News Release

Aviva plc

2014 Preliminary Announcement
5 March 2015

AVIVA

Aviva plc 2014
Preliminary Results Announcement

Mark Wilson, Group Chief Executive Officer, said:

"These results show tangible progress, with all key metrics moving in the right direction. Cash is up 65%, operating earnings per share is up 10%[1], value of new business is up 15%[2] and book value is 26% higher. Operating expenses are £571 million lower than our 2011 base-line, debt ratios are down and our full year combined ratio of 95.7% is the best in eight years.

"We have increased our final dividend by 30% to reflect the progress made during the year and our improved financial position. We have entered 2015 in a position of strength.

"Nevertheless, it would be wrong to assume that our turnaround is nearing completion as we have further to travel than the distance we have come."

Cash flow	• Holding company excess cash flow[3] up 65% to £692 million *(FY13: £420 million)*, vs. 2016 target of £800 million • Cash remittances up 11% to £1,412 million *(FY13: £1,269 million)* • Final dividend up 30% to 12.25p. Total dividend 18.1p *(FY13: 15.0p)*
Profit	• Operating profit[1] 6% higher at £2,173 million *(FY13: £2,049 million)* • Operating EPS[1] up 10% to 47.0p *(FY13: 42.6p)* • Life back book actions contributed £282 million to operating profit *(FY13: £116 million)* • IFRS profit after tax[1] up 91% to £1,680 million *(FY13: £878 million)*
Value of new business	• Value of new business (VNB) grew 15%[2] to a record £1,009 million *(FY13: £904 million)* • Growth markets of Poland, Turkey and Asia[4] grew 25%[2] and now make up 22% of VNB[4] • UK Life VNB was constant at £473 million *(FY13: £469 million)* despite changes to annuity market
Expenses	• Operating expense ratio of 51.5% *(FY13: 54.1%[1])*, vs. target of <50% by the end of 2016 • £571 million of operating expense saves achieved against original target of £400 million
Combined operating ratio	• Combined operating ratio (COR) of 95.7% *(FY13: 97.3%)* • UK COR of 94.8% *(FY13: 97.0%)* • Canada COR of 96.1% *(FY13: 94.6%)*
Balance sheet	• IFRS net asset value per share increased 26% to 340p *(FY13: 270p)*, benefitting from retained earnings and a gain in the pension surplus • External leverage ratio 41% of tangible capital *(FY13: 48%)*, 28% on an S&P basis *(FY13: 31%)* • Intercompany loan balance of £2.8 billion at end of February 2015 *(February 2014: £4.1 billion)* • Economic capital surplus[5] £8.0 billion including £0.4 billion deduction from dividend proposed in December 2014 *(FY13: £8.3 billion)*

1 On a continuing basis, excluding US Life.
2 On a constant currency basis.
3 Excess centre cash flow represents cash remitted by business units to Group less central operating expenses and debt financing costs. It does not include non-operating cash movements such as disposal proceeds or capital injections.
4 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and CxG and Asia excludes Malaysia.
5 The economic capital surplus represents an estimated position. The economic capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Following the announcement that the Group made an offer to acquire Friends Life Group Limited on 2 December 2014, the directors have proposed a final dividend for 2014 of 12.25 pence per share, amounting to £0.4 billion in total. Although subject to approval by shareholders at the AGM, the dividend is considered foreseeable and is therefore deducted from FY14 economic capital surplus. In contrast, 2013 final dividend of 9.40 pence per share amounting to £0.3 billion was not foreseeable as at 31 December 2013 and was not deducted from FY13 economic capital surplus.

Cash

Continuing operations	Cash remitted to Group 2014 £m	2013 £m	Sterling% change	Operating capital generation 2014 £m	2013 £m	Sterling% change
United Kingdom & Ireland Life	**437**	370	18%	**888**	586	52%
United Kingdom & Ireland General Insurance & Health[1]	**294**	347	(15)%	**425**	374	14%
Europe	**454**	388	17%	**499**	558	(11)%
Canada	**138**	130	6%	**136**	177	(23)%
Asia and Other	**89**	34	n/a	**(8)**	63	n/a
Total	**1,412**	1,269	11%	**1,940**	1,758	10%

Operating profit: IFRS basis

Continuing operations	2014 £m	2013 £m	Sterling% change
Life business	**1,979**	1,901	4%
General insurance and health	**808**	797	1%
Fund management	**86**	93	(8)%
Other*	**(700)**	(742)	6%
Operating profit before tax	**2,173**	2,049	6%
Operating earnings per share**	**47.0p**	42.6p	10%

* Includes other operations, corporate centre costs and group debt and other interest costs.
** Net of tax, non-controlling interests, preference dividends, coupon payments in respect of direct capital instruments (DCI) and fixed rate tier 1 notes (net of tax).

Expenses

Continuing operations	2014 £m	2013 £m	Sterling% change
Operating expenses	**2,795**	3,006	(7)%
Integration & restructuring costs	**140**	363	(61)%
Expense base	**2,935**	3,369	(13)%
Operating expense ratio	**51.5%**	54.1%	(2.6)pp

Value of new business

Continuing operations	2014 £m	2013 £m	Sterling % change	Constant currency % change[2]
United Kingdom & Ireland	**482**	477	1%	1%
France	**205**	172	19%	25%
Poland[3]	**64**	51	25%	31%
Italy[3], Spain[3], Turkey & Other	**123**	106	16%	28%
Asia[3]	**127**	103	23%	30%
Aviva Investors	**9**	—	—	—
Value of new business – excluding Eurovita, Aseval, CxG & Malaysia	**1,010**	909	11%	15%
Eurovita, Aseval, CxG & Malaysia	**(1)**	(5)	—	—
Value of new business	**1,009**	904	12%	15%

General insurance combined operating ratio

Continuing operations	2014	2013	Change
United Kingdom & Ireland	**94.9%**	97.2%	(2.3)pp
Europe	**97.7%**	98.1%	(0.4)pp
Canada	**96.1%**	94.6%	1.5pp
General insurance combined operating ratio	**95.7%**	97.3%	(1.6)pp

IFRS profit after tax

	2014 £m	2013 £m	Sterling% change
IFRS profit after tax – continuing operations	**1,680**	878	91%
IFRS profit after tax – total	**1,738**	2,151	(19)%

Dividend

	2014	2013	Sterling% Change
Final dividend per share	**12.25p**	9.40p	30.3%
Total dividend per share	**18.10p**	15.00p	20.7%

Capital position

	2014 £bn	2013 £bn	Sterling% change
Estimated economic capital surplus[4]	**8.0**	8.3	(4)%
Estimated IGD solvency surplus[4]	**3.2**	3.6	(11)%
IFRS net asset value per share	**340p**	270p	26%
MCEV net asset value per share (restated)[5]	**527p**	463p	14%

1 Cash remittances include amounts of £273 million received from UK General Insurance (UKGI) in February 2015 in respect of 2014 activity and £347 million received in January 2014 in respect of 2013 activity.
2 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
3 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and CxG and Asia excludes Malaysia.
4 The economic capital and IGD solvency surpluses represent an estimated position. The economic capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Following the announcement that the Group made an offer to acquire Friends Life Group Limited on 2 December 2014, the directors have proposed a final dividend for 2014 of 12.25 pence per share, amounting to £0.4 billion in total. Although subject to approval by shareholders at the AGM, the dividend is considered foreseeable and is therefore deducted from FY14 economic capital and IGD surpluses. In contrast, 2013 final dividend of 9.40 pence per share amounting to £0.3 billion was not foreseeable as at 31 December 2013 and was not deducted from FY13 economic capital and IGD surpluses.
5 In preparing the MCEV information, the directors have done so in accordance with the European Insurance CFO Forum MCEV Principles with the exception of stating held for sale operations at their expected fair value, as represented by expected sale proceeds, less cost to sell.

