assets held was more appropriate and 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.

If the IFRS operating profit had been calculated by reference to the one year swap rate, IFRS operating profit would have been £240 million lower. There is no impact on IFRS profit before tax. The benefit to operating profit from the change in rate has been more than offset by the reduction in swap rates in the year.

The principal assumptions underlying the calculation of the expected investment return for equities and property 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 and loss, the expected investment returns are based on average prospective yields for the actual assets held. Where fixed interest 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.

8 – Non-long-term business economic volatility

	Non-long-term business	
	2009 £m	2008 £m
Net investment income	**1,373**	522
Internal charges included under other heading	**(193)**	(73)
	1,180	449
Analysed between:		
Longer-term investment return, reported within operating profit	**1,085**	1,268
Short-term fluctuations in investment return, reported outside operating profit	**95**	(819)
	1,180	449

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 period. Actual income and longer-term investment return both contain the amortisation of the discount/premium arising on the acquisition of fixed income securities.

For the general insurance, health and other businesses, we have calculated the longer-term investment return using the revised economic assumptions for equities and properties as noted above. The change in the underlying reference rate results in a £18 million increase to operating profit. There is no impact on IFRS profit before tax.

For other operations, the longer-term investment return mainly reflects net interest income earned in Delta Lloyd bank and retail mortgage divisions.

The total assets supporting the non-long-term business, which contribute towards the longer-term return are:

	2009 £m	2008 £m
Debt securities	**12,764**	12,910
Equity securities	**1,699**	1,573
Properties	**549**	602
Cash and cash equivalents	**2,634**	3,028
Other	**5,198**	5,285
Total	**22,844**	23,398

The principal assumptions underlying the calculation of the longer term investment return are:

	Longer term rates of return equities		Longer term rates of return property	
	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%
Delta Lloyd	**7.3%**	8.3%	**5.8%**	6.8%
Canada	**6.1%**	7.7%	**4.6%**	6.2%

9 – Profit on the disposal of subsidiaries and associates

Profit on disposal of subsidiaries and associates was £153 million (2008: £7 million), this 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. In 2008 the sale of the Group's offshore operations to WNS (Holdings) Limited generated £14 million profit and £31 million came from disposal of 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.

10 – Integration and restructuring costs

Integration and restructuring costs for 2009 were £286 million (2008: £326 million). This includes £210 million (2008: £287 million) relating to the previously announced cost savings initiatives in the UK life and general insurance businesses and Europe, which have delivered £510 million annualised cost savings to date (2008: £340 million). Costs of our European "Quantum Leap" programme of £47 million are included in 2009. The 2008 total also included £39 million of other integration costs.

11 – Exceptional items

Exceptional items for the year totalled a positive £45 million, including £207 million as a result of the reattribution of the inherited estate and a £102 million expense for the migration (including associated system changes) of all remaining local brands, except Delta Lloyd and RAC, to the single global Aviva brand, which has been largely implemented over the two year period 2008 to 2009 and 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.

Exceptional items for 2008 were £551 million loss. 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.

New business

Life and pension sales

Life and pensions (gross of tax and minority interest)	Present value of new business premiums 2009 £m	Restated 2008 £m	Value of new business 2009 £m	Restated 2008 £m	New business margin 2009 %	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	**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%

Life and pensions (net of tax and minority interest)	Present value of new business premiums 2009 £m	Restated 2008 £m	Value of new business 2009 £m	Restated 2008 £m	New business margin 2009 %	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	**1,326**	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%

United Kingdom

Throughout 2009 Aviva's UK Life business has continued to follow a consistent strategy of proposition development, improving operational efficiency, enhancing customer and distributor service levels and disciplined financial management.

Exceptional economic conditions have impacted consumer confidence and reduced activity across the UK market. Our UK life and pension new business sales at £8,914 million (2008: £11,858 million) reflect this, together with management actions taken on a number of product lines to increase profitability. These included reducing commission rates and not writing business where the market does not allow us to achieve acceptable levels of return. This focus on profitability has led to a significantly improved new business margin of 2.8% (2008: 1.7%).

Pension sales decreased, in part, due to the reduced numbers of large schemes written compared with the same period last year. Sales of **protection** products were lower driven by the impact of the regulatory changes affecting creditor business. However excluding creditor business, protection sales were above prior year, primarily driven by our on-line simplified life proposition. **Annuity** sales decreased due to lower bulk purchase annuity volumes as we remain resolute in achieving a minimum level of return. Sales of individual annuities were higher reflecting our ability in a contracting market to provide an annuity income, using our market-leading pricing capability, which takes account of customers' individual circumstances. **Bond** sales decreased compared with 2008 reflecting our focus on value driven by our commission reductions and the withdrawal of the Inflation Protected Guarantee product.

Europe

In 2009, our European business, including Delta Lloyd, achieved a resilient sales performance despite challenging market conditions across the region. Life and pensions sales were in line with prior year at £17,188 million (2008: £16,952 million), a 6% decrease on a local currency basis.

Aviva Europe

In 2009, Aviva Europe achieved an excellent sales performance in the context of an extremely difficult market environment with volatile equity markets and property market uncertainty. Life and pensions sales were up 5% at £13,523 million (2008: £12,855 million) and were broadly in line on a local currency basis. Excluding the one-off items in 2008 relating to the transfer of the Caja Murcia risk portfolio and the initial contributions from compulsory pensions in Romania, sales were 11% higher on a sterling basis and were 4% up on a local currency basis.

New business margin was 3.9% (2008: 4.0%). Excluding the prior year impact of non-recurring items, principally the one-off Caja Murcia protection portfolio transfer, margin is in line with the 2008 underlying margin of 3.9%. Positive actions taken on product pricing and design were offset by a customer preference for savings products with guarantees.

Margin in Italy grew from 3.0% to 3.4% principally driven by an increase in protection sales. In Poland, margin increased from 3.5% to 5.1% reflecting significant prior year volumes of a lower margin endowment production which is no longer offered for sale. The decrease in Spanish margin, from 8.1% to 6.2%, mainly reflects the impact of the Caja Murcia transfer referred to above.

Bancassurance
Bancassurance sales increased by 14% to £7,146 million (2008: £6,266 million), a 5% increase on a local currency basis. Excluding the one-off transfer of the Caja Murcia protection portfolio of £170 million in 2008, bancassurance sales were up 8% on a local currency basis. This is a strong performance as bank partners continue to recognise the value of this revenue stream.

Bancassurance sales in **Italy** increased by 63% to £3,285 million (2008: £2,021 million), a 47% increase on a local currency basis. This growth reflects strong sales of with-profit guaranteed products driven by active marketing campaigns in the early part of the year.

Bancassurance sales in **France** increased by 27% to £1,141 million (2008: £898 million), a 15% increase on a local currency basis. Through offering competitive and simple guaranteed return products, our partnership with Credit du Nord has capitalised on customers transferring their savings from short-term deposit products into more attractive insurance products. Unit-linked bond sales were impacted by uncertainty in the financial markets in 2009, but started to increase towards the end of the year with improving customer confidence.

In **Spain**, bancassurance sales were in line with the prior year at £2,209 million (2008: £2,206 million), a 9% decrease on a local currency basis. Sales in the fourth quarter increased by 103% over third quarter levels, with a strong uptake in pensions driven by marketing campaigns at the end of the Spanish tax year.

Retail
Retail sales were 3% down at £6,377 million (2008: £6,589 million), a 7% decrease on a local currency basis. In 2008, we benefited from £545 million of one-off initial contributions from the launch of compulsory pensions in Romania. Excluding these, retail sales were in line with the prior year on a local currency basis.

In **France**, retail sales performance was strong, up 26% to £3,750 million (2008: £2,982 million), a 14% increase on a local currency basis. Our partnership with AFER continues to be extremely successful with our range of simple, easy to understand products.

In **Poland**, retail sales were down 24% to £1,061 million (2008: £1,401 million), a 17% decrease on a local currency basis. Within the year, pension volumes reduced as these products become less attractive for providers and distributors as a result of recent Polish pension legislation changes.

Retail sales in **Ireland** reduced by 2% to £636 million (2008: £646 million), an 11% decrease on a local currency basis. This reflects the poor economic climate, which impacted the Irish life insurance industry as a whole, and an increasingly competitive marketplace.

Delta Lloyd
Life and pension sales through Delta Lloyd were 11% lower than 2008 at £3,665 million (2008: £4,097 million), a 19% decrease on a local currency basis. This was due to lower levels of corporate pension business reflecting reduced activity in this market in the early part of the year. In 2009, Delta Lloyd secured two large corporate pension schemes totaling £372 million compared with five schemes totaling £1,106 million in 2008.

Individual savings sales were also lower, affected by competition from rival bank products since the introduction of 'banksparen' products at the beginning of 2008. In 2009, Delta Lloyd also sold £219 million (2008: £38 million) of 'banksparen' products[1] within its own banking operation. The lower life and pension sales were partly offset by a full year's contribution from Swiss Life Belgium, which Delta Lloyd acquired in June 2008.

New business margin decreased to (2.8)% (2008: (1.1)%) due to lower margins in Germany and less favourable economic assumptions.

North America
In the US, new business sales of £4,545 million (2008: £5,715 million) were 20% lower on a sterling basis and 33% lower on a local currency basis. This reflected our continued focus on increasing capital efficiency by moderating the pace of annuity sales compared to the prior year, growing our life insurance business and our decision not to write funding agreement sales in 2009 (2008: £848 million). Excluding the impact of funding agreement sales written in 2008, life and annuity sales were down 7% over the same period last year and 21% lower on a local currency basis. New business margin was lower at 0.4% (2008: 1.0%), due to the absence of higher margin funding agreement sales in 2009.

[1] These sales are not included in our long-term savings figures as they are receipts from banking product sales

Sales of **annuities** decreased compared to prior year following actions taken by management to focus on capital efficiency and ensure that the overall business mix for the year was consistent with our strategic goals. **Life** product sales, which mainly include indexed universal life and term assurance products, increased reflecting our strategy to develop innovative products and enhance our relationships with key distributors, including extending our presence in the Brokerage General Agency (BGA) channel, which represents groups of individual agents and investment advisors.

Asia Pacific
Life and pension sales were 21% below prior year at £1,356 million (2008: £1,720 million), 30% lower on a local currency basis, reflecting the impact of the volatile economic environment across the region, which abated towards the last quarter of the year. Excluding the Australian business, which was sold on 1 October 2009, life and pension sales for Asia fell by 19% to £1,095 million (2008: £1,351 million).

Our joint venture in **South Korea** continues to perform strongly with sales of £288 million (2008: £149 million) and now represents 21% of life and pension sales in the region. Sales growth is being led by the bancassurance channel with our partner Woori Bank and its subsidiaries, and the successful growth of our agency force.

Our joint venture in **China**, Aviva-COFCO, opened its tenth provincial branch ahead of the 2010 target and recorded a 15% increase in sales to £340 million (2008: £296 million), down 4% on a local currency basis.

Sales in **Singapore**, **Hong Kong**, **India** and our **other Asia** markets are lower than 2008 as a result of the uncertain economic environment throughout the year which led to increased investor caution, as well as our decision to scale back on the sale of capital intensive products in Hong Kong, Taiwan and Malaysia, in line with our overall strategy to improve capital efficiency.

New business margin for Asia Pacific was 2.1% (2008: 2.5%) being impacted by product mix, lower volumes and the sale of the Australian life business on 1 October 2009.

Investment sales

Investment sales	2009 £m	2008 £m
United Kingdom	**1,049**	1,485
Aviva Europe	**852**	460
Delta Lloyd	**664**	304
Asia Pacific	**1,307**	1,746
Total	**3,872**	3,995

United Kingdom
Exceptional economic conditions have impacted consumer confidence and reduced activity across the UK market. Against this backdrop, collective investment sales decreased to £1,049 million (2008: £1,485 million).

Aviva Europe
Aviva Europe sales were up significantly on 2008 at £852 million (2008: £460 million), up 72% on a local currency basis. Consumer sentiment improved over the course of the year, with a softening of customers' attitudes to investment risk and a consequent transfer of funds into more actively managed products. Our Absolute Tactical Asset Allocation fund was particularly successful in Italy and Spain, supported by focused marketing campaigns. Sales into Global Convertible funds improved, supported by our long established expertise in this area, and we continue to see renewed interest in emerging market bonds.

Delta Lloyd
Delta Lloyd sales more than doubled to £664 million (2008: £304 million), up 97% on a local currency basis, reflecting strong sales of Delta Lloyd's Euro Credit fund.

Asia Pacific
Sales in Asia Pacific were lower than prior year at £1,307 million (2008: £1,746 million), 32% lower on a local currency basis, as a result of heightened investor caution and lower disposable income throughout the year. Our sales were impacted by the disposal of the Australia life business on 1 October, although sales through Aviva Investors continued in this market. Singapore investment product sales are broadly in line with the prior year due to improving investor sentiment in the latter half of the year.

Pro – forma reconciliation of group operating profit to profit after tax – MCEV basis

For the year ended 31 December 2009

	2009 £m	Restated 2008 £m
Operating profit before tax attributable to shareholders' profits		
Long-term business		
United Kingdom	**787**	883
Europe	**2,235**	1,647
North America	**266**	201
Asia Pacific	**101**	79
Total long-term business	**3,389**	2,810
General insurance and health	**960**	1,198
Fund management	**51**	42
Other operations and regional costs	**(173)**	(163)
Corporate centre	**(108)**	(141)
Group debt costs and other interest	**(636)**	(379)
Operating profit before tax attributable to shareholders	**3,483**	3,367
Adjusted for the following:		
Investment return variances and economic assumption changes on long-term business	**759**	(12,469)
Short-term fluctuation in return on investments on non-long-term business	**95**	(819)
Economic assumption changes on general insurance and health business	**57**	(94)
Impairment of goodwill	**(62)**	(66)
Amortisation and impairment of intangibles	**(135)**	(108)
Profit on the disposal of subsidiaries and associates	**72**	7
Integration and restructuring costs	**(286)**	(326)
Exceptional items	**(248)**	(754)
Profit/(loss) before tax	**3,735**	(11,262)
Tax on operating profit	**(924)**	(841)
Tax on other activities	**124**	4,396
	(800)	3,555
Profit/(loss) after tax	**2,935**	(7,707)

Total MCEV operating profit before shareholder tax was £3,483 million (2008: £3,367 million), an increase of 3%. Within this total the long-term business operating profit before shareholder tax was £3,389 million (2008: £2,810 million), an increase of 23%. This includes the impact, reported through expected returns, of a change in the basis of setting normalised investment returns consistently with 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. At half year we reported that the return over the typical duration of the assets held was more appropriate and are 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 ten year swap rate in the relevant currency plus an appropriate risk premium. For fixed interest investments a similar change has been made to reflect the actual duration of the assets held. If the previous basis, which referenced the one year swap rate, had been used the total expected return would have been around £700 million lower. However, this benefit has been offset by the impact of the underlying falls in opening swap rates between 2008 and 2009. There is no impact on MCEV profit before tax.

This mainly impacts Aviva UK and Delta Lloyd, where the additional investment earnings on assets backing certain policyholder liabilities flow straight to shareholders. In the US, the assumed return on bonds net of defaults, includes a partial recovery of the unrealised losses reported in previous periods and £240 million has been reported for this through expected returns on existing business and on shareholders' net worth.

Investment variances and economic assumption changes in 2009 of £759 million reflect the large benefit from the reduction in credit spreads on corporate bonds, offset by the reduction in the adjustment to risk free rates. In 2008, the loss of £12,469 million was driven by bond yields falling in the United Kingdom and Eurozone, significant falls in equity markets down between 30% and 50% and credit spreads widening significantly in the final quarter of 2008.