Overview

All of the key metrics have moved in the right direction despite headwinds from currency, changing regulation and lower interest rates. Our focus on Cash flow plus Growth has resulted in cash remittances increasing 11% to £1,412 million and holding company excess cash flow is 65% higher at £692 million. Our life insurance measure of growth, value of new business, is 15%[1] higher at £1,009 million and we have grown general insurance underwriting profit 54% to £321 million. In asset management, the turnaround is progressing and the AIMS fund range has over £1 billion of assets under management eight months after launch.

In 2014, IFRS net asset value per share increased 26% to 340p *(FY13: 270p)* and MCEV net asset per share is 14% higher at 527p *(FY13: 463p)*. The leverage ratios have reduced to 28% on an S&P basis and 41% on an IFRS basis *(FY13: respectively 31% and 48%)* of tangible capital employed. Capital and liquidity levels are within risk appetite.

These results demonstrate progress in our turnaround and the consequence of this is a 30% increase in the 2014 final dividend. The total 2014 dividend is 18.1p *(FY13: 15.0p)*, a coverage ratio of 2.6 times operating earnings.

Friends Life acquisition

In December 2014, we announced our intention to acquire Friends Life Group. This accelerates our turnaround and our ability to deliver the investment thesis.

The financial rationale of the transaction is that we expect it to add c.£0.6 billion to cash flow, eliminate any need to de-lever, generate £225 million of expense synergies as well as material capital synergies.

Strategically, this transaction secures our position in our home market, adds up to c.£70 billion of funds to Aviva Investors and gives us flexibility to invest in key existing growth segments and markets.

The planning phase of the integration is underway and our work to date validates our underlying assumptions. The shareholder vote will be on 26 March, with completion anticipated on 13 April 2015. While these dates are important milestones, once the real work of integration is underway we expect the benefits for shareholders to accrue.

Cash flow

- *Holding company excess cash flow increased 65% to £692 million*
- *Cash remittances £1,412 million*

In 2014, holding company excess cash flow (i.e. residual cash flow after central operating expenses and debt financing costs) increased 65% to £692 million *(FY13: £420 million)*, adequate progress towards our 2016 target of £800 million.

Increasing cash to the Group improves our dividend paying capacity as well as our capital and strategic flexibility. In 2014, cash remittances from business units to Group increased 11% to £1,412 million *(FY13: £1,269 million)* with significant increases in remittances from UK & Ireland Life of £437 million *(FY13: £370 million)* and Europe of £454 million *(FY13: £388 million)*.

Our cash generators of UK, France and Canada remitted £1,061 million to Group *(FY13: £1,012 million)*, which is 75% of total remittances *(FY13: 80%)*. Our turnaround markets of Italy and Spain delivered a step change in remittances of £100 million *(FY13: £63 million)*, while our growth market of Poland remitted £106 million *(FY13: £85 million)*.

Operating profit[2]

- *Operating profit[2] increased 6% to £2,173 million*

Operating profit has increased 6% to £2,173 million *(FY13: £2,049 million)*. Expense reductions and an improved result in UK Life, more than offset the negative impact of currency, lower individual annuity sales and disposals of some of our non-core businesses which, together, depressed operating profit by c.£200 million. The UK Life operating profit benefited from £282 million *(FY13: £116 million)* of back book actions relating to longevity and expense reserve releases, partially offset by a DAC writedown.

In general insurance and health, the operating profit of £808 million was broadly flat *(FY13: £797 million)*. A higher underwriting result was offset by lower investment returns, primarily due to the reduced intercompany loan.

Aviva Investors' fund management operating profit increased 16% to £79 million *(FY13: £68 million)* although this remains inadequate relative to assets under management of £246 billion.

Lower interest costs and corporate centre spend have also improved Group profitability and there remains opportunity for further reductions in this area.

1 On a constant currency basis.
2 On a continuing basis, excluding US Life.

Value of new business[3]

- *Value of new business up 15% in constant currency*
- *Increase driven by business mix shift to protection and unit-linked savings*

Value of new business (VNB) is the present value of future profits from business written in the year and our measure of growth for life insurance.

In 2014, VNB grew 15% to a record £1,009 million *(FY13: £904 million)*. Growth markets of Poland, Turkey and Asia grew 25%[1] and now make up 22% of total VNB *(FY13: 21%)*. Asia grew 30%[1] and Poland VNB was 31%[1] up, while Turkey was 3%[1] lower, mainly driven by a reduction in our share of the business following the partial initial public offering (IPO).

In UK Life, VNB was constant at £473 million *(FY13: £469 million)* in the context of major change to annuity legislation. UK annuity VNB was 16% lower as the decline in individual annuity sales more than offset increased bulk purchase annuities sales. Protection VNB was 27% higher at £95 million *(FY13: £75 million)*, mostly as a result of strength in our group risk proposition, together with strong intermediary and improved bancassurance distribution channels. In April 2015, pensioners in the UK will have greater freedom to invest their retirement assets and our UK Life business – with its broad product range - is in a good position to meet customers' needs.

Following its restructure, the Italian business performed strongly with a 55%[1] increase in VNB to £63 million *(FY13: £43 million)*. Premiums are 32%[1] higher on better margins, principally due to a reduction in guarantees. France continues to grow, with VNB up 25%[1], and Spain was 27%[1] higher, although from a lower base.

Macro, market and regulatory uncertainty highlights the importance of our focus on higher margin protection and unit-linked savings business.

Asset management

- *AIMS exceeds £1 billion AUM*

The turnaround in our asset management business at Aviva is progressing with the first tangible signs of higher margin fund inflows emerging. There is now a clear strategy for our third party proposition and the AIMS fund range has £1 billion of assets under management eight months after launch. Aviva Investors' assets under management increased 2% to £245.9 billion, of which £45.5 billion are external.

The expected migration of Friends Life's assets to Aviva Investors will add scale with little additional cost. This, along with more 3rd party assets under management, should ensure a more meaningful contribution to Group profits from asset management.

In January 2015, Aviva Investors entered into a partnership with Virtus Investment Partners to bring multi-strategy solutions to the US retail marketplace. This will significantly increase our distribution footprint.

Combined operating ratio

- *COR improved 1.6 pp to 95.7%, mostly due to a strong UK&I result*

In general insurance, the combined operating ratio (COR) improved 1.6 percentage points to 95.7% *(FY13: 97.3%)* mostly due to a strong result in the UK and Ireland. This resulted in an underwriting profit of £321 million, 54% higher year-on-year.

In the UK and Ireland the COR improved to 94.9% (*FY13: 97.2%*), despite a 0.5pp less positive impact from weather. Disciplined underwriting, good expense management and positive reserve development drove this improvement.

The Canadian COR deteriorated to 96.1% *(FY13: 94.6%)* and is an area of focus for 2015. The Canadian commission and expense ratio improved from 31.4% to 30.6%. In Europe, the COR improved to 97.7% *(FY13: 98.1%)*, despite worse weather.

Overall, the Group's weather-related experience was in-line with long term average. In Canada, weather was c.2 percentage points worse than we would expect in a normal year, offset by better weather in the UK. This is yet another demonstration of the benefit of diversification.

Net written premiums (NWP) in general and health insurance were broadly flat in constant currency at £8,300 million. UKGI net written premiums were down 4% although premiums stabilised in the latter part of the year. Europe and Canada grew NWP by 3%[1], and 6%[1] respectively.

1 On a constant currency basis.
3 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and CxG and Asia excludes Malaysia.

Balance sheet

- *IFRS net asset value per share up 26% to 340p*

In 2014, the IFRS net asset value per share has increased 26% to 340p *(FY13: 270p)*. Consequently, our external leverage ratio has reduced to 41% *(FY13: 48%)* and 28% on an S&P basis *(FY13: 31%)*. As we have previously announced, there will be no further need to de-lever following the proposed acquisition of Friends Life.

The 2014 economic capital surplus[4] is £8.0 billion *(FY13: £8.3 billion)* and our IGD surplus[4] is £3.2 billion *(FY13: £3.6 billion)*. Both measures have been reduced by £0.4 billion in respect of the 2014 final dividend declared in December. Liquidity at Group centre is £1.1 billion at 28 February 2015.

Expenses[2]

- *Operating expense ratio[2] has reduced to 51.5%*

In 2012, we set out a target to reduce our 2011 operating expense base of £3,366 million by £400 million. Our 2014 operating expense base of £2,795 million is £571 million lower, clearly outperforming our initial target.

As previously communicated, we are moving away from targeting absolute expense reductions and have introduced an operating expense ratio, with a target to reduce the 54.1% reported in 2013 to below 50% in 2016. The 2014 expense ratio is 51.5% and there remains significant opportunity to improve this either through higher operating profit or lower expenses.

Integration and restructuring costs excluding Solvency II are 84% lower at £46 million *(FY13: £284 million)*. Solvency II costs remain high at £94 million *(FY13: £79 million)* as we approach implementation of the new regulatory regime. In the period 2015-2017, the proposed Friends Life integration is expected to incur £350 million of integration expenses, as previously announced.

Management

Over the past two years, Aviva employees have seen significant change. Despite the sometimes difficult choices that have had to be made, 2014 saw engagement improve 9 percentage points to 65%, driven by a double-digit uplift in trust of our senior leaders, as well as advances in levels of pride, motivation and advocacy. Our engagement rating is now above the norm in the global financial services sector.

Outlook

A successful integration of Friends Life is a significant focus and it is important to demonstrate our ability to execute on our plans and achieve our external objectives. This is a bare minimum.

While the proposed integration of Friends Life is a major exercise, there are large parts of the business that are not involved and we will continue to focus on better capital allocation and efficiency across the entire group, driving digital throughout the organisation and building out our true customer composite model.

Aviva has travelled a long way in the past two years. But it would be wrong to assume that our turnaround is nearing completion. On the contrary, we have further to travel than the distance we have come.

2 On a continuing basis, excluding US Life.
4 The economic capital and IGD solvency surpluses represent an estimated position. The economic capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Following the announcement that the Group made an offer to acquire Friends Life Group Limited on 2 December 2014, the directors have proposed a final dividend for 2014 of 12.25 pence per share, amounting to £0.4 billion in total. Although subject to approval by shareholders at the AGM, the dividend is considered foreseeable and is therefore deducted from FY14 economic capital and IGD surpluses. In contrast, 2013 final dividend of 9.40 pence per share amounting to £0.3 billion was not foreseeable as at 31 December 2013 and was not deducted from FY13 economic capital and IGD surpluses.

Overview

We have begun laying the foundation for the next stages of turnaround and transformation at Aviva. Operationally, we have continued to deliver expense savings and realise efficiencies across the Group. Financially, we have made further progress on improving our performance and increasing our financial flexibility.

In 2014, operating EPS[1] increased 10% to 47.0p and IFRS book value per share (NAV) increased 26% to 340p, primarily due to operating profit and favourable movements in our staff pension scheme. Excess centre cash flow[2] from operations increased 65% to £0.7 billion, providing positive cash coverage of our annual dividend for the first time in several years. Consequently, the final dividend has been increased 30% to 12.25p per share.

External debt leverage reduced from 48% to 41% of tangible capital on an IFRS basis, as we reduced debt and grew book value. On an S&P basis, our debt leverage is 28% and within our target range of being comparable to the AA level. Meanwhile we have also reduced the internal loan by £1.3 billion in the 12 months to February 2015. Our capital level and liquidity are within our risk appetite, with an estimated economic capital surplus[3] ratio of 178%, even after declaring the year end dividend. We manage our capital on an economic basis, which is consistent with the UK regulatory framework, but also with consideration to the upcoming Solvency II regime.

Capital efficiency remains a primary theme of Aviva's turnaround. We continue to take action at both the Group level and at the individual business cell level to improve return on capital, or to redeploy it to better use. The list of achievements in 2014 is long. We established our internal reinsurance entity, separated our capital and risk functions, and issued and refinanced €700 million long-term hybrid debt on better terms than a similar issue the year before. We divested our business in South Korea, our general insurance operation in Turkey, our River Road asset management business in the U.S., Eurovita in Italy and our stake in Spanish joint venture CxG Aviva. Together with our partner, we also conducted a successful partial initial public offering (IPO) of our life insurance operation in Turkey.

The proposed acquisition of Friends Life accelerates our financial transformation. Our integration planning to date has confirmed expected run rate cost savings of £225 million by the end of 2017. In addition, we expect to realise significant capital synergies from the combination over time.

In parallel to the Friends Life integration, we will increasingly focus management attention on organic growth initiatives within Aviva and the reallocation of capital and expenditures to our most promising business opportunities. Our challenge in 2015 through 2017 is to deliver the Friends Life synergies, develop our capabilities around the True Customer Composite and Digital First, and shift towards investing in growth.

Business Unit performance

Aviva is a diversified insurance and investment management group. We operate in 16 countries with differing economic conditions and market structures, and each of our businesses is at different stages of performance improvement and growth.

In our largest unit, UK & Ireland life, our focus has been on expense efficiency and improving the financial resilience of our large back book of existing business in force. The objective has been to both improve the solvency capital position within the business and deliver more cash to the Group. The results have been satisfactory. Operating profit was up 9%to £1,039 million *(FY13: £952 million)* and cash remittances increased 18% to £437 million. In UK Life, changes in annuitant mortality experience resulted in a release of £282 million of longevity reserves *(FY13: £66 million)* following an extensive review. Efficiency gains also allowed us to release expense reserves in the first half of the year, but the impact of this on profit was negated by a DAC writedown mainly related to new pension charging rules. Lower individual annuity volumes and dampened returns from increased hedging activities depressed underlying profitability. Value of new business (VNB) of £482 million is flat year-on-year, as increased VNB from equity release, bulk purchase annuities and protection offset the lower contribution from individual annuities following the regulatory changes announced in March 2014. Throughout the year we have also taken steps to improve the quality of our asset portfolio, reducing exposure to certain non-core property assets.

Our UK & Ireland general insurance business has improved its combined operating ratio (COR) by 2.3 percentage points to 94.9% *(FY13: 97.2%)* and increased its underwriting profit 66% to £204 million *(FY13: £123 million)*. Net written premium declined 4% to £3,935 million but most of this reduction occurred in the earlier part of the year. Our UK commercial book showed significant improvement, with the COR improving to 92.8% *(FY13: 102.9%)* as we completed portfolio actions to improve the quality of our commercial motor book and reserves developed more favourably relative to the prior year.

1 On a continuing basis, excluding US Life.
2 Excess centre cash flow represents cash remitted by business units to Group less central operating expenses and debt financing costs. It does not include non-operating cash movements such as disposal proceeds or capital injections.
3 The economic capital surplus represents an estimated position. The economic capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Following the announcement that the Group made an offer to acquire Friends Life Group Limited on 2 December 2014, the directors have proposed a final dividend for 2014 of 12.25 pence per share, amounting to £0.4 billion in total. Although subject to approval by shareholders at the AGM, the dividend is considered foreseeable and is therefore deducted from FY14 economic capital surplus. In contrast, 2013 final dividend of 9.40 pence per share amounting to £0.3 billion was not foreseeable as at 31 December 2013 and was not deducted from FY13 economic capital surplus.

Italy was the stand-out performer of our European businesses. Cash increased 167% to £32 million, VNB[4] was 55%[5] higher at £63 million *(FY13: £43 million)* and the COR improved 1.2pp to 94.0% *(FY13: 95.2%)*. Operating profit was 2% higher at £172 million *(FY13: £169 million)*. Good execution of a major restructure has helped improve the performance of this turnaround business.