12– Long-term business MCEV operating earnings

	2009						Restated 2008					
		Europe						Europe				
	United Kingdom £m	**Aviva Europe £m**	**Delta Lloyd £m**	**North America £m**	**Asia Pacific £m**	**Total £m**	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Value of new business	**247**	**521**	**(103)**	**16**	**29**	**710**	204	517	(47)	55	43	772
Earnings from existing business:												
– expected returns at the reference rate	**113**	**326**	**43**	**55**	**26**	**563**	338	427	107	86	34	992
– expected returns in excess of the reference rate	**402**	**428**	**270**	**249**	**16**	**1,365**	210	82	78	53	6	429
– expected returns	**515**	**754**	**313**	**304**	**42**	**1,928**	548	509	185	139	40	1,421
– experience variances	**(29)**	**43**	**(3)**	**(87)**	**(23)**	**(99)**	(40)	(107)	(19)	(50)	(8)	(224)
– operating assumption changes	**(67)**	**(8)**	**171**	**(38)**	**(14)**	**44**	(5)	127	(265)	(4)	(18)	(165)
Expected return on shareholders' net worth	**138**	**180**	**88**	**89**	**17**	**512**	166	248	204	61	22	701
Other operating variances	**(17)**	**214**	**65**	**(18)**	**50**	**294**	10	157	138	—	—	305
Operating earnings before tax	**787**	**1,704**	**531**	**266**	**101**	**3,389**	883	1,451	196	201	79	2,810

United Kingdom
MCEV operating earnings are 11% lower at £787 million (2008: £883 million).

Value of new business is £247 million (2008: £204 million), an increase of 21%, reflecting actions taken to increase profitability including disciplined cost control, and only writing business at acceptable levels of return, together with a beneficial business mix.

Total expected return of £653 million (2008: £714 million) is slightly lower, reflecting lower opening assets offset by movements in real world rates of returns compared to 2008.

Experience variances and assumption changes on existing business were £96 million unfavourable (2008: £45 million unfavourable). The 2009 result reflects an additional provision in anticipation of continued short-term recession related activity on pension business and adverse persistency variances including the loss of a single corporate contract. We have delivered on our commitment of a zero existing business cost over run in 2009.

The reattribution of the inherited estate on the 1 October 2009 resulted in an operating profit of £23 million (being the net impact of the value of the estate, less 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 operating profits of £93 million. We would not expect ongoing profits to continue at this level. On an ongoing basis, profits will arise from earnings on the re-attributed estate (estimated at £30 million per year on an MCEV basis), the financial unwind of guarantee costs, the movement in value in any un-hedged assets backing the guarantees, and any demographic profits / losses (e.g. lapses) resulting from policyholder action.

Europe
In Europe, operating profit increased strongly to £2,235 million (2008: £1,647 million). Growth in Aviva Europe's operating return, driven by improved expected returns and positive operating experience, has been augmented by an improvement in Delta Lloyd's result driven by positive operating assumption changes.

Aviva Europe
Operating earnings increased to £1,704 million (2008: £1,451 million), an increase of 17% with the strengthening of the euro contributing around one third of the improvement.

The value of new business was in line with prior year at £521 million (2008: £517 million), a 9% decrease on a local currency basis. We have seen increased contributions from Italian protection and profit sharing products and guaranteed products in France, positively impacting the value of new business, however these were offset by the 2008 non-recurring items, relating to the Caja Murcia risk portfolio and the initial contributions from Romania.

Expected return was up 23% to £934 million (2008: £757 million). After allowing for movements in currency this increase is largely due to the relative movement in expected rates of return compared to guarantee rates, and in particular the positive impact that this has on the cost of investment guarantees in France.

Experience variances were positive at £43 million (2008: adverse £107 million). The prior year contained a number of one-off negative variances in France and Ireland, whereas the current year reflects significant positive experience on mortality and morbidity and the release of a short-term lapse provision in France, offset by adverse lapse experience in Italy and Spain.

We have reviewed our operating assumptions and made changes to align them with our mean best estimate of future experience. This has had a minimal impact in total for Aviva Europe, with the positive impact of changes to mortality and morbidity assumptions offsetting further strengthening of lapse and expense assumptions.

Other operating variances are positive at £214 million (2008: £157 million). This includes a £142 million prior period adjustment reflecting more accurate modelling in France and Poland. Also included within other operating variances is the £34 million positive impact of an increase in annual renewable premium business in Spain, previously included within new business but now restated as an operating variance as previously announced in our half year 2009 results statement.

Delta Lloyd
Operating earnings increased to £531 million (2008: £196 million), mainly reflecting changes to operating assumptions. The strengthening of the euro contributed £21 million of the improvement.

Value of new business was negative £103 million (2008: negative £47 million), reflecting lower margins in Germany and less favourable economic assumptions.

Expected returns totalled £401 million (2008: £389 million), reflecting higher assumed rates of return.

Experience variances and assumption changes on existing business were £168 million favourable (2008: £284 million adverse). In 2009 positive assumption changes of £170 million reflected expense improvements in the Dutch operations offset by deterioration in lapses in Germany and the impact of asset reallocation in Belgium.

Other operating variances mainly represent the management decision to close Delta Lloyd's German operation to new business and the associated impacts on future expense levels, bonus strategy, lapse experience and costs of implementation.

North America
Operating earnings have increased to £266 million (2008: £201 million), mainly benefiting from higher expected return and the strengthening of the US dollar.

Value of new business was £16 million (2008: £55 million), lower mainly due to lower sales volumes following management actions to conserve capital and absence of funding agreement sales in 2009.

Total expected return increased to £393 million (2008: £200 million), as unrealised losses on corporate bonds backing policyholder liabilities reduced in line with the assumed investment return.

Variances and assumption changes on existing business were £125 million unfavourable (2008: £54 million unfavourable), with the deterioration principally driven by negative lapse experience following an increase of partial withdrawals and a subsequent change in lapse assumptions (£122 million unfavourable).

Asia Pacific
Operating earnings have increased to £101 million (2008: £79 million), an increase of 28%.

Value of new business was £29 million (2008: £43 million), a reduction of 33%, driven by lower sales volumes in Singapore and Hong Kong and the sale of the Australian life business on 1 October 2009. This was partially offset by higher sales in China and a change in product mix towards higher margin term business in Australia.

Total expected returns were £59 million (2008: £62 million), this is broadly in line with the prior year.

Variances and assumption changes on existing business were £37 million unfavourable (2008: £26 million unfavourable), impacted by negative lapse variances across the region of £43 million.

Other operating variances of £50 million (2008: nil) relate to positive modelling and methodology changes in China, Singapore and Hong Kong.

13 – 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.

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 benefitted 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 £1.0 billion (€1.1 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 2009 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.

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 (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%). If centre assets were offset against this debt the financial leverage would be 19.0% (31 December 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 (31 December 2008: 9.2 times).

At 31 December 2009 the market value of our external debt, subordinated debt, preference shares (including both Aviva plc preference shares of £200 million and General Accident plc preference shares, within minority interest, of £250 million), and direct capital instrument was £6,634 million (31 December 2008: £4,911 million), with a weighted average cost of 5.0% (31 December 2008: 8.8%). The group Weighted Average Cost of Capital (WACC) is 8.0% (31 December 2008: 8.3%) and has been calculated by reference to the cost of equity and the cost of debt at the relevant date. The cost of equity at 31 December 2009 was 9.8% based on a risk free rate of 4.0%, an equity risk premium of 4.0% and a market beta of 1.4.

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 capital
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 capital – Group: European Insurance Groups Directive (IGD)

			2009	2008
	UK Life funds £bn	**Other business £bn**	**Total £bn**	Total £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 Group Directive (IGD) excess solvency	**—**	**4.5**	**4.5**	2.0
Cover over 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.

The key movements over the period are set out in the following table:

	£bn
IGD solvency surplus at 31 December 2008	**2.0**
Solvency Capital generation in period incl. profits and market movements	**1.9**
Issue of hybrid debt (including Delta Lloyd)	**0.4**
Dividends net of scrip	**(0.5)**
Disposals	**1.0**
Inherited estate reattribution	**(0.5)**
Increase in CRR	**(0.3)**
Other movements (including market valuation of non-regulated entities)	**0.5**
Estimated IGD solvency surplus at 31 December 2009	**4.5**

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.

Reconciliation of Group IGD capital resources to FRS 27 capital

The reconciliation below provides analysis of differences between our capital resources and the amounts included in the capital statement made in accordance with FRS 27 and disclosed within our consolidated accounts. The Group Capital Adequacy report is prepared in accordance with the FSAs valuation rules (Peak 1) and brings in capital in respect of the UK life funds equal to the UK Life Capital Resources Requirement. The FRS 27 disclosure brings in the realistic value of with-profit capital resources (Peak 2). As the two bases differ greatly, the reconciliation below is presented by removing the restricted regulatory assets and then replacing them with the unrestricted realistic assets.

	2009 £bn
Total capital and reserves (IFRS basis)	**15.1**
Plus: Other qualifying capital	**5.3**
Plus: UK unallocated divisible surplus	**1.9**
Less: Goodwill, acquired AVIF and intangible assets	**(6.7)**
Add: Adjustments onto a regulatory basis	**0.1**
Group Capital Resources on regulatory basis	**15.7**
The Group Capital Resources can be analysed as follows:	
Core Tier 1 Capital	**12.9**
Tier 1 waiver (implicit items)	**0.0**
Innovative Tier 1 Capital	**1.0**
Total Tier 1 Capital	**13.9**
Upper Tier 2 Capital	**1.8**
Lower Tier 2 Capital	**3.7**
Group Capital Resources Deductions	**(3.7)**
Group Capital Resources on regulatory basis (Tier 1 & Tier 2 Capital)	**15.7**
Less: UK life restricted regulatory assets	**(6.4)**
Add: UK life unrestricted realistic assets	**5.8**
Add: Overseas UDS – restricted asset	**2.0**
Total FRS 27 capital	**17.1**

Regulatory capital – 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.

Capital management continued

Regulatory capital – UK Life with-profits 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.

	2009						2008
	Estimated realistic assets £bn	Realistic liabilities[1] £bn	Estimated realistic inherited estate[2] £bn	Support Arrangement[5] £bn	Estimated risk capital margin[3] £bn	Estimated excess £bn	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 £42.1billion (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 was:

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

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

Capital generation and utilisation

As part of our capital management processes, we regularly review the generation and deployment of capital. The table below demonstrates the net capital generation of the group based on MCEV net worth before and after investment variances.

	2009 £bn	Restated[1] 2008 £bn
Operational capital generation:		
Life in-force profits	**1.9**	3.0
General insurance, fund management and non-insurance profits	**0.6**	0.7
Operational capital generated before investment in new business	**2.5**	3.7
Capital invested in new business	**(1.5)**	(2.2)
Operational capital generated after investment in new business	**1.0**	1.5
Interest, corporate and other costs	**(0.5)**	(0.2)
External dividend	**(0.9)**	(1.0)
Scrip dividend	**0.3**	0.2
Net operational capital generation after financing	**(0.1)**	0.5
Capital released from disposals	**0.5**	—
Inherited estate policyholder incentive payment	**(0.5)**	—
Delta Lloyd IPO	**0.5**	—
Capital raising	**0.2**	1.0
Issuance of hybrid debt in the Netherlands	**0.4**	—
Cost of acquisitions	—	(0.3)
Qualifying assets acquired net of capital requirements	—	0.1
Pension funding, restructuring costs and exceptional items	**(0.3)**	(0.9)
Foreign exchange gains / (losses), net of capital requirements	**(0.2)**	0.2
Other	**(0.2)**	0.1
Net capital generated/(consumed) before investment and economic variances	**0.3**	0.7
Investment return variances and economic assumption changes	**1.4**	(4.0)
Net capital generated/(consumed) after investment and economic variances	**1.7**	(3.3)

1 The prior year has been restated for the inclusion of the impact of movements in Non-UK staff pension scheme deficit. This is included in investment return variances.
Operational capital generation comprises the following components:
- Free surplus emergence, including release of required capital, for the life in-force business (net of tax and minorities);
- IFRS operating profits for the general insurance and non-life businesses (net of tax and minorities);
- Capital invested in new business. For the life business this is the impact of initial and required capital on free surplus. For general insurance businesses this reflects the movement in required capital, which we have assumed to equal two times the regulatory minimum. Where appropriate, the increase in capital requirements shown has been adjusted for the impact of foreign exchange movements and economic variances.

Operation capital generation in 2009 was £2.5 billion, of which £1.5 billion was invested in new business and £1.1 billion used to finance interest, corporate and other costs and the external dividend leaving net operational capital generated after financing of £(0.1) billion. After taking into account the strategic initiatives outlined above and certain other one-off items net capital generated before investment and economic variances was £0.3 billion.

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 (e.g. capital strength, gearing, liquidity and fixed charge cover ratios) and non financial factors (e.g. 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 Poors 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 is likely to be required by the end of 2012.

Capital management continued

Sensitivity analysis

The sensitivity of the group's total equity on an MCEV basis and IFRS basis at 31 December 2009, including the effect on the value of the pension scheme assets and liabilities, to a 10% fall in global equity markets, a rise of 1% in global interest rates or a 0.5% increase in credit spreads is as follows:

2008 £bn	MCEV Basis	2009 £bn	Equities down 10% Direct £bn	Equities down 10% Indirect £bn	Interest rates up 1% £bn	2009 0.5% increased credit spread £bn
19.4	Long-term savings[1]	**20.7**	**(0.4)**	**(0.3)**	**-**	**(1.3)**
5.6	General insurance and other	**4.6**	**(0.3)**	**-**	**(0.6)**	**0.5**
(7.6)	Borrowings[2]	**(6.8)**	**-**	**-**	**-**	**-**
17.4	**Total equity**	**18.5**	**(0.7)**	**(0.3)**	**(0.6)**	**(0.8)**

2008 £bn	IFRS Basis	2009 £bn	Equities down 10% £bn	Interest rates up 1% £bn	0.5% increased credit spread £bn
16.6	Long-term savings	**17.3**	**(0.4)**	**(0.7)**	**(0.2)**
5.6	General insurance and other	**4.6**	**(0.3)**	**(0.6)**	**0.5**
(7.6)	Borrowings[2]	**(6.8)**	**-**	**-**	**-**
14.6	**Total equity**	**15.1**	**(0.7)**	**(1.3)**	**0.3**

1. Assumes MCEV assumptions adjusted to reflect revised bond yields.
2. Comprising internal, external and subordinated debt, net of corporate tangible net assets.

These sensitivities assume a full tax charge/credit on market value assumptions. The interest rate sensitivity also assumes an equivalent movement in both inflation and discount rate (i.e. no change to real interest rates) and therefore incorporates the offsetting effects of these items on the pension scheme liabilities. A 1% increase in the real interest rate has the effect of reducing the pension scheme liability by £1.8 billion.

The 0.5% increased credit spread sensitivities for MCEV and IFRS do not make an allowance for any adjustment to risk-free interest rates. MCEV sensitivities assume that the credit spread movement relates to credit risk and not liquidity risk; in practice, credit spread movements may be partially offset due to changes in liquidity risk. Life IFRS sensitivities provide for any impact of credit spread movements on liability valuations. The MCEV and IFRS sensitivities also include the allocation of staff pension scheme sensitivities, which assume inflation rates and government bond yields remain constant. In practice, the sensitivity of the business to changes in credit spreads is subject to a number of complex interactions. The impact of the credit spread movements will be related to individual portfolio composition and may be driven by changes in credit or liquidity risk; hence, the actual impact may differ substantially from applying spread movements implied by various published credit spread indices to these sensitivities.

Group IGD

The sensitivity of the group's IGD surplus reflects the impact of the hedges we have put in place as part of our long-term strategy to protect the group from extreme market movements. At 31 December 2009 the sensitivity to a 10% fall in global equity markets or a rise of 1% in global interest rates is as follows:

	2009 £bn	Equities down 10% £bn	Interest rates up 1% £bn
IGD group surplus	**4.5**	**(0.3)**	**(0.4)**

We continue to actively manage our exposure to further market volatility, with ongoing hedging strategies in place. The Group's equity sensitivity has increased in the second half of the year primarily driven by rising markets and the expiry of some options positions. The increase has been offset by the impact of the listing of the minority interest in Delta Lloyd. We expect that a 40% fall in equity markets at 31 December 2009 would reduce IGD by £0.7 billion.

	£bn
Equities down 10%	**(0.3)**
Equities down 20%	**(0.5)**
Equities down 30%	**(0.6)**
Equities down 40%	**(0.7)**

Risk management

Equity hedging

Our risk management processes ensure close and ongoing monitoring of all our capital measures. The following table shows the material equity derivatives within the group's shareholder funds at 31 December 2009 that are used as part of a long-term strategy to manage equity risk. It excludes derivatives used for portfolio management purposes:

Derivative	Notional[1] £bn	Market fall below protection level[2,4] %	Market fall required before protection starts[3,4] %	Outstanding duration
(a)	4.8	—	26%	< 3 months
(b)	0.6	—	25%	3 - 8 months
(c)	0.5	—	15%	> 8 months

1. The notional represents the notional amount of hedging as at 31 December 2009.
2. The "Market fall below protection level" shows the percentage the market has fallen below the protection level as at 31 December 2009.
3. The "Market fall required before protection starts" shows the percentage the market would have to fall from the 31 December 2009 position before the derivative moves into the money.
4. Derivatives (a), (b) and (c) each represent a collection of derivatives with different strike prices. The strike prices used in the above calculations are the weighted average strikes of the derivatives in each bucket.

Interest rate hedging

Interest rate hedges are used widely to manage asymmetric interest rate exposures across our life insurance businesses as well as an efficient way to manage cash flow and duration matching. The most material examples of uses to hedge guarantees relate to minimum interest rate guarantees in the Netherlands, and also guaranteed annuity exposures in both the UK and Ireland. These hedges are used to protect against interest rate falls and are sufficient in scale to materially reduce the Group's interest rate exposure.

Operating cost base

The Group's announced cost savings target of £500 million has been achieved ahead of schedule with a total of £510 million of annualised cost savings delivered as at 31 December 2009. Of the £510 million costs savings achieved, £340 million was achieved in the year ended 31 December 2008 and £170m in the year ended 31 December 2009.

From this programme an additional £35 million has been identified for delivery in the year ending 31 December 2010, bringing the latest estimate of total annualised cost saves to £545 million.

The Aviva operating cost base is calculated from reported IFRS expenses as set out in the table below:

	2009 £m	2008 £m
Other expenses (as reported)	**5,366**	5,416
Less: Non operating items included above (amortisation and impairments)	**(2,032)**	(1,732)
Add: Claims handling costs[1]	**673**	742
Non commission acquisition costs[2]	**1,137**	1,324
Operating cost base	**5,144**	5,750

1. As reported within Claims and benefits paid of £27,549 million (2008: £29,353 million)
2. As reported within Fee and commissions expense of £4,396 million (2008: £4,411 million)

During 2009, the operating cost base decreased 11% to £5,144 million (2008: £5,750 million). The table and notes below set out and explain the methodology and inherent assumptions used for the calculation of the like-for-like adjustments. These adjustments account for the impact of foreign exchange, businesses acquired/disposed of during the year and elimination of one-off restructuring and integration spend from the cost base in both years. After adjustments, the operating cost base decreased by 13% to £4,756 million compared with a 2008 like-for-like cost base of £5,483 million.

Movement in operating costs base

	£m
Total operating cost base 2008	5,750
Less: restructuring, integration and brand costs 2008	(382)
Impact of acquisitions and disposals[1]	(193)
Foreign exchange	308
2008 like-for-like operating cost base	5,483
Inflation[2]	121
UK Life[3]	(142)
UK General Insurance[3]	(245)
Europe[3]	(133)
Delta Lloyd[3]	(209)
Other businesses (including group centre)[3]	(119)
2009 like-for-like operating cost base	4,756
Restructuring, integration and brand costs 2009	388
Total operating cost base 2009	5,144

1. Impact of acquisitions & disposals – restatement of the 2008 cost base for the impact of acquisitions and disposals in both 2008 and 2009 to achieve a cost base on a like-for-like basis.
2. Inflation – Notional level of Inflation that would have impacted the operating cost base during the period. This is calculated using the Consumer Price Index for individual countries, applied to operating expenditure i.e. excluding restructuring & integration costs (but including adjustments for acquisitions & disposals). The overall weighted average is calculated at 2.2%.
3. Regional operating costs reduction – Includes realised savings from cost initiatives productivity and other savings (decrease in the cost base driven by the revenue fall in the business as well as by saving initiatives not attributable to the specific initiatives linked to the cost savings committed externally).

Analysis of assets

The quality of our asset base continues to be strong, and prudent management of investments has limited our exposure to market volatility and toxic assets. Although equity and debt markets have recovered value in 2009, there has been a general market deterioration in credit quality, as rating agencies downgraded a number of sovereign governments, financial institutions, corporates and structured assets. Whilst this market trend is reflected in our debt portfolio, the proportion of our shareholder debt securities that are investment grade has actually increased.

Total assets

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
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 loans and financial investments	**72,569**	**110,907**	**96,305**	**279,781**	**(23)**	**279,758**
Cash and cash equivalents	**4,214**	**14,349**	**6,613**	**25,176**	—	**25,176**
Other assets	**5,903**	**12,744**	**30,787**	**49,434**	**(30)**	**49,404**
Assets of operations classified as held for sale	—	—	—	—	**53**	**53**
Total	**82,686**	**138,000**	**133,705**	**354,391**	—	**354,391**
Total %	**23.3%**	**39.0%**	**37.7%**	**100.0%**	—	**100.0%**
FY 2008 (Restated)	79,105	134,665	140,792	354,562	—	354,562
FY 2008 %	22.3%	38.0%	39.7%	100.0%	—	100.0%

Total assets – Valuation bases

The proportion of total assets measured at fair value (which includes 100% of financial investments) has increased to 84.0% (31 December 2008: 82.1%). The principal asset classes measured at fair value are loans, debt securities, equity securities and other financial investments.

	2009				2008 (Restated)			
	Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m	Fair value £m	Amortised cost £m	Equity accounted/ tax assets £m	Total £m
Policyholder assets	**79,807**	**2,523**	**356**	**82,686**	75,391	3,520	194	79,105
Participating fund assets	**125,166**	**12,237**	**597**	**138,000**	120,945	12,770	950	134,665
Shareholder assets	**92,640**	**38,459**	**2,606**	**133,705**	94,916	40,773	5,103	140,792
Total	**297,613**	**53,219**	**3,559**	**354,391**	291,252	57,063	6,247	354,562
Total %	**84.0%**	**15.0%**	**1.0%**	**100.0%**	82.1%	16.1%	1.8%	100.0%

Shareholders' assets

As at 31 December 2009, total shareholder exposure to loans and financial investments is £96,305 million (31 December 2008: £93,286 million), including loans of £32,068 million, debt securities of £56,450 million, equity securities of £5,027 million and other investments of £2,760 million. The increase in shareholder exposure to loans and financial investments during the year is predominantly due to general market improvements and increased investment in our debt securities and loan portfolios, partly offset by adverse movements in the Euro and US dollar exchange rates.

Shareholders' assets – loans

2009	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Policy loans	**7**	**14**	**377**	**230**	**12**	**640**
Loans and advances to banks	**124**	—	**121**	—	—	**245**
Mortgage loans – securitised	**1,840**	—	**7,315**	—	—	**9,155**
Mortgage loans – non-securitised	**11,988**	**1**	**5,415**	**1,645**	—	**19,049**
Other loans	**35**	**4**	**2,860**	**78**	**2**	**2,979**
Total	**13,994**	**19**	**16,088**	**1,953**	**14**	**32,068**
FY 2008 (Restated)	15,075	20	15,521	1,875	33	32,524

Our well diversified UK Life commercial mortgage portfolio remains of high quality, with minimal levels of default losses recorded in the period. Interest service cover remains strong at 1.3 times, over 95% of mortgages are neither past due nor impaired, and average LTV has reduced to 94% (30 June 2009: 106%). During 2009, the combined impact of increased long-term gilt yields, lower market rental income levels and longer rent-free periods, partially offset by higher property values, have led to an overall decrease in risk adjusted loan values.

Shareholders' assets – loans continued

The provision we made in the UK for short term defaults on corporate bonds and commercial mortgages remains unutilised. Together with our long-term default assumptions, this equates to a provision of £1.1 billion for the life of the UK Life corporate bond and commercial mortgage portfolio, and creates a strong buffer against potential future losses. In addition, we hold £71 million of provisions in our UK General Insurance mortgage portfolio.

The total shareholder exposure to loans issued by Delta Lloyd has increased to £16,088 million (31 December 2008: £15,521 million), including £7,315 million of securitised mortgages and £5,415 million of non-securitised (primarily residential) mortgages. The securitised mortgages have predominantly been sold to third party investors, and therefore present little credit risk to Aviva. Of the non-securitised mortgages, £1,877 million (31 December 2008: £787 million) are guaranteed by the Dutch Government, and over 97% are neither past due nor impaired. Delta Lloyd has not made any additional provisions, as it does not consider the amount of potential loss to be significant.

Shareholders' assets – financial investments

2009	Cost/ amortised cost £m	Unrealised gain £m	Unrealised loss £m	Impairments £m	Fair value £m
Debt securities	55,998	2,550	(1,954)	(144)	56,450
Equity securities	5,723	566	(226)	(1,036)	5,027
Other investments	2,841	69	(131)	(19)	2,760
Total	**64,562**	**3,185**	**(2,311)**	**(1,199)**	**64,237**

At 31 December 2009, cumulative impairments on shareholder debt securities were £144 million. Actual defaults and impairments on debt securities in the year were low at £98 million (2008: £400 million).

	2009				2008 (Restated)			
	Fair value hierarchy				Fair value hierarchy			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities	28,679	25,985	1,786	56,450	26,270	24,468	834	51,572
Equity securities	2,911	1,499	617	5,027	2,700	2,131	923	5,754
Other investments	1,202	1,536	22	2,760	914	2,494	28	3,436
Total	**32,792**	**29,020**	**2,425**	**64,237**	**29,884**	**29,093**	**1,785**	**60,762**
Total %	**51.0%**	**45.2%**	**3.8%**	**100.0%**	**49.2%**	**47.9%**	**2.9%**	**100.0%**

During 2009, there has been an increase to 51.0% (2008: 49.2%) in the proportion of financial investments classified as "Level 1", which means that they are valued using quoted prices in active markets.

Shareholders' assets – debt securities

	Rating						
2009	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Not rated £m	Total £m
Government	10,696	2,210	2,277	1,004	125	611	16,923
Corporate	2,872	4,044	11,107	9,164	1,297	1,750	30,234
Certificates of deposits	—	497	498	3	—	8	1,006
Structured	5,391	638	900	357	289	712	8,287
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%**	**100.0%**
FY 2008 (Restated)	19,106	7,451	13,616	6,536	1,185	3,678	51,572
FY 2008 %	37.0%	14.5%	26.4%	12.7%	2.3%	7.1%	100.0%

During 2009, the proportion of our shareholder debt securities that are investment grade increased to 91.5% (2008: 90.6%). Of the remainder, 2.8% are US private placements (classified as "not rated" in the table above), which are rated as an average equivalent of between "A" and "BBB" by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC), a US national regulatory agency; 3.0% (2008: 2.3%) are debt securities that are below investment grade; and 2.7% are not rated by major rating agencies.

Aviva's shareholder exposure to debt securities of £56,450 million includes £1.2 billion of exposures to the governments (and local authorities and agencies) of Greece, Spain and Portugal. This represents just 2% of total shareholder debt securities at 31 December 2009. Since the year end our exposure to Greek debt securities has reduced by £0.4 billion.

Within structured assets, the group continues to have very limited exposure (less than 1.0% of total balance sheet assets) to sub-prime and Alt A RMBS, ABS, Wrapped Credit, CDOs and CLOs. The majority of these exposures are backed by US Government Sponsored Entities, and so are considered to have minimal credit risk.

Financial supplement

Contents

IFRS Condensed consolidated financial statements

Consolidated income statement

For the year ended 31 December 2009

2009 €m		2009 £m	2008 £m
	Income		
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	**32,673**	34,642
2,033	Fee and commission income	**1,789**	1,885
28,377	Net investment income/(expense)	**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		
(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	**(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	**(217)**	1,068
2051	**Profit/(loss) before tax attributable to shareholders' profits**	**1,805**	(1,300)
(804)	Tax (expense)/credit	**(707)**	1,483
247	Less: tax attributable to policyholders' returns	**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	**230**	30
1,494		**1,315**	(885)
	Earnings per share		
43.0c	Basic (pence per share)	**37.8p**	(36.8)p
42.6c	Diluted (pence per share)	**37.5p**	(36.8)p

Consolidated statement of comprehensive income

For the year ended 31 December 2009

2009 €m		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)	**1,011**	(2,344)
(352)	Fair value gains transferred to profit on disposals	**(310)**	(126)
548	Impairment losses on assets previously revalued through other comprehensive income now taken to the income statement *	**482**	830
	Owner-occupied properties		
(28)	Fair value losses	**(25)**	(37)
139	Share of other comprehensive income of joint ventures and associates	**122**	(93)
(1,295)	Actuarial losses on pension schemes	**(1,140)**	(929)
27	Actuarial losses on pension schemes transferred to unallocated divisible surplus	**24**	78
(1,081)	Foreign exchange rate movements	**(951)**	2,684
(224)	Aggregate tax effect – shareholder tax	**(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	**92**	501
377		**332**	(603)

* 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 A5(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**

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 A1b(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 A5(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

Consolidated statement of financial position

As at 31 December 2009

2009 €m		2009 £m	Restated 2008 £m	Restated 2007 £m
	Assets			
3,842	Goodwill	**3,381**	3,578	3,082
3,250	Acquired value of in-force business and intangible assets	**2,860**	4,038	3,197
1,933	Interests in, and loans to, joint ventures	**1,701**	1,737	2,576
1,456	Interests in, and loans to, associates	**1,281**	1,246	1,206
856	Property and equipment	**753**	964	942
14,116	Investment property	**12,422**	14,426	15,391
46,681	Loans	**41,079**	42,237	36,193
	Financial investments			
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	**7,572**	7,894	8,054
248	Deferred tax assets	**218**	2,642	590
408	Current tax assets	**359**	622	376
10,945	Receivables and other financial assets	**9,632**	9,816	8,619
6,388	Deferred acquisition costs and other assets	**5,621**	6,147	4,487
4,095	Prepayments and accrued income	**3,604**	3,762	2,986
28,609	Cash and cash equivalents	**25,176**	23,643	15,659
60	Assets of operations classified as held for sale	**53**	1,550	1,128
402,718	**Total assets**	**354,391**	354,562	321,326
	Equity			
786	Ordinary share capital	**692**	664	655
1,372	Share premium	**1,207**	1,234	1,223
3,717	Merger reserve	**3,271**	3,271	3,271
(77)	Shares held by employee trusts	**(68)**	(33)	(10)
2,078	Other reserves	**1,829**	2,141	1,469
3,892	Retained earnings	**3,425**	3,902	6,434
11,768	**Equity attributable to shareholders of Aviva plc**	**10,356**	11,179	13,042
1,352	Preference share capital and direct capital instrument	**1,190**	1,190	1,190
4,023	Minority interests	**3,540**	2,204	1,795
17,143	**Total equity**	**15,086**	14,573	16,027
	Liabilities			
194,423	Gross insurance liabilities	**171,092**	174,850	152,839
125,017	Gross liabilities for investment contracts	**110,015**	107,559	98,244
4,393	Unallocated divisible surplus	**3,866**	2,325	6,785
11,243	Net asset value attributable to unitholders	**9,894**	6,918	6,409
4,523	Provisions	**3,980**	2,984	1,937
1,180	Deferred tax liabilities	**1,038**	3,063	2,565
218	Current tax liabilities	**192**	642	1,225
17,045	Borrowings	**15,000**	15,201	12,657
23,343	Payables and other financial liabilities	**20,542**	20,840	18,060
4,152	Other liabilities	**3,653**	4,386	3,636
38	Liabilities of operations classified as held for sale	**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

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.

	2009 £m	Restated 2008 £m
Cash flows from operating activities		
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	**(596)**	(336)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	**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	**(46)**	(130)
Purchases of property and equipment	**(149)**	(216)
Proceeds on sale of property and equipment	**188**	59
Purchases of intangible assets	**(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	**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	**24,251**	23,531

Of the total cash and cash equivalents, £nil was classified as held for sale (2008: £493 million).

Notes to the Company's financial statements

A1 – Basis of preparation

(a) The results for the year ended 31 December 2009 have been prepared using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The results in this preliminary announcement have been prepared in accordance with IFRS applicable at 31 December 2009 and have been taken from the group's Annual Report and Accounts which will be available on the company's website on 24 March 2010.