Elsewhere in Europe, France delivered a solid result in benign economic conditions with operating profit of £452 million *(FY13: £448 million)*. French VNB was 25%[5] higher as we continue to improve the business mix, focusing on unit-linked and protection. Our Spanish business is adapting to its smaller footprint with operating profit of £126 million *(FY13: £151 million)* impacted by the disposals of Aseval and CxG.

Growth markets of Poland, Turkey and Asia continued their upward momentum. Poland delivered £192 million of operating profit *(FY13: £184 million)*, benefitting from a £39 million one-off from regulatory pension changes. VNB grew 31%[5] to £64 million *(FY13: £51 million)* and the business remitted £106 million of cash to Group. With a 25% increase in cash, and a 31%[5] increase in VNB, Poland is a prime example of delivering cash flow plus growth.

In Asia, our Chinese business grew VNB 100%[5] due to changes in product mix and effective bundling. The average product holding of our Chinese customers is now 3.5x. In Singapore, VNB increased 23%[5] to £87 million *(FY13: £76 million)*. We are seeking to renew our distribution agreement with DBS this year on appropriate terms.

Our fund management segment, led by Aviva Investors, was largely flat, ending the year with assets under management of £246 billion and operating profit of £86 million, as we increased operating expenses partly in connection with new product development and distribution initiatives. The AIMS fund range has started well and we are confident in this external market proposition. The proposed Friends Life transaction provides the opportunity to add up to c.£70 billion funds under management to Aviva Investors.

Capital and liquidity

In 2014, IFRS net asset value (NAV) increased 26% to 340p *(FY13: 270p)* and our Market Consistent Embedded Value per share was 14% higher at 527p, as shown below.

Net asset value[6]	IFRS	MCEV
Opening NAV per share at 31 December 2013	**270p**	**463p**
Operating profit	47p	62p
Dividends & appropriations	(15)p	(15)p
Investment variances and AFS equity movements	5p	(2)p
Pension scheme remeasurements	45p	45p
Integration and restructuring costs, goodwill impairment and other	(1)p	(7)p
Foreign exchange movements	(11)p	(19)p
Closing NAV per share at 31 December 2014	**340p**	**527p**

Along with the contribution from profits, the IFRS net asset value was boosted by a 45p increase in our pension surplus, as measured on an IAS 19 basis. We manage our staff pension scheme on a funding basis, not an IAS 19 basis, which means we hold higher technical provisions for funding and hedge on that basis, which introduces potential volatility into our IAS 19 reporting. The large increase in our IAS 19 pension surplus reported this year is largely attributable to a combination of wider credit spreads and lower interest rates. This could reverse in the future.

Prior to the declaration of our 2014 final dividend, our economic capital surplus[3] increased marginally to £8.4 billion *(FY13: £8.3 billion)*, with a coverage ratio of 182% *(FY13: 182%),* and is £8.0 billion after the early declaration of our final dividend, which we announced on 2 December 2014 coincident with the proposed Friends Life acquisition. The coverage ratio is 178% after deducting the accrual of the final dividend, which was reasonably foreseeable at year end. We have also improved our modelling and methodology to improve the quality of our estimate of economic capital surplus during the year.

IGD surplus[3], was stable at £3.6 billion prior to the declaration of our 2014 final dividend *(FY13: £3.6 billion)* and reduced to £3.2 billion after. The redemption of hybrid debt during the year reduced our surplus by £0.2 billion.

Liquidity at Group centre is £1.1 billion as at the end of February 2015 *(February 2014: £1.6 billion)*, and within our risk appetite. External and internal debt reduction, pension contributions, external dividends and the capitalisation of our internal reinsurance company offset remittances received from businesses and disposal proceeds.

3 The economic capital surplus represents an estimated position. The economic capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Following the announcement that the Group made an offer to acquire Friends Life Group Limited on 2 December 2014, the directors have proposed a final dividend for 2014 of 12.25 pence per share, amounting to £0.4 billion in total. Although subject to approval by shareholders at the AGM, the dividend is considered foreseeable and is therefore deducted from FY14 economic capital surplus. In contrast, 2013 final dividend of 9.40 pence per share amounting to £0.3 billion was not foreseeable as at 31 December 2013 and was not deducted from FY13 economic capital surplus.

4 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and CxG and Asia excludes Malaysia.

5 On a constant currency basis.

6 Net of tax and controlling interests.

Solvency II

Next year we expect to report our economic capital surplus on a Solvency II basis, which comes into effect from 1 January 2016. We continue to work with regulators on the application of Solvency II principles to our business, and will submit our Group internal model for formal regulatory review in June this year. Friends Life will be on a standard formula basis for reporting under Solvency II from year end 2015. Once Friends Life becomes part of Aviva, we will begin transitioning Friends to our internal model.

As we have said previously, there remains uncertainty regarding certain significant issues under Solvency II regulations and their interpretation by regulators. Our reported economic capital surplus and its composition may differ under Solvency II from the current regulatory regime. Regardless, we are currently managing the Group taking into account our understanding of how Solvency II principles are likely to apply from 2016 onwards.

Leverage

In 2014, we made meaningful progress in bringing leverage down to desired levels. In the first half of the year we called £240 million of debt instruments with coupons in excess of 10% without refinancing.

The lower interest rate environment and better financial position of the Group allowed us to raise €700 million of Lower Tier 2 subordinated debt with a 3.875% coupon. In Q4 2014, we called a €700 million Direct Capital Instrument (DCI) with a 4.7291% coupon.

Lower debt coupled with growth in our net asset value has resulted in our leverage ratios falling to 28% *(FY13: 31%)* on an S&P basis and 41% *(FY13: 48%)* of tangible capital on an IFRS basis. Following the integration of Friends Life, we see no need to further de-lever. However, there is still further opportunity to optimise our capital structure and financing costs.

We continue to reduce the intercompany loan that exists between our main UK general insurance legal entity, Aviva Insurance Limited, and the Group. The loan balance is currently £2.8 billion and we remain on track to achieve our objective of reducing this to £2.2 billion by the end of 2015.

Summary

Considering Aviva's overall turnaround in terms of capital, liquidity and internal and external leverage together, the Group has made substantial progress in improving its financial flexibility over the last two years. At the end of 2012, Aviva was reliant on expected proceeds from divestitures, with just £5.3 billion in economic capital surplus, low liquidity at the centre, lower excess centre cash flow from operations, a £5.8 billion intercompany loan balance, and external debt leverage approximating 50%. Entering 2015 we are much stronger on all these measures, our final dividend has been increased 30% to 12.25p per share, and we are looking forward to completing the proposed acquisition of Friends Life, which we expect to close in the second quarter of the year.

Notes to editors

All comparators are for the full year 2013 position unless otherwise stated.

Income and expenses of foreign entities are translated at average exchange rates while their assets and liabilities are translated at the closing rates on 31 December 2014. The average rates employed in this announcement are 1 euro = £0.81 *(12 months to 31 December 2013: 1 euro = £0.85)* and CAD$1 = £0.55 *(12 months to 31 December 2013: CAD$1 = £0.62)*.

Growth rates in the press release have been provided in sterling terms unless stated otherwise. The following supplement presents this information on both a sterling and constant currency basis.

A consensus of analyst estimates is available on www.aviva.com.

An interview with Mark Wilson discussing the results can be viewed at the following link: www.aviva.com/friendsoffer.