During 2007 and 2008, the IASB issued IAS 1, Presentation of Financial Statements: A Revised Presentation, and amendments to IFRS 1, First Time Adoption of IFRS, IFRS 2, Share-Based Payment, IAS 23, Borrowing Costs, IAS 27, Consolidated and Separate Financial Statements, and IAS 32, Financial Instruments: Presentation, and the results of its annual improvements project. IFRIC interpretation 13, Customer Loyalty Programmes, and IFRIC interpretation 16, Hedges of a Net Investment in a Foreign Operation have also been endorsed by the EU. These are all applicable for the current accounting period and are now reflected in the group's financial reporting, with no material impact.

The preliminary announcement for the year ended 31 December 2009 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The results on an IFRS basis for the full year 2009 and 2008 have been audited by Ernst & Young LLP. The auditor has reported on the 2009 and 2008 financial statements and the report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The group's 2008 Report and Accounts have been filed with the Registrar of Companies.

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.

(b) 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.

(c) Changes in 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 A5.

(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 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.

(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; and

(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.

A1 – Basis of preparation continued

(iii) As explained in note A3(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 A4(a) has been modified to show Delta Lloyd and the Aviva Europe operations separately, with comparatives analysed in the same way for consistency.

(d) Restatement of prior period 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 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.

A2 – 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)*.

A3 – 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.

(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

A3 – 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 holding in Sogessur SA to the company's main shareholder, Societe Generale, for a consideration of £35 million, realising a profit on disposal of £24 million.

A3 – 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	(351)
Owner-occupied property reserve	(26)
Investment valuation reserve	(156)
Retained earnings	3
Minority interests	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.

A4 – 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 Aviva 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 10 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.

A4 – 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 £3 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.

A4 – 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	6,701	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.

A4 – 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

A4 – 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	25,667	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	50	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.

A4 – 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)	(92)	(300)
Other operating expenses	(3,192)	(3,465)	(554)	(1,394)	(8,605)
Impairment losses	(429)	(85)	—	(93)	(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 £51million 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 £841million relating to health business. The remaining business relates to property and liability insurance.

A4 – 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.

A4 – Segmental information continued

(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**

(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

A4 – Segmental information continued

(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

A5 – 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	**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)

A5 – 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 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	**(15)**	292
Other	**7**	12
Total tax charged/(credited) to income statement	**707**	(1,483)

A6 – 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/(loss) before tax attributable to shareholders' profits	**2,022**	**(217)**	**1,805**
Tax attributable to shareholders' (loss)/profits	**(547)**	**57**	**(490)**
Profit/(loss) 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/(loss) attributable to ordinary shareholders	**1,221**	**(197)**	**1,024**

A6 – 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	**(75)**	**(120)**	**(4.4)**
Short-term fluctuation in return on investments backing non-long-term business	**95**	**158**	**5.8**
Economic assumption changes on general insurance and health business	**57**	**41**	**1.5**
Impairment of goodwill and other amounts expensed	**(62)**	**(62)**	**(2.3)**
Amortisation and net impairment of intangibles	**(144)**	**(38)**	**(1.4)**
Profit on the disposal of subsidiaries and associates	**153**	**153**	**5.7**
Integration and restructuring costs and exceptional items	**(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	(1,631)	(1,280)	(48.4)
Short-term fluctuation in return on investments backing non-long-term business	(819)	(553)	(20.9)
Economic assumption changes on general insurance and health business	(94)	(67)	(2.5)
Impairment of goodwill and other amounts expensed	(66)	(66)	(2.5)
Amortisation and net impairment of intangibles	(117)	(89)	(3.4)
Profit on the disposal of subsidiaries and associates	7	7	0.3
Integration and restructuring costs and exceptional items	(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).

A6 – 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

A7 – 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.

	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%).

A8 – 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	**(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;

A8 – Insurance liabilities continued

– 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.

(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; and
– Expected payments under Mortgage Endowment Promise.

A8 – Insurance liabilities continued

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 ten 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 ten 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.

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

A8 – Insurance liabilities continued

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%

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

A8 – Insurance liabilities continued

(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%)*.

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.

A8 – Insurance liabilities continued

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.

(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.

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.

A8 – Insurance liabilities continued

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.

A8 – 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.

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.

A8 – 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

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 ten 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.

A8 – 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**

A8 – 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

A9 – 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. 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.

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.

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.

A9 – 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 A11, 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 A11, which combines participating and non-participating investment contracts together with the impact of movements in related non-financial assets.

A10 – 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 A11, together with the impact of movements in related liabilities and other non-financial assets.

A10 – 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

A11 – 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.

A12– Borrowings

(a) 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)**
Borrowings acquired for non-cash consideration			
Acquisitions			
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.

A13 – 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 A14)	**(69)**	(89)
Effect of reattribution of inherited estate (see note A14)	**(881)**	—
Other movements	**(25)**	(70)
Change in liability recognised as an expense	**2,428**	(4,482)
Effect of portfolio transfers, acquisitions and disposals	**(4)**	—
Movement in respect of change in pension scheme deficit	**(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.

A14 – Special bonus and reattribution of the inherited estate

(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.

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)

(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.

A15 – Pension obligations

(a) Pension scheme deficits in the consolidated statement of financial position

On the consolidated statement of financial position, the amount described as provisions includes the pension scheme deficit and comprises:

	2009 £m	Restated 2008 £m	Restated 2007 £m
Deficits in the staff pension schemes	**1,707**	613	205
Other obligations to staff pension schemes – insurance policies issued by Group companies	**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

(b) Movements in the scheme deficits and surpluses

Movements in the pension schemes' deficits and surpluses comprise:

	2009 Pension scheme deficits £m	2008 Pension scheme deficits £m
Deficits in the schemes at 1 January	**(613)**	(178)
Employer contributions	**294**	620
Current and past service cost	**(156)**	(163)
Gains/(losses) on curtailments and settlements	**49**	(3)
Credit/(charge) to investment income	**(125)**	121
Other actuarial losses	**(1,158)**	(987)
Exchange rate movements on foreign plans	**2**	(23)
Deficits in the schemes at 31 December	**(1,707)**	(613)

(c) Pensions expenses

(i) 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	**(58)**	(64)
	408	642
Interest charge on scheme liabilities	**(591)**	(585)
(Charge)/credit to investment income	**(183)**	57
Total charge to income	**(290)**	(109)

(ii) 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	**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)*.

A16 – Related party transactions

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.

	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. 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 four such 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 to fund property developments, including shopping, business and distribution centres, and properties in Europe, as well as a film studio development in the UK. Our fund management companies also charge fees to these joint ventures 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.

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.

A17 – Risk management

(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.

A17 – Risk management continued

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.

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 compliments 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.

A17 – Risk management continued

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.

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.

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 business unit 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.

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.

Interest rate risk also exists in products sold by the Group, in particular from policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets when interest rates rise or fall. 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.

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.

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.

A17 – Risk management continued

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.

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;

A17 – Risk management continued

- The implementation of a sophisticated capital charge based credit limits framework that considers and quantifies the key specific attributes of each exposure (e.g. 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;
- 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; and
- 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 collateralization, 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%**	**51.1%**	**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.

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 £2,078million, representing positions to mitigate the impact of adverse market movements; and
- Other assets of £2,804 million, which are primarily deposits with credit institutions and investment in hedge funds.

A17 – Risk management continued

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 is 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 (i.e. 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.

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 (e.g. 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.

A17 – Risk management continued

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 trade 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.

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.

		Financial assets that are past due but not impaired					
At 31 December 2009	**Neither past due nor impaired £m**	**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**

		Financial assets that are past due but not impaired					
At 31 December 2008	Neither past due nor impaired £m	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

		Financial assets that are past due but not impaired					
At 31 December 2007	Neither past due nor impaired £m	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.

(d) Liquidity risk

The Group and Company have a strong liquidity position (£2.2billion 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 (£2.1billion) from a range of highly rated banks to further mitigate this risk.

A17 – Risk management continued

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.

(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.

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**

A17 – Risk management continued

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.

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 a unit trust or similar type 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 ten 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.

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.

A17 – Risk management continued

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.

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.

A17 – 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; and
– 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.

A17 – 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.

A18 – Analysis of general insurance and health

(i) United Kingdom (excluding group insurance and agencies run-off)

	Net written premiums		Underwriting results		Combined operating ratio	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 %**	2008 %
Personal						
Motor	**1,040**	1,329	**1**	(37)	**100%**	103%
Homeowner	**942**	1,188	**21**	(57)	**99%**	104%
Other	**370**	602	**(22)**	4	**105%**	103%
	2,352	3,119	**-**	(90)	**100%**	103%
Commercial						
Motor	**484**	577	**17**	28	**97%**	95%
Property	**616**	774	**(16)**	(6)	**100%**	100%
Other	**414**	511	**23**	92	**95%**	85%
	1,514	1,862	**24**	114	**98%**	94%
Total	**3,866**	4,981	**24**	24	**99%**	99%

(ii) France

	Net written premiums		Underwriting results		Combined operating ratio	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 %**	2008 %
Motor	**322**	290	**(25)**	—	**107%**	100%
Property and other	**407**	388	**40**	28	**90%**	93%
Total	**729**	678	**15**	28	**98%**	96%

(iii) Ireland

	Net written premiums		Underwriting results		Combined operating ratio	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 %**	2008 %
Motor	**208**	243	**19**	9	**92%**	99%
Property and other	**214**	251	**(30)**	(12)	**113%**	107%
Total	**422**	494	**(11)**	(3)	**103%**	103%

(iv) Netherlands

	Net written premiums		Underwriting results		Combined operating ratio	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 %**	2008 %
Motor	**389**	323	**9**	8	**98%**	98%
Property	**324**	343	**(28)**	(2)	**109%**	98%
Liability	**87**	78	**18**	14	**81%**	81%
Other	**363**	284	**39**	34	**91%**	87%
Total	**1,163**	1,028	**38**	54	**97%**	94%

(v) Canada

	Net written premiums		Underwriting results		Combined operating ratio	
	2009 £m	2008 £m	**2009 £m**	2008 £m	**2009 %**	2008 %
Motor	**978**	880	**30**	47	**97%**	95%
Property	**595**	512	**(61)**	(50)	**111%**	110%
Liability	**190**	166	**17**	15	**91%**	90%
Other	**37**	43	**10**	9	**71%**	73%
Total	**1,800**	1,601	**(4)**	21	**100%**	99%

A19 – Cost savings commitments for targets announced since October 2007

Announced cost savings targets (recurring, annualised savings)	Cost savings targets £m
Cost savings targets announced in:	
Year ended 31 December 2007	350
Year ended 31 December 2008	150
Total cost savings targets	500

Progress towards cost savings target (recurring, annualised savings)	Cost savings achieved £m
Savings achieved in:	
Prior years	340
Year ended 31 December 2009	170
Total savings achieved	510
Savings expected to be achieved in 2010	35
Total savings	545

Savings achieved of £510 million comprise £333 million for Aviva UK General Insurance, £117 million for Aviva UK Life and £60 million for Europe.

Movement in costs to deliver cost savings targets (total expenses incurred)	Costs to deliver £m
Costs incurred in:	
Prior years	369
Year ended 31 December 2009	210
Total costs incurred	579
Costs to be incurred in 2010	26
Total costs	605

All £210 million of costs incurred in the year were classified as restructuring costs in the income statement.

1. Cost savings initiatives included in this note are supported by detailed operational implementation plans, which identify the activities, timeframe and expected costs of delivering the planned initiatives.
2. Cost savings ''achieved'' are the annualised, recurring costs delivered in the period.
3. Costs to deliver cost savings targets are the total one-off costs that will be required to complete and deliver announced cost savings programmes. They are measured at the real value of the initial costs expected to be incurred.

Financial supplement – MCEV

Contents

MCEV financial statements

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 include £175 million in relation to the reattribution of the inherited estate in the UK, adverse £261 million 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**	50
(2,370)	**Other comprehensive income for the year, net tax**	**(2,086)**	2,046
965	**Total comprehensive income for the year**	**849**	(5,661)
	Attributable to:		
1,103	Equity shareholders of Aviva plc	**971**	(6,314)
(138)	Minority interests	**(122)**	653
965		**849**	(5,661)

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**	23,944
965	Total comprehensive (income/(expense) for the year	**849**	(5,661)
(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 £15,001million (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 102.
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 102.
3. Net assets for the total life businesses on an MCEV basis presented net of minority interests.

B1 – Basis of preparation

The condensed consolidated income statement and condensed consolidated statement of financial position on pages 88 to 90 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 110. 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.

B1 – Basis of preparation continued

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 110.

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 B14.

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.

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.

B1 – Basis of preparation continued

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.

B1 – 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 A2 on page 38.

B2 – 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 the 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 and Poland reflecting recent experience. The adverse impact in 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 relate to have arisen as a result of more accurate modelling. In 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.

B2 – Geographical analysis of MCEV operating earnings continued

Restated Gross of tax and minority interests 2008 £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.

B2 – 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. The 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 the Delta Lloyd and Poland, together with the impact of revisions to expense allocations in Delta Lloyd. The adverse impact in Spain relates the capitalisation of certain governance costs in respect of bancassurance joint ventures
6. Favourable mortality assumption changes in France and Poland reflecting recent experience. The adverse impact in 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 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.

B2 – Geographical analysis of MCEV operating earnings continued

Restated Net of tax and minority interests 2008	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.

B3 – 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. As explained in note B12, 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

B4 – 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)

B5 – Segmentation of condensed consolidated statement of financial position

	2009 Life and related businesses £m	2009 General business and other £m	2009 Group £m	Restated 2008 Life and related businesses £m	Restated 2008 General business and other £m	Restated 2008 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.

B6 – 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 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 disposed 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
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.

B7 – Free surplus emergence

2009	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	**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**

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

B8 – 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	(367)	(324)	(244)	(202)	(309)	(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

B9 – 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 reatrribution 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]	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.

B10 – Risk allowance within present value of in-force (VIF)

Within the VIF in the tables above, 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**

B10 – Risk allowance within present value of in-force (VIF) continued

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

B11 – 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%**

B12 – 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).

B13 – 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**	**Shareholders' 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**	**337**	**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	Shareholders' 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.

B14 – 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%

B14 – 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 B1 - 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.

B14 – 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%

B14 – 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, ie 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 positon – 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.

B15 – 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 106 £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)**

B15 – Sensitivity analysis continued

2009 Embedded value (net of tax and minority interest)	As reported on page 106 £m	Equity/property Market values 10% increase £m	Equity/property Market values 10% decrease £m	Equity/property 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 106 £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	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 99 £m	10bp increase in adjustment to risk-free rates* £m	Interest rates 1% increase £m	Interest rates 1% decrease £m	Interest rates 2% increase £m	Interest rates 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)

B15 – Sensitivity analysis continued

		Equity/property		
		Market values		
2009 Value of new business (net of tax and minority interest)	As reported on page 99 £m	10% increase £m	10% decrease £m	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)

			Corporate bond credit spread		
2009 Value of new business (net of tax and minority interest)	As reported on page 99 £m	Swaption implied volatilities 25% increase £m	50bps increase £m	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

B15 – 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 106 £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 106 £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)**

Capital management

C1 – Group capital structure

Shareholders' funds, including minority interest

	2009 Closing shareholders' funds IFRS net assets £m	2009 Internally generated AVIF £m	2009 Total equity £m	Restated 2008 Closing shareholders' funds IFRS net assets £m	Restated 2008 Internally generated AVIF £m	Restated 2008 Total equity £m
Life assurance						
United Kingdom	**4,454**	**1,343**	**5,797**	3,649	1,420	5,069
France	**1,707**	**1,386**	**3,093**	1,854	1,018	2,872
Ireland	**1,139**	**201**	**1,340**	1,212	280	1,492
Italy	**1,405**	**290**	**1,695**	1,407	264	1,671
Delta Lloyd	**2,983**	**(148)**	**2,835**	2,979	(313)	2,666
Poland	**239**	**1,073**	**1,312**	310	1,105	1,415
Spain	**1,288**	**662**	**1,950**	1,373	816	2,189
Other Europe	**435**	**(87)**	**348**	369	(34)	335
Europe	**9,196**	**3,377**	**12,573**	9,504	3,136	12,640
North America	**3,072**	**(1,490)**	**1,582**	2,693	(1,943)	750
Asia Pacific	**595**	**146**	**741**	735	246	981
	17,317	**3,376**	**20,693**	16,581	2,859	19,440
General insurance and health						
United Kingdom	**1,876**	**—**	**1,876**	2,592	—	2,592
France	**410**	**—**	**410**	400	—	400
Ireland	**450**	**—**	**450**	545	—	545
Delta Lloyd	**545**	**—**	**545**	705	—	705
Other Europe	**329**	**—**	**329**	377	—	377
Europe	**1,734**	**—**	**1,734**	2,027	—	2,027
North America	**928**	**—**	**928**	878	—	878
Asia Pacific	**24**	**—**	**24**	19	—	19
	4,562	**—**	**4,562**	5,516	—	5,516
Fund management	**269**	**—**	**269**	340	—	340
Other business	**(246)**	**—**	**(246)**	(199)	—	(199)
Corporate	**(34)**	**—**	**(34)**	(30)	—	(30)
Subordinate debt	**(4,637)**	**—**	**(4,637)**	(4,606)	—	(4,606)
External debt	**(852)**	**—**	**(852)**	(919)	—	(919)
Net Internal debt	**(1,293)**	**—**	**(1,293)**	(2,110)	—	(2,110)
	(6,793)	**—**	**(6,793)**	(7,524)	—	(7,524)
Shareholders' funds, including minority interest	**15,086**	**3,376**	**18,462**	14,573	2,859	17,432
Less: Minority interest			**(4,237)**			(3,080)
Direct capital instruments			**(990)**			(990)
Preference capital			**(200)**			(200)
Equity shareholders' funds			**13,035**			13,162
Less: Goodwill and intangibles[1]			**(4,628)**			(4,944)
Equity shareholders funds' excluding goodwill and intangibles			**8,407**			8,218

1. Goodwill and intangibles comprise £3,381 million (31 December 2008:£3,583 million) of goodwill in subsidiaries, £1,367 million (31 December 2008: £1,557 million) of intangibles in subsidiaries, £150 million (31 December 2008: £163 million) of goodwill and intangibles in joint ventures and £264 million (31 December 2008: £335 million) of goodwill in associates, net of associated deferred tax liabilities of £271 million (31 December 2008: £423 million) and the minority share of intangibles of £263 million (31 December 2008: £271 million).

C2 – Analysis of return on capital employed

	Operating return[1] Before tax £m	Operating return[1] After tax £m	Opening shareholders' funds including minority interests £m	Return on capital %
				2009
Life assurance				
United Kingdom	787	567	5,069	11.2%
France	785	515	2,872	17.9%
Ireland	64	55	1,492	3.7%
Italy	216	147	1,671	8.8%
Delta Lloyd	531	388	2,666	14.6%
Poland	499	404	1,415	28.6%
Spain	113	79	2,189	3.6%
Other Europe	27	23	335	6.9%
Europe	2,235	1,611	12,640	12.7%
North America	266	266	750	35.5%
Asia Pacific	101	71	981	7.2%
	3,389	2,515	19,440	12.9%
General insurance and health				
United Kingdom	494	356	2,592	13.7%
France	96	63	400	15.8%
Ireland	57	50	545	9.2%
Delta Lloyd	143	104	705	14.8%
Other Europe	(21)	(15)	377	(4.0)%
Europe	275	202	2,027	10.0%
North America	144	98	878	11.2%
Asia Pacific	6	4	19	21.1%
	919	660	5,516	12.0%
Fund management	51	36	340	10.6%
Other business	(173)	(121)	(199)	60.8%
Corporate	(182)	(156)	(30)	520.0%
Subordinate debt	(293)	(211)	(4,606)	4.6%
External debt	(42)	(30)	(919)	3.3%
Internal debt	(186)	(134)	(2,110)	6.4%
Shareholders' funds, including minority interest	3,483	2,559	17,432	14.7%
Less: Minority interest		(366)	(3,080)	11.9%
Direct capital instruments		(44)	(990)	4.4%
Preference capital		(17)	(200)	8.5%
Return on equity shareholders' funds		2,132	13,162	16.2%

1. The operating return is based upon group MCEV operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2. The net internal debt return loss before tax of £(186) million comprises investment return of £41 million offset by group internal debt costs and other interest of £(227) million.

C2 – Analysis of return on capital employed continued

	Restated 2008			
	Operating return[1]			
	Before tax £m	After tax £m	Opening shareholders' funds including minority interests £m	Return on capital %
Life assurance				
United Kingdom	883	635	7,154	8.9%
France	692	455	2,783	16.3%
Ireland	78	67	1,229	5.5%
Italy	131	88	1,258	7.0%
Delta Lloyd	196	141	4,054	3.5%
Poland	241	196	1,202	16.3%
Spain	286	199	1,782	11.2%
Other Europe	23	17	278	6.1%
Europe	1,647	1,163	12,586	9.2%
North America	201	132	1,975	6.7%
Asia Pacific	79	57	841	6.8%
	2,810	1,987	22,556	8.8%
General insurance and health				
United Kingdom	557	398	3,049	13.1%
France	107	70	301	23.3%
Ireland	68	59	435	13.6%
Delta Lloyd	177	129	756	17.1%
Other Europe	45	31	295	10.5%
Europe	397	289	1,787	16.2%
North America	145	94	732	12.8%
Asia Pacific	—	—	26	—
	1,099	781	5,594	14.0%
Fund management	42	29	355	8.2%
Other business	(163)	(114)	927	(12.3)%
Corporate	(37)	118	(31)	(380.6)%
Subordinate debt	(229)	(164)	(3,054)	5.4%
External debt	(57)	(41)	(1,257)	3.3%
Internal debt	(98)	(70)	(1,146)	6.1%
Shareholders' funds, including minority interest	3,367	2,526	23,944	10.6%
Less: Minority interest		(257)	(2,519)	10.2%
Direct capital instruments		(40)	(990)	4.0%
Preference capital		(17)	(200)	8.5%
Return on equity shareholders' funds		2,212	20,235	11.0%

1. The operating return is based upon group MCEV operating profit, which is stated before impairment of goodwill, amortisation of intangibles, exceptional items and investment variance.
2. The net internal debt return loss before tax of £98 million comprises investment return of £99 million offset by group internal debt costs and other interest of £197 million.

C3 – Sensitivity 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, Financial Condition Reporting (a medium-term projection of the financial health of the business under a variety of economic and operating scenarios), and increasingly Individual Capital Assessment (ICA) are used. Sensitivities to economic and operating experience are regularly produced on all of our financial performance measurements as part of our decision-making and planning process, 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 in the MCEV section of this announcement.

Life insurance and investment contracts
The nature of long-term business is such that a number of assumptions are made in compiling the 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.

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 development on which the projections are based. As such, in the analysis below, the sensitivity of general insurance claim liabilities is primarily based on the financial impact of changes to the reported loss ratio.

Some results of sensitivity testing for long-term business and general insurance and health business are set out below. For each sensitivity test the impact of a 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%.

C3 – Sensitivity analysis continued

Long-term businesses

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%
							2009
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 on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality +5%
							2009
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)**

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%
							Restated 2008
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)

The comparative 2008 economic sensitivities for life and non-insurance businesses have been restated to reflect modelling enhancements in Delta Lloyd.

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality +5%
							Restated 2008
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)

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.

C3 – Sensitivity analysis continued

General insurance and health businesses

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +10%
	2009					
Gross of reinsurance	**(310)**	**295**	**105**	**(110)**	**(135)**	**(345)**
Net of reinsurance	**(365)**	**365**	**105**	**(110)**	**(135)**	**(330)**

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +10%
	2009					
Gross of reinsurance	**(310)**	**295**	**105**	**(110)**	**(35)**	**(345)**
Net of reinsurance	**(365)**	**365**	**105**	**(110)**	**(35)**	**(330)**

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +10%
	2008					
Gross of reinsurance	(310)	300	90	(90)	(170)	(435)
Net of reinsurance	(360)	360	90	(90)	(170)	(425)

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +10%
	2008					
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 businesses

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
	2009			
Total	**(20)**	**25**	**70**	**(30)**

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
	2009			
Total	**(40)**	**55**	**80**	**(50)**

Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
	Restated 2008			
Total	(15)	20	45	(45)

The comparative 2008 economic sensitivities for life and non-insurance businesses have been restated to reflect modelling enhancements in Delta Lloyd.

Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Equity/ property +10%	Equity/ property -10%
	Restated 2008			
Total	—	5	90	(90)

C3 – Sensitivity analysis continued

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 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, our 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, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. 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.

Analysis of Assets

Analysis of assets

D1 – Total assets – Shareholder/policyholder exposure to risk

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
Goodwill and acquired value of in-force business and intangible assets	**—**	**—**	**6,241**	**6,241**	**—**	**6,241**
Interests in joint ventures and associates	**356**	**597**	**2,029**	**2,982**	**—**	**2,982**
Property and equipment	**—**	**79**	**676**	**755**	**(2)**	**753**
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**
Reinsurance assets	**1,014**	**1,143**	**5,415**	**7,572**	**—**	**7,572**
Deferred tax assets	**—**	**—**	**218**	**218**	**—**	**218**
Current tax assets	**—**	**—**	**359**	**359**	**—**	**359**
Receivables and other financial assets	**276**	**2,299**	**7,077**	**9,652**	**(20)**	**9,632**
Deferred acquisition costs and other assets	**139**	**880**	**4,602**	**5,621**	**—**	**5,621**
Prepayments and accrued income	**177**	**1,408**	**2,019**	**3,604**	**—**	**3,604**
Cash and cash equivalents	**4,214**	**14,349**	**6,613**	**25,176**	**—**	**25,176**
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	**53**	**53**
Total	**82,686**	**138,000**	**133,705**	**354,391**	**—**	**354,391**
Total %	**23.3%**	**39.0%**	**37.7%**	**100.0%**	**—**	**100.0%**
FY 2008 (Restated)	79,105	134,665	140,792	354,562	—	354,562
FY 2008 %	22.3%	38.0%	39.7%	100.0%	—	100.0%

D2 – Total assets – Valuation bases/fair value hierarchy

	2009				2008 (Restated)			
Total assets	**Fair value £m**	**Amortised cost £m**	**Equity accounted/ tax assets[1] £m**	**Total £m**	Fair value £m	Amortised cost £m	Equity accounted/ tax assets[1] £m	Total £m
Goodwill and acquired value of in-force business and intangible assets	**—**	**6,241**	**—**	**6,241**	—	7,630	—	7,630
Interests in joint ventures and associates	**—**	**—**	**2,982**	**2,982**	—	—	2,983	2,983
Property and equipment	**415**	**340**	**—**	**755**	566	500	—	1,066
Investment property	**12,430**	**—**	**—**	**12,430**	14,426	—	—	14,426
Loans	**20,890**	**20,189**	**—**	**41,079**	21,468	20,769	—	42,237
Financial investments								
Debt securities	**160,510**	**—**	**—**	**160,510**	150,734	—	—	150,734
Equity securities	**43,343**	**—**	**—**	**43,343**	43,411	—	—	43,411
Other investments	**34,849**	**—**	**—**	**34,849**	36,511	—	—	36,511
Reinsurance assets	**—**	**7,572**	**—**	**7,572**	—	7,894	—	7,894
Deferred tax assets	**—**	**—**	**218**	**218**	—	—	2,642	2,642
Current tax assets	**—**	**—**	**359**	**359**	—	—	622	622
Receivables and other financial assets	**—**	**9,652**	**—**	**9,652**	—	10,202	—	10,202
Deferred acquisition costs and other assets	**—**	**5,621**	**—**	**5,621**	—	6,148	—	6,148
Prepayments and accrued income	**—**	**3,604**	**—**	**3,604**	—	3,920	—	3,920
Cash and cash equivalents	**25,176**	**—**	**—**	**25,176**	24,136	—	—	24,136
Total	**297,613**	**53,219**	**3,559**	**354,391**	291,252	57,063	6,247	354,562
Total %	**84.0%**	**15.0%**	**1.0%**	**100.0%**	82.1%	16.1%	1.8%	100.0%

1. Within the group's statement of financial position, assets are recognised for deferred tax and current tax. The valuation basis of these assets does not directly fall within any of the categories outlined above. As such, these assets have been reported together with equity accounted within the analysis of the group's assets.

Analysis of assets continued

D2 – Total assets – Valuation bases/fair value hierarchy

Total assets – Policyholder assets 2009	Fair value £m	Amortised cost £m	Equity accounted/ tax assets[1] £m	Total £m
Goodwill and acquired value of in-force business and intangible assets	—	—	—	—
Interests in joint ventures and associates	—	—	**356**	**356**
Property and equipment	—	—	—	—
Investment property	**3,941**	—	—	**3,941**
Loans	**551**	**917**	—	**1,468**
Financial investments			—	
Debt securities	**17,596**	—	—	**17,596**
Equity securities	**28,638**	—	—	**28,638**
Other investments	**24,867**	—	—	**24,867**
Reinsurance assets	—	**1,014**	—	**1,014**
Deferred tax assets	—	—	—	—
Current tax assets	—	—	—	—
Receivables and other financial assets	—	**276**	—	**276**
Deferred acquisition costs and other assets	—	**139**	—	**139**
Prepayments and accrued income	—	**177**	—	**177**
Cash and cash equivalents	**4,214**	—	—	**4,214**
Total	**79,807**	**2,523**	**356**	**82,686**
Total %	**96.5%**	**3.1%**	**0.4%**	**100%**
Total 2008 (Restated)	75,391	3,520	194	79,105
Total % 2008	95.3%	4.5%	0.2%	100%

1. Within the group's statement of financial position, assets are recognised for deferred tax and current tax. The valuation basis of these assets does not directly fall within any of the categories outlined above. As such, these assets have been reported together with equity accounted within the analysis of the group's assets.

Total assets – Participating fund assets 2009	Fair value £m	Amortised cost £m	Equity accounted/ tax assets[1] £m	Total £m
Goodwill and acquired value of in-force business and intangible assets	—	—	—	—
Interests in joint ventures and associates	—	—	**597**	**597**
Property and equipment	**37**	**42**	—	**79**
Investment property	**6,338**	—	—	**6,338**
Loans	**1,078**	**6,465**	—	**7,543**
Financial investments				
Debt securities	**86,464**	—	—	**86,464**
Equity securities	**9,678**	—	—	**9,678**
Other investments	**7,222**	—	—	**7,222**
Reinsurance assets	—	**1,143**	—	**1,143**
Deferred tax assets	—	—	—	—
Current tax assets	—	—	—	—
Receivables and other financial assets	—	**2,299**	—	**2,299**
Deferred acquisition costs and other assets	—	**880**	—	**880**
Prepayments and accrued income	—	**1,408**	—	**1,408**
Cash and cash equivalents	**14,349**	—	—	**14,349**
Total	**125,166**	**12,237**	**597**	**138,000**
Total %	**90.7%**	**8.9%**	**0.4%**	**100.0%**
Total 2008	120,945	12,770	950	134,665
Total % 2008	89.8%	9.5%	0.7%	100.0%

1. Within the group's statement of financial position, assets are recognised for deferred tax and current tax. The valuation basis of these assets does not directly fall within any of the categories outlined above. As such, these assets have been reported together with equity accounted within the analysis of the group's assets.

Analysis of assets continued
D2 – Total assets – Valuation bases/fair value hierarchy continued

Total assets – Shareholder assets 2009	Fair value £m	Amortised cost £m	Equity accounted/ tax assets[1] £m	Total £m
Goodwill and acquired value of in-force business and intangible assets	—	**6,241**	—	**6,241**
Interests in joint ventures and associates	—	—	**2,029**	**2,029**
Property and equipment	**378**	**298**	—	**676**
Investment property	**2,151**	—	—	**2,151**
Loans	**19,261**	**12,807**	—	**32,068**
Financial investments				
Debt securities	**56,450**	—	—	**56,450**
Equity securities	**5,027**	—	—	**5,027**
Other investments	**2,760**	—	—	**2,760**
Reinsurance assets	—	**5,415**	—	**5,415**
Deferred tax assets	—	—	**218**	**218**
Current tax assets	—	—	**359**	**359**
Receivables and other financial assets	—	**7,077**	—	**7,077**
Deferred acquisition costs and other assets	—	**4,602**	—	**4,602**
Prepayments and accrued income	—	**2,019**	—	**2,019**
Cash and cash equivalents	**6,613**	—	—	**6,613**
Total	**92,640**	**38,459**	**2,606**	**133,705**
Total %	**69.3%**	**28.8%**	**1.9%**	**100.0%**
Total 2008 (Restated)	94,916	40,773	5,103	140,792
Total % 2008	67.4%	29.0%	3.6%	100.0%

1. Within the group's statement of financial position, assets are recognised for deferred tax and current tax. The valuation basis of these assets does not directly fall within any of the categories outlined above. As such, these assets have been reported together with equity accounted within the analysis of the group's assets.