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 other verbal or written "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", "projects", "plans", "will," "seeks", "aims", "may", "could", "outlook", "likely", "target", "goal", "guidance", "trends", "future", "estimates", "potential" 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 factors that could cause actual results to differ materially from those indicated in forward-looking statements in the presentation include, but are not limited to: the impact of ongoing difficult conditions in the global financial markets and the economy generally; the impact of simplifying our operating structure and activities; the impact of various local political, regulatory and economic conditions; market developments and government actions regarding the sovereign debt crisis in Europe; the effect of credit spread volatility on the net unrealised value of the investment portfolio; the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments; changes in interest rates that may cause policyholders to surrender their contracts, reduce the value of our portfolio and impact our asset and liability matching; the impact of changes in short or long term inflation; the impact of changes in equity or property prices on our investment portfolio; fluctuations in currency exchange rates; the effect of market fluctuations on the value of options and guarantees embedded in some of our life insurance products and the value of the assets backing their reserves; the amount of allowances and impairments taken on our investments; the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital; changes in, or restrictions on, our ability to initiate capital management initiatives or an acceleration of repayment of intercompany indebtedness; changes in or inaccuracy of 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; the impact of natural and man-made catastrophic events on our business activities and results of operations; our reliance on information and technology and third-party service providers for our operations and systems; the inability of reinsurers to meet obligations or unavailability of reinsurance coverage; increased competition in the UK and in other countries where we have significant operations; the effect of the European Union's "Solvency II" rules on our regulatory capital requirements; the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ("DAC") and acquired value of in-force business ("AVIF"); 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 legal proceedings and regulatory investigations; the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events; risks associated with arrangements with third parties, including joint ventures; our reliance on third-party distribution channels to deliver our products; funding risks associated with our participation in defined benefit staff pension schemes; the failure to attract or retain the necessary key personnel; the effect of systems errors or regulatory changes on the calculation of unit prices or deduction of charges for our unit-linked products that may require retrospective compensation to our customers; the effect of fluctuations in share price as a result of general market conditions or otherwise, including any as a result of the proposed acquisition of Friends Life; the effect of simplifying our operating structure and activities; the effect of a decline in any of our ratings by rating agencies on our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services; changes to our brand and reputation; changes in government regulations or tax laws in jurisdictions where we conduct business, including decreased demand for annuities in the UK due to proposed changes in UK law; the inability to protect our intellectual property; the effect of undisclosed liabilities, integration issues and other risks associated with our acquisitions; and the timing/regulatory approval impact, integration risk and other uncertainties, such as non-realisation of expected benefits or diversion of management attention and other resources, relating to announced acquisitions and pending disposals and relating to future acquisitions, combinations or disposals within relevant industries, including specifically the proposed acquisition of Friends Life; the policies, decisions and actions of government or regulatory authorities in the UK, the EU, the US or elsewhere, including the implementation of key legislation and regulation. For a more detailed description of these risks, uncertainties and other factors, please see Item 3d, "Risk Factors", and Item 5, "Operating and Financial Review and Prospects" in Aviva's most recent Annual Report on Form 20-F as filed with the SEC on 24 March 2014 (and also Part II (Risk Factors) of the prospectus published by Aviva on 19 January 2015 in relation to the proposed recommended all-share acquisition of Friends Life by Aviva). 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 presentation are current only as of the date on which such statements are made.

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Key financial metrics

Cash

Continuing operations	Cash remitted to Group 2014 £m	2013 £m	Sterling% change	Operating capital generation 2014 £m	2013 £m	Sterling% change
United Kingdom & Ireland Life	**437**	370	18%	**888**	586	52%
United Kingdom & Ireland General Insurance & Health[1]	**294**	347	(15)%	**425**	374	14%
Europe	**454**	388	17%	**499**	558	(11)%
Canada	**138**	130	6%	**136**	177	(23)%
Asia and Other	**89**	34	n/a	**(8)**	63	n/a
Total	**1,412**	1,269	11%	**1,940**	1,758	10%

Operating profit: IFRS basis

Continuing operations	2014 £m	2013 £m	Sterling% change
Life business	**1,979**	1,901	4%
General insurance and health	**808**	797	1%
Fund management	**86**	93	(8)%
Other*	**(700)**	(742)	6%
Operating profit before tax	**2,173**	2,049	6%
Operating earnings per share**	**47.0p**	42.6p	10%

* Includes other operations, corporate centre costs and group debt and other interest costs.
** Net of tax, non-controlling interests, preference dividends, coupon payments in respect of direct capital instruments (DCI) and fixed rate tier 1 notes (net of tax).

Expenses

Continuing operations	2014 £m	2013 £m	Sterling% change
Operating expenses	**2,795**	3,006	(7)%
Integration & restructuring costs	**140**	363	(61)%
Expense base	**2,935**	3,369	(13)%
Operating expense ratio	**51.5%**	54.1%	(2.6)pp

Value of new business

Continuing operations	2014 £m	2013 £m	Sterling % change	Constant currency % change[2]
United Kingdom & Ireland	**482**	477	1%	1%
France	**205**	172	19%	25%
Poland[3]	**64**	51	25%	31%
Italy[3], Spain[3], Turkey & Other	**123**	106	16%	28%
Asia[3]	**127**	103	23%	30%
Aviva Investors	**9**	—	—	—
Value of new business – excluding Eurovita, Aseval, CxG & Malaysia	**1,010**	909	11%	15%
Eurovita, Aseval, CxG & Malaysia	**(1)**	(5)	—	—
Value of new business	**1,009**	904	12%	15%

General insurance combined operating ratio

Continuing operations	2014	2013	Change
United Kingdom & Ireland	**94.9%**	97.2%	(2.3)pp
Europe	**97.7%**	98.1%	(0.4)pp
Canada	**96.1%**	94.6%	1.5pp
General insurance combined operating ratio	**95.7%**	97.3%	(1.6)pp

IFRS profit after tax

	2014 £m	2013 £m	Sterling% change
IFRS profit after tax – continuing operations	**1,680**	878	91%
IFRS profit after tax – total	**1,738**	2,151	(19)%

Dividend

	2014	2013	Sterling% Change
Final dividend per share	**12.25p**	9.40p	30.3%
Total dividend per share	**18.10p**	15.00p	20.7%

Capital position

	2014 £bn	2013 £bn	Sterling% change
Estimated economic capital surplus[4]	**8.0**	8.3	(4)%
Estimated IGD solvency surplus[4]	**3.2**	3.6	(11)%
IFRS net asset value per share	**340p**	270p	26%
MCEV net asset value per share (restated)[5]	**527p**	463p	14%

1 Cash remittances include amounts of £273 million received from UK General Insurance (UKGI) in February 2015 in respect of 2014 activity and £347 million received in January 2014 in respect of 2013 activity.
2 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
3 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and CxG and Asia excludes Malaysia.
4 The economic capital and IGD solvency surpluses represent an estimated position. The economic capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Following the announcement that the Group made an offer to acquire Friends Life Group Limited on 2 December 2014, the directors have proposed a final dividend for 2014 of 12.25 pence per share, amounting to £0.4 billion in total. Although subject to approval by shareholders at the AGM, the dividend is considered foreseeable and is therefore deducted from FY14 economic capital and IGD surpluses. In contrast, 2013 final dividend of 9.40 pence per share amounting to £0.3 billion was not foreseeable as at 31 December 2013 and was not deducted from FY13 economic capital and IGD surpluses.
5 In preparing the MCEV information, the directors have done so in accordance with the European Insurance CFO Forum MCEV Principles with the exception of stating held for sale operations at their expected fair value, as represented by expected sale proceeds, less cost to sell.

Cash

1.i – Cash remitted to Group

The flow of sustainable cash remittances from the Group's businesses is a key financial priority. The cash remittances for FY14 from continuing operations were £1,412 million *(FY13: £1,269 million)*. The 2014 totals include amounts received from Aviva Insurance Limited in February 2015 in respect of 2014 activity in that business and its subsidiaries.

	2014			2013		
	Operating capital generation £m	Dividend £m	% remitted to Group	Operating capital generation £m	Dividend £m	% remitted to Group
United Kingdom & Ireland Life	**888**	**437**	**49%**	586	370	63%
United Kingdom & Ireland General Insurance & Health[1]	**425**	**294**	**69%**	374	347	93%
France	**259**	**245**	**95%**	294	235	80%
Poland	**136**	**106**	**78%**	135	85	63%
Italy	**77**	**32**	**42%**	88	12	14%
Spain	**40**	**68**	**170%**	51	51	100%
Other Europe	**(13)**	**3**	**n/a**	(10)	5	n/a
Europe	**499**	**454**	**91%**	558	388	70%
Canada	**136**	**138**	**101%**	177	130	73%
Asia	**23**	**23**	**100%**	92	20	22%
Other[2]	**(31)**	**66**	**n/a**	(29)	14	n/a
Group – continuing operations	**1,940**	**1,412**	**73%**	1,758	1,269	72%
United States	**—**	**—**	**—**	195	—	—
Group as reported	**1,940**	**1,412**	**73%**	1,953	1,269	n/a

1 Cash remittances include amounts of £273 million received from UKGI in February 2015 in respect of 2014 activity and £347 million received in January 2014 in respect of 2013 activity.
2 Other includes Aviva Investors and Group Reinsurance.

Cash remitted to Group has increased, with improvements across the majority of businesses, giving an overall remittance ratio relative to OCG of 73% *(FY13: 72%)*.

1.ii – Excess centre cash flow

Excess centre cash flow represents cash remitted by business units to the Group centre less central operating expenses and debt financing costs. It is an important measure of the cash that is available to pay dividends, reduce debt, pay exceptional charges or invest back into our business units. It does not include non-operating cash movements such as disposal proceeds or capital injections.

	2014 £m	2013 £m
Dividends received	**1,412**	1,269
External interest paid	**(425)**	(445)
Internal interest paid	**(151)**	(202)
Central spend	**(199)**	(233)
Other operating cash flows[1]	**55**	31
Excess centre cash flow[2]	**692**	420

1 Other operating cash flows include central investment income and group tax relief payments.
2 Before non-operating items and capital injections.

The increase of £272 million in excess centre cash flow is primarily driven by higher remittances across the majority of businesses, a decrease in internal interest from the reduction of the intercompany loan and lower expenses.

1.iii – Operating capital generation

Operating cash generation is a historic measure of underlying capital generation. OCG currently includes the surplus emerging under the Solvency I regime, which will be replaced by Solvency II in 2016.

	2014 £m	2013 £m
Operating capital generation[1]		
Life in-force business[2]	**1,715**	1,567
General insurance, fund management and other operations	**544**	545
Operating capital generated before investment in new business – continuing operations	**2,259**	2,112
Capital invested in new business	**(319)**	(354)
Operating capital generated after investment in new business – continuing operations	**1,940**	1,758
United States	**—**	195
Group as reported	**1,940**	1,953

1 Operating capital generation comprises the following components:
– Operating free surplus emergence, including release of required capital, for the life in-force business (net of tax and non-controlling interests);
– Operating profits for the general insurance and other non-life businesses net of tax and non-controlling interests from non-covered business only, where non-covered business represents business which is outside the scope of Life MCEV methodology.
– Capital invested in new business. For life business this is the impact of initial and required capital on free surplus. For general insurance business this reflects the movement in required capital, which has been assumed to equal the regulatory minimum multiplied by the local management target level. Where appropriate movements in capital requirements exclude the impact of foreign exchange and other movements deemed to be non-operating in nature.
– At FY13 the United States business (including its life, fund management and non-insurance segments whose sale was completed on 2 October 2013) was included in OCG on an IFRS basis (net of taxation).
The amount of operating capital remitted to Group depends on a number of factors including non-operating items and local regulatory requirements.
2 During 2014, internal reinsurance arrangements were undertaken by the UK Annuity business to reinsure an additional 10% to Aviva International Insurance Limited and an additional 12.5% to UK Life & Pensions. These arrangements have had an adverse impact on Group MCEV free surplus of £204 million (MCEV Note F12). On an economic capital basis these transactions improve the UK Life position and as a result the adverse impact on MCEV Free Surplus has therefore been excluded from OCG to reflect the economic substance of the management action.

1.iii – Operating capital generation continued

The analysis of OCG by market and product and service is set out below.

2014 £m	**Life & Other Covered Business OCG: Free surplus emergence**	**New business strain**	**Other/ management actions**[1]	**Life OCG**	**Non-life OCG: General insurance and health**[2]	**Fund management**[2]	**Non-insurance**[2]	**Non Life Usage**[3]	**Non-life OCG**	**Total OCG**
United Kingdom & Ireland Life	462	(15)	441	**888**	—	—	(1)	1	**—**	**888**
United Kingdom & Ireland General Insurance & Health	—	—	—	**—**	384	—	—	41	**425**	**425**
Europe	693	(272)	32	**453**	67	—	(11)	(10)	**46**	**499**
Canada	—	—	—	**—**	140	—	—	(4)	**136**	**136**
Asia	98	(58)	(15)	**25**	1	1	(8)	4	**(2)**	**23**
Fund Management	14	(5)	(10)	**(1)**	—	9	—	(7)	**2**	**1**
Other	—	—	—	**—**	9	—	(47)	6	**(32)**	**(32)**
Total Group operating capital generation	**1,267**	**(350)**	**448**	**1,365**	**601**	**10**	**(67)**	**31**	**575**	**1,940**

2013 £m	Life & Other Covered Business OCG: Free surplus emergence	New business strain	Other/ management actions	Life OCG	Non-life OCG: General insurance and health[2]	Fund management[2]	Non-insurance[2]	Non Life Usage[3]	Non-life OCG	Total OCG
United Kingdom & Ireland Life	461	(13)	148	596	—	—	(10)	—	(10)	586
United Kingdom & Ireland General Insurance & Health	—	—	—	—	360	—	(5)	19	374	374
Europe	705	(272)	72	505	67	—	(5)	(9)	53	558
Canada	—	—	—	—	182	—	(2)	(3)	177	177
Asia	105	(68)	73	110	—	2	(13)	(7)	(18)	92
Fund Management	3	—	—	3	—	18	—	2	20	23
Other	—	—	—	—	(51)	—	2	(3)	(52)	(52)
Total continuing operations	1,274	(353)	293	1,214	558	20	(33)	(1)	544	1,758
United States										195
Total Group operating capital generation										1,953

1 During 2014, internal reinsurance arrangements were undertaken by the UK Annuity business to reinsure an additional 10% to Aviva International Insurance Limited and an additional 12.5% to UK Life & Pensions. These arrangements have had an adverse impact on Group MCEV free surplus of £204 million (MCEV Note F12). On an economic capital basis these transactions improve the UK Life position and as a result the adverse impact on MCEV free surplus has therefore been excluded from OCG to reflect the economic substance of the management action.
2 Operating profit net of tax and non-controlling interests from non-covered businesses only, where non-covered business is that which is outside the scope of life MCEV methodology.
3 This reflects the movement in required capital, which has been assumed to equal the regulatory minimum multiplied by the local management target level. Where appropriate movements in capital requirements exclude the impact of foreign exchange and other movements deemed to be non-operating in nature.

Operating capital generation (OCG) on a continuing basis is £1,940 million, an increase of 10% compared to prior year *(FY13: £1,758 million)*.

In our UK and Ireland Life business OCG has increased to £888 million (*FY13: £586 million*). During 2014, UK Life implemented a management action that enables certain shareholder assets to be reflected on the regulatory balance sheet and the economic risk to be hedged more efficiently. As a result of this action, future shareholder transfers that arise as bonuses are paid, will now emerge in the New With Profits Sub Fund rather than the Non Profit Sub Fund (NPSF). This reduces the present value of future profits and increases free surplus in the NPSF, and has benefitted OCG by £199 million in the year. This amount, together with the benefit of longevity and expense assumption changes primarily in the UK Annuity business, makes up total management actions of £441 million in this business.