Financial instruments (including derivatives and loans)
The group's credit risk policy restricts the exposure to individual counterparties across all types of risk.

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 section as "other than trading").

In general, the FV category is used as, in most cases, our investment or risk management strategy is to manage our financial investments on a fair value basis. All securities in the FV category are classified as other than trading, except for non-hedge derivatives and a small amount of debt and equity securities, bought with the intention to resell in the short term, which are classified as trading. The AFS category is used where the relevant long-term business liability (including shareholders' funds) is passively managed.

Loans are carried at amortised cost, except for certain mortgage loans, where we have taken advantage of the fair value option under IAS 39 to present the mortgages, associated borrowings, other liabilities and derivative financial instruments at fair value, since they are managed together on a fair value basis. We believe this presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these four items.

Analysis of assets continued
D2 – Total assets – Valuation bases/fair value hierarchy continued

Fair value methodology
Investments classified as FV and AFS are subsequently carried at fair value.

The fair values of investments are 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. Securities, for which fair values cannot be measured reliably, are recognised at cost less impairment.

Where it is determined that the market in which a price is quoted has become inactive, the quoted price is assessed against either independent valuations or internally modelled valuations which take into account other market observable information. Where the quoted price differs sufficiently from these reassessed prices, the fair value recognised on the balance sheet is based on this adjusted valuation. However, if these reassessed prices confirm that the quoted price remains appropriate, then the fair value recognised on the balance sheet continues to be the quoted price.

Changes in the fair value of FV investments are included in the income statement in the period in which they arise. Changes in the fair value of securities classified as AFS, except for impairment losses, are recorded in a separate investment valuation reserve in equity. Where investments classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve and into the income statement.

To test for 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.

For listed investments classified as AFS, the group performs an objective review of the current financial position and prospects of the issuer on a regular basis, to identify whether any impairment provision is required. For unlisted investments classified as AFS, the group considers the current financial position of the issuer and the future prospects in identifying the requirement for an impairment provision. For both listed and unlisted AFS securities identified as being impaired, the cumulative unrealised net loss previously recognised within the AFS reserve is transferred to realised losses for the year.

Fair value hierarchy
To provide further information on the valuation techniques we use to measure assets carried at fair value, we have categorised the measurement basis for assets carried at fair value into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS7 *Financial Instruments: Disclosures.*

- Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets.
- 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.
- 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.

Fair values sourced from internal models are Level 2 only if substantially all the inputs are market observable. Otherwise fair values sourced from internal models are classified as Level 3.

Analysis of assets continued
D2 – Total assets – Valuation bases/fair value hierarchy continued

The table below presents an analysis of investments according to fair value hierarchy:

	Fair value hierarchy						
Total assets 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**	**Balance sheet total £m**
Investment properties	—	12,430	—	12,430	—	(8)	12,422
Loans	—	20,890	—	20,890	20,189	—	41,079
Debt 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**	**79,637**	**11,260**	**272,022**	**20,189**	**(31)**	**292,180**
Total %	62.0%	27.2%	3.9%	93.1%	6.9%	—	100.0%

	Fair value hierarchy						
Total assets 2008 (Restated)	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	Balance sheet total £m
Investment properties	—	14,426	—	14,426	—	—	14,426
Loans	—	21,468	—	21,468	20,769	—	42,237
Debt 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	94,356	2,845	266,550	20,769	(396)	286,923
Total %	59.0%	32.9%	1.0%	92.9%	7.2%	(0.1%)	100.0%

At 31 December 2009, there has been a small increase to 62% (2008: 59%) in the proportion of total financial investments, loans and investment properties carried at fair value classified as Level 1 in the fair value hierarchy. Level 2 financial investments and loans have decreased to 27% (2008: 33%).

At 31 December 2009, 4% (2008: 1%) of financial investments, loans and investment properties were fair valued using models with significant unobservable market parameters. The increase arises primarily due to a reclassification of £5,229 million of debt securities relating to complex structured bond-type products held by our business in France from Level 2 to Level 3 in the fair value hierarchy . The reclassification reflects differences between the counterparty and broker quotes (which have been applied) and the output of the third party valuation models (which indicated higher valuations). Similar changes in market observability resulted in reclassifications to Level 3 of certain debt securities and unit trusts with underlying private equity investments in our UK and Italian businesses.

D3.1 – Goodwill, Acquired value of in-force business and intangible assets

The group's goodwill, acquired value of in-force business and the majority of other intangible assets have arisen from the group's business combinations. These business combinations include several bancassurance arrangements, which have resulted in £682 million of the total £3,381 million of goodwill and £832 million of the total £2,860 million of other intangible assets. These balances primarily represent the value of bancassurance distribution agreements acquired in these business combinations.

As at 31 December 2009, the group has assessed the value of these bancassurance related assets and has not identified a need to impair any of these amounts.

Analysis of assets continued
D3 – Analysis of asset quality

D3.2 – Investment property

Investment property – Total	2009 Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	2009 Total £m	2008 Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	2008 Total £m
Lease to third parties under operating leases	—	11,750	—	11,750	—	13,764	—	13,764
Vacant investment property/held for capital appreciation	—	680	—	680	—	662	—	662
Total	—	**12,430**	—	**12,430**	—	14,426	—	14,426
Total %	—	100%	—	100%	—	100%	—	100%

Investment property – Policyholder assets	2009 Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	2009 Total £m	2008 Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	2008 Total £m
Lease to third parties under operating leases	—	3,386	—	3,386	—	4,053	—	4,053
Vacant investment property/held for capital appreciation	—	555	—	555	—	73	—	73
Total	—	**3,941**	—	**3,941**	—	4,126	—	4,126
Total %	—	100%	—	100%	—	100%	—	100%

Investment property – Participating fund assets	2009 Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	2009 Total £m	2008 Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	2008 Total £m
Lease to third parties under operating leases	—	6,321	—	6,321	—	7,026	—	7,026
Vacant investment property/held for capital appreciation	—	17	—	17	—	529	—	529
Total	—	**6,338**	—	**6,338**	—	7,555	—	7,555
Total %	—	100%	—	100%	—	100%	—	100%

Investment property – Shareholder assets	2009 Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	2009 Total £m	2008 Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	2008 Total £m
Lease to third parties under operating leases	—	2,043	—	2,043	—	2,685	—	2,685
Vacant investment property/held for capital appreciation	—	108	—	108	—	60	—	60
Total	—	**2,151**	—	**2,151**	—	2,745	—	2,745
Total %	—	100%	—	100%	—	100%	—	100%

Some 83% (31 December 2008: 81%) of investment properties by value are held in unit-linked or participating funds. 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 basis of valuation therefore naturally falls to be classified as Level 2. Valuations are typically undertaken on a quarterly (and in some cases monthly) basis.

Around 95% (31 December 2008: 95%) of investment properties by value are leased to third parties under operating leases, with the remainder either being vacant or held for capital appreciation.

D3.3 – Loans
The group loan portfolio is principally made up of:
– 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;
– Mortgage loans collateralised by property assets; and
– Other loans, which include loans and advances to customers of our banking business, and to brokers and intermediaries.

Analysis of assets continued
D3 – Analysis of asset quality continued

D3.3 – Loans *continued*
Loans with fixed maturities, including policy loans, mortgage loans (at amortised cost) and loans and advances to banks, are recognised when cash is advanced to borrowers. These loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method.
For certain mortgage loans, the group has taken advantage of the revised fair value option under IAS 39 to present the mortgages, associated borrowings, other liabilities and derivative financial instruments at fair value, since they are managed together on a fair value basis. Due to the illiquid nature of these assets, where fair value accounting is applied, it is done so on a Level 2 basis.

Loans – Total assets 2009	**United Kingdom £m**	**Aviva Europe £m**	**Delta Lloyd £m**	**North America £m**	**Asia Pacific £m**	**Total £m**
Policy loans	48	972	377	439	33	1,869
Loans and advances to banks	3,545	—	1,794	—	—	5,339
Mortgage loans	15,449	5	13,344	1,660	—	30,458
Other loans	35	16	3,282	78	2	3,413
Total	**19,077**	**993**	**18,797**	**2,177**	**35**	**41,079**
Total %	**46.5%**	**2.4%**	**45.8%**	**5.3%**	—	**100.0%**

Loans – Total assets 2008	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Policy loans	49	1,119	432	490	36	2,126
Loans and advances to banks	4,572	—	1,843	—	—	6,415
Mortgage loans	16,330	5	12,815	1,566	15	30,731
Other loans	38	18	2,830	74	5	2,965
Total	20,989	1,142	17,920	2,130	56	42,237
Total %	49.7%	2.7%	42.5%	5.0%	0.1%	100.0%

The value of the group's loan portfolio at 31 December 2009 stood at £41,079 million (31 December 2008: £42,237 million), a decrease of £1,158 million. Within this, participating fund loans decreased by £1,159 million to £7,543 million (2008: £8,702 million), primarily due to reduced UK stock lending.

The total shareholder exposure to loans decreased to £32,068 million (2008: £32,524 million). This was driven by a reduction in the value of the UK commercial mortgage portfolio and EUR and USD exchange rate movements, partially offset by an increase in loans issued by Delta Lloyd to £16,088 million (31 December 2008: £15,521 million). Most of the reductions in the UK commercial mortgage portfolio are offset by corresponding reductions in liability valuations, thereby resulting in minimal impact on the net balance sheet or income.

Loans – Total policyholder assets 2009	**United Kingdom £m**	**Aviva Europe £m**	**Delta Lloyd £m**	**North America £m**	**Asia Pacific £m**	**Total £m**
Policy loans	—	—	—	—	—	—
Loans and advances to banks	895	—	—	—	—	895
Mortgage loans	551	—	22	—	—	573
Other loans	—	—	—	—	—	—
Total	**1,446**	**—**	**22**	**—**	**—**	**1,468**
Total %	**98.5%**	**—**	**1.5%**	**—**	**—**	**100.0%**

Loans – Total policyholder assets 2008 (Restated)	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Policy loans	—	—	—	—	—	—
Loans and advances to banks	875	—	—	—	—	875
Mortgage loans	136	—	—	—	—	136
Other loans	—	—	—	—	—	—
Total	1,011	—	—	—	—	1,011
Total %	100.0%	—	—	—	—	100.0%

Analysis of assets continued
D3 – Analysis of asset quality continued

D3.3 – Loans *continued*

Loans – Total participating fund assets 2009	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Policy loans	41	958	—	209	21	1,229
Loans and advances to banks	2,526	—	1,673	—	—	4,199
Mortgage loans	1,070	4	592	15	—	1,681
Other loans	—	12	422	—	—	434
Total	**3,637**	**974**	**2,687**	**224**	**21**	**7,543**
Total %	**48.2%**	**12.9%**	**35.6%**	**3.0%**	**0.3%**	**100.0%**

Loans – Total participating fund assets 2008	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Policy loans	49	1,104	44	255	23	1,475
Loans and advances to banks	3,697	—	1,630	—	—	5,327
Mortgage loans	1,157	4	725	—	—	1,886
Other loans	—	14	—	—	—	14
Total	4,903	1,122	2,399	255	23	8,702
Total %	56.3%	12.9%	27.6%	2.9%	0.3%	100.0%

Loans – Total shareholder assets 2009	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Policy loans	7	14	377	230	12	640
Loans and advances to banks	124	—	121	—	—	245
Mortgage loans	13,828	1	12,730	1,645	—	28,204
Other loans	35	4	2,860	78	2	2,979
Total	**13,994**	**19**	**16,088**	**1,953**	**14**	**32,068**
Total %	**43.7%**	**—**	**50.2%**	**6.1%**	**—**	**100.0%**

Loans – Total shareholder assets 2008 (Restated)	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Policy loans	—	15	388	235	13	651
Loans and advances to banks	—	—	213	—	—	213
Mortgage loans	15,037	1	12,090	1,566	15	28,709
Other loans	38	4	2,830	74	5	2,951
Total	15,075	20	15,521	1,875	33	32,524
Total %	46.4%	—	47.7%	5.8%	0.1%	100.0%

Mortgage loans – Shareholder assets

Of the group's total loan portfolio (including Policyholder, Participating Fund and Shareholder assets), 74% (31 December 2008: 73%) is invested in mortgage loans. The group's mortgage loan portfolio spans several business units, primarily UK, Delta Lloyd and USA, and across various sectors, including residential loans, commercial loans and government supported healthcare loans.

Aviva shareholders are exposed predominantly to mortgage loans. These exposures are complex with several levels of protection for the shareholder. This section focuses on explaining the residual shareholder risk within these exposures.

2009	United Kingdom £m	Aviva Europe £m	Delta Lloyd £m	North America £m	Asia Pacific £m	Total £m
Non-securitised mortgage loans						
– Residential	—	1	5,394	—	—	5,395
– Equity release	929	—	—	—	—	929
– Commercial	8,522	—	21	1,645	—	10,188
– Healthcare	2,537	—	—	—	—	2,537
	11,988	1	5,415	1,645	—	19,049
Securitised mortgage loans	1,840	—	7,315	—	—	9,155
Total	**13,828**	**1**	**12,730**	**1,645**	**—**	**28,204**
FY 2008 (Restated)	15,037	1	12,090	1,566	15	28,709

Analysis of assets continued

D3 – Analysis of asset quality continued

D3.3 – Loans continued

Non-securitised mortgage loans – Residential

Delta Lloyd

Gross exposure by loan to value and arrears

2009	>120% £m	115–120% £m	110–115% £m	105–110% £m	100–105% £m	95–100% £m	90–95% £m	80–90% £m	70–80% £m	<70% £m	Total £m
Exposures by mortgage type											
– Government guaranteed	800	202	147	116	97	88	80	109	75	163	1,877
– Non-government guaranteed	287	66	88	220	156	661	250	432	466	891	3,517
Total	**1,087**	**268**	**235**	**336**	**253**	**749**	**330**	**541**	**541**	**1,054**	**5,394**
Exposures by interest payment arrears											
Neither past due nor impaired	1,056	264	226	322	246	731	320	530	530	1,035	5,260
0 – 3 months	27	4	8	10	5	15	8	8	9	14	108
3 – 6 months	2	—	1	2	1	1	—	1	1	1	10
6 – 12 months	1	—	—	2	1	1	2	2	—	3	12
> 12 months	1	—	—	—	—	1	—	—	1	1	4
Total	**1,087**	**268**	**235**	**336**	**253**	**749**	**330**	**541**	**541**	**1,054**	**5,394**

The total exposure to non-securitised mortgage loans in the Netherlands is £5,394 million, of which the majority are measured at amortised cost. However, of these, £1,877 million are Government guaranteed, and so present minimal risk to Aviva shareholders. Of the £5,394 million of residential loans, £5,213 million are measured on an amortised cost basis, and the remainder on fair value basis.

The Government guarantees were introduced in the Netherlands to encourage homeownership, and apply to home mortgages of up to €350,000 (this threshold was raised from €265,000 at 1 July 2009). The guarantees are implemented through the National Mortgage Guarantee Scheme, and ensure that, should the homeowner be forced to sell, and cannot make the repayment on the mortgage, then the residual will be provided for by the Homeownership Guarantee Fund, which in turn is funded by the Government and municipalities through agreements for interest free loans.

In addition to government guarantees, the Dutch residential mortgage market also benefits from the ability for borrowers to deduct mortgage interest payments for tax purposes, thereby helping to reduce the risk of arrears or default.

The total amount of loans for which interest payments are past due is £134 million (31 December 2008: £282 million). However, the actual amount of missed payments is £2.7 million (31 December 2008: £5 million). Delta Lloyd has currently not made any additional provisions for these loans as it does not consider the amount of potential loss to be significant.

UK Residential

The UK non-securitised residential mortgage portfolio has a total current value of £929 million (31 December 2008: £1,409 million). These mortgages are all in the form of equity release, whereby homeowners that usually own a fully paid up property will mortgage it to release cash equity. Due to the low relative levels of equity released in each property, they all currently have a Loan to Value ("LTV") of below 70%, and the average LTV across the portfolio is approximately 31%. We therefore consider these mortgages to be low risk.