In our UK and Ireland General Insurance business OCG has increased by 14% to £425 million *(FY13: £374 million)* reflecting the increase in operating profit and a lower capital requirement. In Canada, OCG has been adversely impacted by higher large losses and lower prior year reserve releases as well as weakening of the Canadian dollar. In Europe, there is a lower level of benefits from management actions, particularly the reduction of guarantees in France in 2013, and a weakening of the Euro which has adversely impacted OCG. In Asia, 2013 benefitted from a financial reinsurance transaction in Singapore and 2014 has been adversely impacted by an increase in required capital in the retail health business.

The expected free surplus emergence in future years is shown in note 1.iv.

1.iv – Free surplus emergence

Maturity profile of undiscounted free surplus emergence equivalent embedded value cash flows

Total in-force business

Release of future profits and required capital	2014 £m	2013 £m
Year 1	**1,137**	1,268
Year 2	**1,059**	1,180
Year 3	**1,071**	1,126
Year 4	**1,204**	1,094
Year 5	**1,169**	1,191
Year 6	**1,157**	1,145
Year 7	**1,088**	1,065
Year 8	**1,060**	1,047
Year 9	**981**	960
Year 10	**922**	936
Years 11-15	**4,232**	4,278
Years 16-20	**3,547**	3,749
Years 20+	**7,583**	9,130
Total net of non-controlling interests[1]	**26,210**	28,169

1 Cash flow profiles exclude held for sale operations.

The table above shows the expected future emergence of profits from the existing business implicit in the equivalent embedded value calculation for life covered in-force business. The cash flows have been split for the first ten years followed by five year tranches depending on the date when the profit is expected to emerge. These profits, which arise from the release of margins in the regulatory reserves as the business runs-off over time, are expected to emerge through operating capital generation (OCG) in future years. The cash flows are real world cash flows, i.e. they are based on the non-economic assumptions used in the MCEV and normalised investment returns. Normalised investment returns are equal to the MCEV risk free rates in addition to a risk premium to allow for the actual return expected to be achieved in the market.

For existing business, the cash flows will generally reduce over time due to lapses, maturities and other benefit payments. Each year new business will increase these profits, following the initial strain at point of sale. This table only includes the business currently in-force.

The expected free surplus emergence in the OCG of £1,267 million (see note 1.iii) is broadly equal to the year 1 cash flow from 31 December 2013 of £1,268 million. The 2014 total of £1,267 million includes the expected transfers from the value of in-force (VIF) and required capital to free surplus of £1,221 million (MCEV – Note F11) and also the free surplus component of the expected return on net worth which equals £46 million.

The total real world cash flows have decreased by £1,959 million over 2014, largely reflecting lower real world expected returns as interest rates have declined and adverse foreign exchange movements.

The free surplus emergence in the table above only includes business written in the RIEESA when conditions for its release to shareholders are expected to have been met, which is currently in year 3. The 31 December 2014 cash flows reflect the capital management actions undertaken by the UK business in 2014, which have accelerated the release of the RIEESA.

2 – Operating Profit: IFRS basis

Group operating profit from continuing operations: IFRS basis

For the year ended 31 December 2014

Continuing operations	2014 £m	2013 £m
Operating profit before tax attributable to shareholders' profits		
Life business		
United Kingdom & Ireland	**1,039**	952
France	**394**	385
Poland	**180**	164
Italy	**142**	142
Spain	**126**	150
Turkey	**10**	8
Other Europe	**—**	2
Europe	**852**	851
Asia	**87**	96
Other	**1**	2
Total life business (note 7.i)	**1,979**	1,901
General insurance and health		
United Kingdom & Ireland	**499**	489
Europe	**113**	112
Canada	**189**	246
Asia	**(2)**	1
Other	**9**	(51)
Total general insurance and health (note 7.ii)	**808**	797
Fund management		
Aviva Investors[1]	**79**	68
United Kingdom[1]	**6**	23
Asia	**1**	2
Total fund management	**86**	93
Other		
Other operations (note A1)	**(105)**	(90)
Market operating profit	**2,768**	2,701
Corporate centre (note A2)	**(132)**	(150)
Group debt costs and other interest (note A3)	**(463)**	(502)
Operating profit before tax attributable to shareholders' profits	**2,173**	2,049
Tax attributable to shareholders' profit	**(561)**	(534)
Non-controlling interests	**(143)**	(174)
Preference dividends and other[2]	**(86)**	(87)
Operating profit attributable to ordinary shareholders	**1,383**	1,254
Operating earnings per share[3]	**47.0p**	42.6p

1 The UK Retail fund management business was transferred from UK Life to Aviva Investors on 9 May 2014 and hence is included in Aviva Investors from 9 May 2014 onwards.
2 Other includes coupon payments in respect of direct capital instruments (DCI) and fixed rate tier 1 notes (net of tax).
3 Net of tax, non-controlling interests, preference dividends, coupon payments in respect of direct capital instruments (DCI) and fixed rate tier 1 notes (net of tax). The calculation of basic earnings per share uses a weighted average of 2,943 million (*FY13: 2,940 million*) ordinary shares in issue, after deducting shares owned by the employee share trusts.

Overall, operating profit has increased by £124 million to £2,173 million *(FY13: £2,049 million)* with the improvement principally driven by operating expense savings of £211 million *(FY13: £228 million)*.

During the year there have been significant foreign exchange movements which have reduced income and benefitted expenses on a sterling basis. On a constant currency basis costs have reduced by £113 million in the year and there has been a net adverse impact on operating profit from foreign exchange movements of £87 million.

Within the overall result, UK Life includes a net additional benefit to operating profit of £282 million *(FY13: £116 million)*, mainly from longevity assumption changes and expense reserve releases, which are partially offset by increased DAC amortisation charges on pension business, the adverse impact of reduced annuity trading and lower expected returns as a result of de-risking activity. In France, FY13 life operating profit included a non-recurring benefit of £42 million relating to management actions taken to reduce the cost of guaranteed death benefits.

In the general insurance and health business result, higher positive prior year development benefitted operating profit by £131 million *(FY13: £77 million benefit to operating profit)*.

These improvements were partly offset by a charge of £18 million relating to Aviva Investors' settlement with the FCA for certain systems and controls failings that happened between August 2005 to June 2013. Provision for this expected cost was made at the year end and is fully reflected within the 'Other operations' FY14 result (note A1).

Within the UK and Ireland general insurance business, the lower balance on the internal loan with Aviva Group Holdings (AGH) has reduced the interest received on this loan (and included within long term investment return) by £65 million in the year. The impact of this is neutral at a consolidated Group level.

Operating earnings per share increased by 10% to 47.0p (*FY13: 42.6p*), driven by operating profit growth and lower non-controlling interests mainly reflecting the disposals of Eurovita and Aseval.

3 – Expenses

a) Expenses – continuing operations

	2014 £m	2013 £m
United Kingdom & Ireland Life	**565**	607
United Kingdom & Ireland General Insurance & Health	**755**	818
Europe	**596**	644
Canada	**316**	378
Asia	**80**	86
Aviva Investors	**298**	290
Other Group activities	**185**	183
Operating cost base – continuing operations	**2,795**	3,006
Integration & restructuring costs	**140**	363
Expense base	**2,935**	3,369

The table below shows the lines of the IFRS consolidated income statement in which operating expenses have been included:

	2014 £m	2013 £m
Claims handling costs[1]	**345**	352
Non-commission acquisition costs[2]	**828**	871
Other expenses	**1,622**	1,783
Operating cost base – continuing operations	**2,795**	3,006

1 As reported within net claims and benefits paid from continuing operations of £19,474 million (*FY13: £22,093 million*).
2 As reported within fee and commission expense from continuing operations of £3,389 million (*FY13: £3,975 million*).