Non-securitised mortgage loans – Commercial

Gross exposure by loan to value and arrears

United Kingdom

2009	>120% £m	115–120% £m	110–115% £m	105–110% £m	100–105% £m	95–100% £m	90–95% £m	80–90% £m	70–80% £m	<70% £m	Total £m
Neither past due nor impaired	378	282	202	537	785	1,549	1,172	1,619	1,082	559	8,165
0 – 3 months	28	—	—	—	1	12	1	—	35	3	80
3 – 6 months	41	25	5	103	—	12	—	—	—	—	186
6 – 12 months	17	—	44	—	—	26	—	—	—	—	87
> 12 months	—	—	—	—	—	4	—	—	—	—	4
Total	**464**	**307**	**251**	**640**	**786**	**1,603**	**1,173**	**1,619**	**1,117**	**562**	**8,522**

Of the £8,522 million of UK Commercial loans, £7,947 million are held by Aviva UK Life to back annuity liabilities, and are stated on a fair value basis. The loan exposures for the UK Life business are calculated on a discounted cash flow basis, and include a risk adjustment through the use of Credit Risk Adjusted Value ("CRAV") methods. The remaining £575 million of loans are held by Aviva UK General Insurance and are stated on an amortised cost basis. For the UK General Insurance business, mortgages are held at amortised cost, and subject to impairment review, using a fair value methodology calibrated to the UK Life approach, adjusted for specific portfolio characteristics.

The UK portfolio has maintained its excellent track record notwithstanding the downturn in the property market. It has continued to provide strong income receipts to back payments to annuitants and retained its record of minimal losses since 1993.

Analysis of assets continued

D3 – Analysis of asset quality continued

Mortgage LTV's reduced over the year resulting in the amount of exposure uncovered by the underlying security falling to £340m. The improvement in LTV has been a result of both lower loan values and rising property prices. Loan values have fallen due to an increase in risk levels (driven by reducing market rental levels being only partially offset by increases in property values) and increases in gilt yields.

All loans in arrears have been assessed for impairment and specific provisions. Of the £357 million (2008: £646 million) value of loans in arrears, the interest and capital amount in arrears is only £11.5 million. The provision we made in the UK for short term defaults on corporate bonds and commercial mortgages remains unutilised. Together with our long-term default assumptions, this equates to a provision of £1.1 billion for the life of the UK Life corporate bond and commercial mortgage portfolio, and creates a strong buffer against potential future losses. In addition, we hold £71 million of provisions in our UK General Insurance mortgage portfolio.

Loan service collection ratios remain resilient reflecting the strong rent collection reported by our borrowers. Loan Interest Cover ("LIC"), which is defined as the annual net rental income (including rental deposits and less ground rent) divided by the annual loan interest service, has remained stable at 1.3x due to low levels of material tenant defaults.

The UK portfolio remains well diversified in terms of property type, location and tenants as well as the spread of loans written over time. The risks in commercial mortgages are addressed through several layers of protection with the mortgage risk profile being primarily driven by the ability of the underlying tenant rental income to cover loan interest and amortisation. Should any single tenant default on their rental payment, rental from other tenants backing the same loan often ensures the loan interest cover does not fall below 1.0x. Where there are multiple loans to a single borrower further protection may be achieved through cross-charging where loans to a single borrower may be pooled so that any single loan is also supported by payments on the other pool loans. Additionally, there may be support provided by the borrower of the loan itself and further loss mitigation from the general floating charges held over other assets within the borrower companies.

If the LIC cover falls below 1.0x and the borrower defaults then Aviva still retains the option of selling the security or restructuring the loans and benefiting from the protection of the collateral. A combination of these benefits and the high recovery levels afforded by property collateral (compared to corporate debt or other uncollateralised credit exposures) results in the economic exposure being significantly lower than the gross exposure reported above.

UK Healthcare

Of the total UK non-securitised mortgage loans of £11,988 million (2008: £13,176 million), £2,537 million (2008: £2,655 million) relates to healthcare businesses and is secured against General Practitioner premises or other health related premises leased to NHS trusts or Primary Care Trusts. For all such loans, Government support is provided through reimbursement of rental payments to the tenants to meet income service and provide for the debt to be reduced substantially over the term of the loan. Although the loan principal is not Government guaranteed, the nature of these businesses and premises provides considerable comfort of an ongoing business model and low risk of default.

On a market value basis, we estimate the average LTV of these mortgages to be 101%, although as explained above, we do not consider this to be a key risk driver. Income support from the National Health Service and stability of the sector provide sustained income stability. Aviva therefore considers these loans to be low risk and uncorrelated with the strength of the UK or global economy.

Analysis of assets continued

D3 – Analysis of asset quality continued

D3.3 – Loans continued

North America

2009	>120% £m	115–120% £m	110–115% £m	105–110% £m	100–105% £m	95–100% £m	90–95% £m	80–90% £m	70–80% £m	<70% £m	Total £m
Neither past due nor impaired	25	8	26	22	44	44	83	268	279	844	1,643
0 – 3 months	—	—	—	—	—	—	—	2	—	—	2
3 – 6 months	—	—	—	—	—	—	—	—	—	—	—
6 – 12 months	—	—	—	—	—	—	—	—	—	—	—
> 12 months	—	—	—	—	—	—	—	—	—	—	—
Total	**25**	**8**	**26**	**22**	**44**	**44**	**83**	**270**	**279**	**844**	**1,645**
Total %	1.5%	0.5%	1.6%	1.3%	2.7%	2.7%	5.0%	16.4%	17.0%	51.3%	100.0%

Aviva USA currently holds £1,645 million (2008: £1,566 million) of commercial mortgages under Shareholder Assets. Of these, 51% (31 December 2008: 55%) have LTV ratios of below 70%, and 85% (31 December 2008: 94%) have LTV ratios of below 90%. However, the mortgage portfolio does currently have a total of £125 million (8% of portfolio) in principal balances where the LTV exceeds 100%. Although property prices in the U.S. have decreased, the mortgages continue to perform well, reflecting:

- low underwriting LTVs (shall not exceed 80% at the time of issuance), and consequently a portfolio with an average LTV of 68% (31 December 2008: 61%);
- A highly diversified portfolio, with strong volumes in many states with more stable economies and related real estate values, such as Washington, Texas and Minnesota; and
- Strong LIC ratios, with 91% of the loans having an LIC above 1.4x, and less than 1% with LIC below 1.0x.

As at 31 December 2009, only £2 million of loans were in arrears.

Securitised mortgage loans

Of the total securitised residential mortgages, of £9,155 million, approximately £1.2 billion of securities are still held by Aviva. The remaining securities have been sold to third parties, and therefore present little credit risk to Aviva.

Securitised residential mortgages held are predominantly issued through vehicles in the Delta Lloyd and in the UK.

D3.4 – Financial investments

	2009				2008 (Restated)			
	Cost/ amortised cost £m	Unrealised gains £m	Impairment and Unrealised losses £m	Fair value £m	Cost/ amortised cost £m	Unrealised gains £m	Impairment and Unrealised losses £m	Fair value Restated £m
Debt securities	159,287	5,872	(4,649)	160,510	156,240	7,634	(13,140)	150,734
Equity securities	44,188	4,173	(5,018)	43,343	54,518	2,685	(13,792)	43,411
Other investments	34,081	1,940	(1,172)	34,849	35,087	4,243	(2,819)	36,511
Total	**237,556**	**11,985**	**(10,839)**	**238,702**	245,845	14,562	(29,751)	230,656

Financial investments are an integral element of an insurance business. The table above is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments.
Aviva holds large quantities of high quality bonds, primarily to match our liability to make guaranteed payments to policyholders. Some credit risk is taken, partly to boost returns to policyholders and partly to optimise the risk/return profile for shareholders. The risks are consistent with the products we offer and the related investment mandates, and are in line with our risk appetite.

The group also holds significant quantities of equities. Many of these are held in participating funds or unit linked funds, where they form an integral part of the investment expectations of policyholders and follow well-defined investment mandates. Some equities are also held in shareholder funds and the staff pension schemes, where the holdings are designed to maximise long-term returns with an acceptable level of risk. The vast majority of equity investments are valued at quoted market prices.

Analysis of assets continued

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.1 – Debt securities

Debt securities – Total	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
				2009
	Fair value hierarchy			
UK Government	21,436	3	—	21,439
Non-UK Government				
Europe	37,913	1,227	1,244	40,384
North America	706	2,590	120	3,416
Asia Pacific & Other	3,546	20	110	3,676
Corporate bonds – Public utilities	5,576	907	147	6,630
Corporate convertible bonds	91	454	41	586
Other corporate bonds	37,870	24,349	7,124	69,343
Other	7,642	7,042	352	15,036
Total	**114,780**	**36,592**	**9,138**	**160,510**
Total %	**71.5%**	**22.8%**	**5.7%**	**100.0%**
FY 2008 (Restated)	108,087	40,797	1,850	150,734
FY 2008 %	71.7%	27.1%	1.2%	100.0%

Debt securities – Policyholder assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
				2009
	Fair value hierarchy			
UK Government	5,339	3	—	5,342
Non-UK Government				
Europe	2,933	114	1	3,048
North America	69	—	—	69
Asia Pacific & Other	147	—	—	147
Corporate bonds – Public utilities	1,136	82	—	1,218
Corporate convertible bonds	7	—	—	7
Other corporate bonds	3,120	3,470	80	6,670
Other	855	231	9	1,095
Total	**13,606**	**3,900**	**90**	**17,596**
Total %	**77.3%**	**22.2%**	**0.5%**	**100.0%**
FY 2008 (Restated)	16,802	2,761	33	19,596
FY 2008 %	85.7%	14.1%	0.2%	100.0%

Debt securities – Participating fund assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
				2009
	Fair value hierarchy			
UK Government	13,415	—	—	13,415
Non-UK Government				
Europe	24,620	1,043	1,235	26,898
North America	401	8	—	409
Asia Pacific & Other	2,622	13	29	2,664
Corporate bonds – Public utilities	3,707	252	97	4,056
Corporate convertible bonds	78	204	41	323
Other corporate bonds	24,856	3,336	5,859	34,051
Other	2,796	1,851	1	4,648
Total	**72,495**	**6,707**	**7,262**	**86,464**
Total %	**83.8%**	**7.8%**	**8.4%**	**100.0%**
FY 2008	65,015	13,568	983	79,566
FY 2008 %	81.7%	17.1%	1.2%	100.0%

Analysis of assets continued

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.1 – Debt securities

Debt securities – Shareholder assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
	Fair value hierarchy			2009
UK Government	2,682	—	—	2,682
Non-UK Government				
Europe	10,360	70	8	10,438
North America	236	2,582	120	2,938
Asia Pacific & Other	777	7	81	865
Corporate bonds – Public utilities	733	573	50	1,356
Corporate convertible bonds	6	250	—	256
Other corporate bonds	9,894	17,543	1,185	28,622
Other	3,991	4,960	342	9,293
Total	**28,679**	**25,985**	**1,786**	**56,450**
Total %	**50.8%**	**46.0%**	**3.2%**	**100.0%**
FY 2008 (Restated)	26,270	24,468	834	51,572
FY 2008 %	50.9%	47.5%	1.6%	100.0%

Only 3.2% of shareholder exposure to debt securities (1.9% of shareholder assets recorded at fair value) is fair valued using models with significant unobservable market parameters.

Debt securities – Total 2009	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
	Ratings						
Government							
UK Government	20,069	1,354	—	—	—	—	21,423
UK local authorities	—	16	—	—	—	—	16
Non-UK Government	25,189	11,787	7,422	1,958	410	710	47,476
	45,258	13,157	7,422	1,958	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	1,350	266	245	91	84	4	2,040
ABS	1,256	282	372	164	37	276	2,387
CDO (including CLO)	69	18	17	10	71	56	241
ABCP	—	836	—	—	—	—	836
ABFRN	—	—	—	—	—	—	—
	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%**	**100.0%**
FY 2008 (Restated)	66,298	24,452	39,308	12,750	2,197	5,729	150,734
FY 2008 %	44.0%	16.2%	26.1%	8.4%	1.5%	3.8%	100.0%

Analysis of assets continued
D3 – Analysis of asset quality continued
D3.4 – Financial investments continued
D3.4.1 – Debt securities continued

Debt securities – Policyholder assets 2009	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
	Ratings						
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%**	**100%**
FY 2008 (Restated)	8,534	3,235	5,898	904	26	999	19,596
FY 2008 %	43.6%	16.5%	30.1%	4.6%	0.1%	5.1%	100%

Debt securities – Participating fund assets 2009	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
	Ratings						
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%**	**100%**
FY 2008	38,658	13,766	19,794	5,310	986	1,052	79,566
FY 2008 %	48.6%	17.3%	24.9%	6.7%	1.2%	1.3%	100%

Analysis of assets continued

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.1 – Debt securities continued

Debt securities – Shareholder assets 2009	AAA £m	AA £m	A £m	BBB £m	Ratings: 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%**	**100%**
FY 2008 (Restated)	19,106	7,451	13,616	6,536	1,185	3,678	51,572
FY 2008 %	37.0%	14.5%	26.4%	12.7%	2.3%	7.1%	100%

The overall quality of the book is strong and has been maintained, despite the continuing downgrade activity by the major rating agencies during 2009. 30% of shareholder exposure to debt security holdings is in government bonds. A further 54% of holdings are in corporate bonds with an average rating of A.

Aviva's shareholder exposure to debt securities of £56,450 million includes £1.2 billion of exposures to the governments (and local authorities and agencies) of Greece, Spain and Portugal. This represents just 2% of total shareholder debt securities at 31 December 2009. Since the year end our exposure to Greece has reduced by £0.4 billion.

The majority of the Residential Mortgage-Backed Securities (RMBS) are US investments and over 68% of the shareholder exposure is backed by one of the US Government Sponsored Entities (GSEs) including Fannie Mae and Freddie Mac which, under the conservatorship arrangements implemented in September 2008, are now backed by the full faith and credit of the US Government. The majority of the remaining US RMBS is backed by fixed rate loans originated in 2005 or before.

The Group has extremely limited exposure to 'Sub-prime' debt securities and also limited exposure to CDOs and CLOs.

The majority of the corporate bonds that are not rated represent private placements. The private placements are US investments which are not rated by the major rating agencies but which are rated an average equivalent of between A and BBB by the Securities Valuation Office of the National Association of Insurance Commissioners (NAIC), a US national regulatory agency.

Excluding the private placements that are rated by the NAIC, the exposure that is not rated by a major rating agency reduces to less than 2.7% of debt securities to which the shareholder has exposure.

Analysis of assets continued

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.2 – Equity securities

	2009				2008			
	Fair value hierarchy				Fair value hierarchy			
Equity securities – Total	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Public utilities	3,666	14	—	3,680	3,917	17	—	3,934
Banks, trusts and insurance companies	5,909	926	454	7,289	6,224	1,038	596	7,858
Industrial miscellaneous and all other	27,167	4,630	335	32,132	26,131	4,716	332	31,179
Non-redeemable preferred shares	34	204	4	242	336	100	4	440
Total	36,776	5,774	793	43,343	36,608	5,871	932	43,411
Total %	84.8%	13.4%	1.8%	100.0%	84.3%	13.5%	2.2%	100.0%

	2009				2008			
	Fair value hierarchy				Fair value hierarchy			
Equity securities – Policyholder assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Public utilities	2,355	—	—	2,355	1,829	—	—	1,829
Banks, trusts and insurance companies	3,206	541	—	3,747	3,397	597	—	3,994
Industrial miscellaneous and all other	18,928	3,596	2	22,526	14,911	3,008	—	17,919
Non-redeemable preferred shares	10	—	—	10	98	—	—	98
Total	24,499	4,137	2	28,638	20,235	3,605	—	23,840
Total %	85.5%	14.5%	—	100.0%	84.9%	15.1%	—	100.0%

	2009				2008			
	Fair value hierarchy				Fair value hierarchy			
Equity securities – Participating fund assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Public utilities	1,299	—	—	1,299	2,062	3	—	2,065
Banks, trusts and insurance companies	1,552	86	159	1,797	1,915	13	9	1,937
Industrial miscellaneous and all other	6,493	52	15	6,560	9,522	119	—	9,641
Non-redeemable preferred shares	22	—	—	22	174	—	—	174
Total	9,366	138	174	9,678	13,673	135	9	13,817
Total %	96.8%	1.4%	1.8%	100.0%	99.0%	1.0%	—	100.0%

	2009				2008			
	Fair value hierarchy				Fair value hierarchy			
Equity securities – Shareholder assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Public utilities	12	14	—	26	26	14	—	40
Banks, trusts and insurance companies	1,151	299	295	1,745	912	428	587	1,927
Industrial miscellaneous and all other	1,746	982	318	3,046	1,698	1,589	332	3,619
Non-redeemable preferred shares	2	204	4	210	64	100	4	168
Total	2,911	1,499	617	5,027	2,700	2,131	923	5,754
Total %	57.9%	29.8%	12.3%	100.0%	46.9%	37.1%	16.0%	100.0%

Almost 60% of shareholder exposure to equity securities is based on quoted prices in an active market and as such is classified as Level 1. Continued reduced liquidity in equity markets during 2009 means that there continues to be a proportion of equities classified as Level 3 (values based on quoted prices in markets that are not active or where the prices are less current), although this position has improved since end of 2008.

The fair value of Policyholder equity securities has increased significantly during 2009 due to a combination of improvements in equity markets and a related increase in the appetite of policyholders to invest in equity related products, and therefore an inflow of new funds. The fair value of equity securities in Participating funds has decreased significantly due to a reallocation of the UK With Profit funds from equities to other lower risk asset classes following the reattribution of the inherited estate.

Shareholder investments include a strategic holding in Unicredit and other Italian banks of £927 million (£757 million net of minority interest share).

Analysis of assets continued

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.3 – Other investments

	2009				2008			
	Fair value hierarchy				Fair value hierarchy			
Other investments – Total	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unit trusts and other investment vehicles	27,863	1,113	968	29,944	23,515	5,470	4	28,989
Derivative financial instruments	330	1,734	14	2,078	359	2,532	20	2,911
Deposits with credit institutions	969	—	—	969	433	513	—	946
Minority holdings in property management undertakings	—	667	—	667	—	969	—	969
Other	410	436	345	1,191	348	2,308	40	2,696
Total	29,572	3,950	1,327	34,849	24,655	11,792	64	36,511
Total %	84.9%	11.3%	3.8%	100.0%	67.5%	32.3%	0.2%	100.0%

	2009				2008			
	Fair value hierarchy				Fair value hierarchy			
Other investments – Policyholder assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unit trusts and other investment vehicles	23,331	583	—	23,914	20,222	2,606	—	22,828
Derivative financial instruments	75	71	—	146	9	18	—	27
Deposits with credit institutions	307	—	—	307	105	—	—	105
Minority holdings in property management undertakings	—	10	—	10	—	148	—	148
Other	269	221	—	490	322	202	—	524
Total	23,982	885	—	24,867	20,658	2,974	—	23,632
Total %	96.4%	3.6%	—	100.0%	87.4%	12.6%	—	100.0%

	2009				2008			
	Fair value hierarchy				Fair value hierarchy			
Other investments – Participating fund assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unit trusts and other investment vehicles	4,065	382	968	5,415	2,817	2,546	—	5,363
Derivative financial instruments	179	442	—	621	256	961	—	1217
Deposits with credit institutions	29	—	—	29	8	—	—	8
Minority holdings in property management undertakings	—	605	—	605	—	759	—	759
Other	115	100	337	552	2	2,058	36	2,096
Total	4,388	1,529	1,305	7,222	3,083	6,324	36	9,443
Total %	60.8%	21.2%	18.0%	100.0%	32.6%	67.0%	0.4%	100.0%

	2009				2008			
	Fair value hierarchy				Fair value hierarchy			
Other investments – Shareholder fund assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Unit trusts and other investment vehicles	467	148	—	615	476	318	4	798
Derivative financial instruments	76	1,221	14	1,311	94	1,553	20	1,667
Deposits with credit institutions	633	—	—	633	320	513	—	833
Minority holdings in property management undertakings	—	52	—	52	—	62	—	62
Other	26	115	8	149	24	48	4	76
Total	1,202	1,536	22	2,760	914	2,494	28	3,436
Total %	43.5%	55.7%	0.8%	100.0%	26.6%	72.6%	0.8%	100.0%

The majority of other shareholder investments, 99%, are classified as level 1 or 2 (31 December 2008: 99%) in the fair value hierarchy. The unit trusts and other investment vehicles invest in a variety of assets with the majority of the value being invested in Property and Equity securities with a smaller portion being invested in Debt Securities.

Analysis of assets continued

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.4 – Duration and amount of unrealised losses on available for sale assets

The total impairment expense for AFS debt securities for 2009 was £93 million (2008: £169 million) and for AFS equity securities £384 million (2008: £661 million). Total unrealised losses on AFS debt securities at 31 December 2009 were £738 million (2008: £2,541 million), and AFS equity securities at 31 December 2009 were £97 million (2007: £361 million). The continuous period for which these AFS classified securities have been in an unrealised loss position is disclosed below:

	0 – 6 months		7 – 12 months		More than 12 months		Total	
2009	**Fair value[1] £m**	**Gross unrealised £m**	**Fair value[1] £m**	**Gross unrealised £m**	**Fair value[1] £m**	**Gross unrealised £m**	**Fair value[1] £m**	**Gross unrealised £m**
Less than 20% loss position:								
Debt securities	4,347	(133)	304	(32)	1,970	(179)	6,621	(344)
Equity securities	731	(96)	—	—	—	—	731	(96)
Other investments	—	—	—	—	—	—	—	—
	5,078	**(229)**	**304**	**(32)**	**1,970**	**(179)**	**7,352**	**(440)**
20%-50% loss position:								
Debt securities	77	(32)	37	(12)	362	(165)	476	(209)
Equity securities	5	(1)	—	—	—	—	5	(1)
Other investments	—	—	—	—	—	—	—	—
	82	**(33)**	**37**	**(12)**	**362**	**(165)**	**481**	**(210)**
Greater than 50% loss position:								
Debt securities	14	(37)	2	(14)	60	(134)	76	(185)
Equity securities	—	—	—	—	—	—	—	—
Other investments	—	—	—	—	—	—	—	—
	14	**(37)**	**2**	**(14)**	**60**	**(134)**	**76**	**(185)**
Total								
Debt securities	4,438	(202)	343	(58)	2,392	(478)	7,173	(738)
Equity securities	736	(97)	—	—	—	—	736	(97)
Other investments	—	—	—	—	—	—	—	—
	5,174	**(299)**	**343**	**(58)**	**2,392**	**(478)**	**7,909**	**(835)**

1. Only includes AFS classified securities that are in unrealised loss positions.

	0 – 6 months		7 – 12 months		More than 12 months		Total	
2008	Fair value[1] £m	Gross unrealised £m	Fair value[1] £m	Gross unrealised £m	Fair value[1] £m	Gross unrealised £m	Fair value[1] £m	Gross unrealised £m
Less than 20% loss position:								
Debt securities	3,862	(280)	3,162	(315)	2,435	(425)	9,459	(1,020)
Equity securities	910	(95)	—	—	—	—	910	(95)
Other investments	9	—	4	(1)	—	—	13	(1)
	4,781	(375)	3,166	(316)	2,435	(425)	10,382	(1,116)
20%-50% loss position:								
Debt securities	443	(179)	613	(233)	1,220	(541)	2,276	(953)
Equity securities	572	(266)	—	—	—	—	572	(266)
Other investments	—	—	—	—	—	—	—	—
	1,015	(445)	613	(233)	1,220	(541)	2,848	(1,219)
Greater than 50% loss position:								
Debt securities	58	(111)	89	(124)	213	(333)	360	(568)
Equity securities	—	—	—	—	—	—	—	—
Other investments	—	—	—	—	—	—	—	—
	58	(111)	89	(124)	213	(333)	360	(568)
Total								
Debt securities	4,363	(570)	3,864	(672)	3,868	(1,299)	12,095	(2,541)
Equity securities	1,482	(361)	—	—	—	—	1,482	(361)
Other investments	9	—	4	(1)	—	—	13	(1)
	5,854	(931)	3,868	(673)	3,868	(1,299)	13,590	(2,903)

1.Only includes AFS classified securities that are in unrealised loss positions.

Analysis of assets continued

D3 – Analysis of asset quality continued

D3.4 – Financial investments continued

D3.4.4 – Duration and amount of unrealised losses on available for sale assets continued

During 2009, there has been a significant decline in both total unrealised losses for AFS securities and the duration of these losses. We have not recognised an impairment charge in respect of these unrealised losses as we believe the decline in fair value of these securities relative to their amortised cost to be temporary.

At 31 December 2009, 92% of AFS debt securities were held by our U.S. business. In respect of debt securities in an unrealised loss position, we have the intent to hold these securities for a sufficient period to recover their value in full and the ability to hold them to maturity, as they are held to match long-term policyholder liabilities of the same or longer duration. In the U.S. the decrease in unrealised losses experienced during 2009 reflects a general market improvement and tightening of credit spreads, offset by an increase in the U.S. government treasury yield curve. Where factors specific to an issuer have resulted in an unrealised loss we have considered whether the security is impaired and recognised an impairment charge where necessary. For the year ended 31 December 2009, we have made a £93 million impairment charge on AFS debt securities, £81 million of which relates to corporate and structured debt securities in our U.S. business.

At 31 December 2009, 97% of AFS equity securities were held by Delta Lloyd, invested in a broad range of Dutch and other European equities, which are held for long term investment and include listed as well as unlisted equities. We have recognised impairment for prolonged or significant declines in fair value relative to cost, except where there has been a recovery in value since the year-end. While management believes that many of the impaired equity securities will ultimately recover their value, there can be no certainty that this will be the case because, unlike fixed maturity securities, the value of an equity security cannot be recovered in full by holding it to maturity.

During 2009 there has been a partial recovery in European equity markets. This has resulted in a recovery in the fair values of previously impaired AFS equities, which has been recognised as a credit to other comprehensive income. Despite the partial recovery in equity markets, a charge to the income statement for impairments of £384 million (2008: £661 million) was also recognised in 2009, of which £355 million was recognised in the first half of the year. This relates mainly to AFS equities which were in an unrealised loss position of less than 40% and under 6 months in duration at year-end. During 2009, while there has been a partial recovery in market values of these equities, it has not been sufficient to prevent an impairment charge being recognised.

D3.5 – Reinsurance assets

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. 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.

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.

		Financial assets that are past due but not impaired					
Arrears 2009	Neither past due nor impaired £m	0-3 months £m	3-6 months £m	6 months-1 year £m	Great than 1 years £m	Financial assets that have been impaired £m	Total £m
Policyholder assets	1,014	—	—	—	—	—	1,014
Participating fund assets	1,143	—	—	—	—	—	1,143
Shareholder assets	5,415	—	—	—	—	—	5,415
Total	**7,572**	—	—	—	—	**—**	**7,572**
Total %	**100.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**100.0%**
FY 2008	**7,867**	**25**	**—**	**—**	**—**	**2**	**7,894**
FY 2008 %	**99.7%**	**0.3%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**100.0%**

	Rating						
Ratings 2009	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
Policyholder assets	2	489	386	—	—	137	1,014
Participating fund assets	9	829	158	8	5	134	1,143
Shareholder assets	785	2,625	1,478	20	7	500	5,415
Total	**796**	**3,943**	**2,022**	**28**	**12**	**771**	**7,572**
Total %	**10.5%**	**52.1%**	**26.7%**	**0.4%**	**0.2%**	**10.1%**	**100.0%**
FY 2008	1,018	5,526	639	32	16	663	7,894
FY 2008 %	12.9%	70.0%	8.1%	0.4%	0.2%	8.4%	100.0%

Analysis of assets continued
D3 – Analysis of asset quality continued

D3.6 – Receivables and other financial assets

Arrears 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	Great than 1 years £m	Financial assets that have been impaired £m	Total £m
Policyholder assets	234	42	—	—	—	—	276
Participating fund assets	2,293	3	1	2	—	—	2,299
Shareholder assets	6,275	633	61	30	71	7	7,077
Total	**8,802**	**678**	**62**	**32**	**71**	**7**	**9,652**
Total %	**91.3%**	**7.0%**	**0.6%**	**0.3%**	**0.7%**	**0.1%**	**100.0%**
FY 2008	**9,282**	**560**	**305**	**35**	**6**	**14**	**10,202**
FY 2008 %	**91.0%**	**5.5%**	**3.0%**	**0.3%**	**0.1%**	**0.1%**	**100.0%**

D3.7 – Receivables and other financial assets continued
Credit terms vary from subsidiary to subsidiary, and from country to country, and are set locally within overall credit limits prescribed by the Group Credit Committee, and within the framework of the Group Risk Credit Policy.

The credit quality of receivables and other financial assets is managed at the local business unit level. Where assets classed as "past due and impaired" exceed local credit limits, and are also deemed at sufficiently high risk of default, an analysis of the asset is performed and a decision is made whether to seek sufficient collateral from the counterparty or to write down the value of the asset as impaired.

The group reviews the carrying value of its receivables at each reporting period. If the carrying value of a receivable or other financial asset is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

D3.8 – 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 normally those with less than three months maturity from the date of acquisition, and include certificates of deposit with maturities of less than 3 months at date of issue.

Cash and cash equivalents are carried at their face value which by their nature is essentially equal to their fair value.

The Group's Credit Risk Policy includes specific requirements in relation to aggregate counterparty exposures and money market exposure limits which cover assets reported as cash and cash equivalents in the group's balance sheet. The responsibility for monitoring of these limits falls with the Group Credit Committee and the Business Unit Credit Committee. The aggregate counterparty exposure limits are determined based on the credit rating of the counterparty. The money market exposure limits are determined based on the credit rating of the counterparty and the term of the intended exposure.

Analysis of assets continued

D4 – Pension fund assets

In addition to the assets recognised directly on the group's balance sheet outlined in the disclosures above, the group is also exposed to the ''Plan assets'' that are shown net of the present value of scheme liabilities within the IAS 19 net pension deficit. The net pension deficit is recognised within provisions on the group's consolidated statement of financial position.

Plan assets include investments in group-managed funds of £101 million in the UK scheme, and insurance policies of £157 million and £1,351 million in the UK and Dutch schemes respectively. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate lines in the table below, otherwise they appear in "Other". The Dutch insurance policies are considered non-transferable under the terms of IAS 19 and so have been excluded as assets of the relevant scheme in this table.

					2009					2008
	United Kingdom £m	**Delta Lloyd £m**	**Canada £m**	**Ireland £m**	**Total £m**	United Kingdom £m	Delta Lloyd £m	Canada £m	Ireland £m	Total £m
Equities	**2,285**	**—**	**78**	**28**	**2,391**	3,002	—	93	182	3,277
Bonds	**4,619**	**—**	**110**	**231**	**4,960**	3,395	—	86	172	3,653
Property	**403**	**—**	**—**	**18**	**421**	405	—	—	26	431
Other	**835**	**7**	**10**	**130**	**982**	485	7	3	80	575
Total	**8,142**	**7**	**198**	**407**	**8,754**	7,287	7	182	460	7,936

Risk management and asset allocation strategy

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.

D5 – Available funds

To ensure access to liquidity as and when needed, the group maintains over £2 billion of undrawn committed central borrowing facilities with various highly rated banks. £1 billion of this is allocated to support the credit rating of Aviva plc's £2 billion commercial paper programme. The expiry profile of the undrawn committed central borrowing facilities is as follows:

	£m
Expiring in one year	600
Expiring beyond one year	1,510
Total	2,110

Analysis of assets continued

D6 – Guarantees

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.

For the UK Life with-profit business, provisions in respect of these guarantees and options are calculated on a market consistent basis, in which stochastic models are used to evaluate the level of risk (and additional cost) under a number of economic scenarios, which allow for the impact of volatility in both interest rates and equity prices. For UK Life non-profit business, provisions do not materially differ from those determined on a market consistent basis.

In all other Businesses, provisions for guarantees and options are calculated on a local basis with sensitivity analysis undertaken where appropriate to assess the impact on provisioning levels of a movement in interest rates and equity levels (typically a 1% increase in interest rates and 10% decline in equity markets).

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.
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.

Product Definitions:

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.
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.

Glossary continued

General terms:

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.
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 Group's 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.
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.

Market Consistent Embedded Value (MCEV) terms:

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 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

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.

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.

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 program, please go to www.citi.com/dr for additional reference.