Overall operating expenses for the period reduced by £211 million to £2,795 million (*FY13: £3,006 million*). Of this, £98 million is due to favourable foreign exchange movements giving an underlying reduction of £113 million. Compared with the 2011 base-line for the Group-wide expense reduction target of £3,366 million, there has been an overall reduction of £571 million.

Significant cost reductions have been made in the United Kingdom and Ireland. Both the life and general insurance businesses have achieved savings by reducing headcount for both permanent staff and contractor positions, lowering levels of property spend through renegotiation of leases or exiting property and reducing consultancy spend. In addition, the UK retail fund management business was transferred from UK Life to Aviva Investors in May 2014.

Total operating expenses of our European markets have reduced by 7% compared to prior year (2% on a constant currency basis). This reflects improvements across all markets with the exception of Poland where costs have risen as a result of higher investment in distribution channels in this market.

In Canada, operating expenses have reduced by 16% (6% on a constant currency basis) reflecting the ongoing focus on expense management. Total operating expenses for Asia have decreased by 7% compared to 2013 but remained stable on a constant currency basis as the increased costs of developing our distribution network in Singapore were offset by cost savings in other markets. Aviva Investors operating expenses have increased by 3% compared to prior year (5% on a constant currency basis) mainly due to increased expenses incurred to support the further development of the business and inclusion of the UK retail fund management business (transferred from UK Life).

Other Group activities, which include Group centre costs, has remained broadly stable with head office cost efficiencies offsetting the inclusion of Aviva staff pension scheme administration costs, which were borne by our UK markets in 2013.

Integration and restructuring costs from continuing operations were £140 million *(FY13: £363 million)* and mainly include £94 million of expenses associated with the Solvency II programme *(FY13: £79 million)*. Compared to the prior period, integration and restructuring costs have reduced by £223 million principally driven by a significant reduction in transformation spend.

b) Operating expense ratios – continuing operations

	2014	2013
Life[1]	**30.1%**	33.3%
General insurance[2]	**14.8%**	15.1%
Health[2]	**15.7%**	15.8%
Fund management[3]	**12bps**	12bps
Group total[4]	**51.5%**	54.1%

1 Life non-commission acquisition and administration expenses gross of DAC on new business expressed as a percentage of Life operating income.
2 Written expenses including claims handling costs expressed as a percentage of net written premiums.
3 Aviva Investors' operating expenses expressed as a percentage of average funds under management (excluding River Road).
4 Group operating expenses expressed as a percentage of operating profit before operating expenses and group debt costs.

4 – Value of new business by market

Gross of tax and non-controlling interests – continuing operations	**2014 £m**	2013 £m
United Kingdom	**473**	469
Ireland	**9**	8
United Kingdom & Ireland	**482**	477
France	**205**	172
Poland	**64**	51
Italy – excluding Eurovita	**63**	43
Spain – excluding Aseval & CxG	**30**	25
Turkey	**30**	37
Other Europe	**—**	1
Europe	**392**	329
Asia – excluding Malaysia	**127**	103
Aviva Investors[1]	**9**	—
Value of new business – excluding Eurovita, Aseval, CxG & Malaysia	**1,010**	909
Eurovita, Aseval, CxG & Malaysia	**(1)**	(5)
Total value of new business	**1,009**	904

1 UK Retail fund management business was transferred from UK Life to Aviva Investors on 9 May 2014 and hence is included in Aviva Investors from 9 May 2014 onwards.

The Group's **value of new business**[2,3] (VNB) increased by 11% to £1,010 million *(FY13: £909 million)*, a 15% increase in constant currency with improvements across all markets with the exception of Turkey. The growth was primarily driven by strong performances in France, Italy, Poland and Asia.

In the **UK**, VNB returned to growth in the second half of the year, reflecting strong trading and improved margins on equity release products as well as increased sales of bulk purchase annuities and protection products. This increase was partially offset by the significant decline in individual annuity volumes following the announcements made in the 2014 UK budget and a general market decline as increasingly customers are choosing to defer taking their pension, as well as lower pensions VNB mainly following the Department for Work and Pensions announcement to cap pension charges. This means that overall VNB in the UK was in line with the 2013 total. Ireland's VNB improved by 30%[4] reflecting a strategic shift in business mix towards higher value products, in particular protection business.

In **Europe**, improvements were largely driven by growth in France, Poland and Italy, slightly offset by a reduction in Turkey. VNB in France increased 25%[4] driven by increased volumes and a continued shift in product mix towards more profitable unit-linked investments. Poland's VNB improved by 31%[4] reflecting a one-off benefit from higher pension contributions in Lithuania as a result of regulatory changes and an increase in sales of higher margin protection products. In Italy, VNB increased by 55%[3,4] due to a 32%[3,4] increase in volumes and improved margins on with-profits products following management actions to reduce the costs of guarantees. Spain's VNB increased 27%[3,4] due to improved margins on with-profits business following management action to reduce guarantees, together with overall expense reductions. The 3%[4] decline in Turkey was mainly driven by a reduction in our share of the business following the partial IPO.

VNB in **Asia** increased 30%[3,4] reflecting a continued focus on sales of higher margin products, particularly protection products in China, as well as the inclusion of the Singapore retail health business as covered business with effect from July 2013.

2 The trend analysis of VNB and present value of new business premiums (PVNBP) are included in Financial supplement, section E: VNB & sales analysis.
3 Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and CxG (sold at the end of December 2014) and Asia excludes Malaysia.
4 On a constant currency basis.

5 – General insurance combined operating ratio (COR)

	Net written premiums		Claims ratio[2]		Commission and expense ratio[3]		Combined operating ratio[4]	
	2014 £m	2013 £m	**2014 %**	2013 %	**2014 %**	2013 %	**2014 %**	2013 %
United Kingdom[1]	**3,663**	3,823	**61.0**	61.9	**33.8**	35.1	**94.8**	97.0
Ireland	**272**	278	**67.1**	64.1	**29.5**	35.1	**96.6**	99.2
United Kingdom & Ireland	**3,935**	4,101	**61.4**	62.1	**33.5**	35.1	**94.9**	97.2
Europe	**1,313**	1,360	**69.7**	69.6	**28.0**	28.5	**97.7**	98.1
Canada	**2,104**	2,250	**65.5**	63.2	**30.6**	31.4	**96.1**	94.6
Asia	**13**	14	**65.3**	76.3	**32.5**	31.8	**97.8**	108.1
Other[5]	**7**	33						
Total	**7,372**	7,758	**64.0**	64.5	**31.7**	32.8	**95.7**	97.3

1 United Kingdom excluding Aviva Re and agencies in run-off.
2 Claims ratio: Incurred claims expressed as a percentage of net earned premiums.
3 Commission and Expense ratio: Written commissions and expenses expressed as a percentage of net written premiums.
4 Combined operating ratio: Aggregate of claims ratio and commission and expense ratio.
5 Other includes Aviva Re.

Group **combined operating ratio** (COR) for the period is 95.7% *(FY13: 97.3%)* with improvements in the UK, Ireland and Europe more than offsetting the adverse movement in Canada.

In the **UK and Ireland**, GI COR has improved by 2.3pp to 94.9% (*FY13: 97.2%*) reflecting an improvement in the overall claims and commission and expenses ratios. In the UK, the claims ratio has improved to 61.0% *(FY13: 61.9%)* mainly reflecting favourable prior year claims development and underwriting actions. Although marginally worse than 2013, UK weather experience in FY14 remained better than the long term average. The lower commission and expense ratio of 33.8% (*FY13: 35.1%*) is due to expense savings and management actions taken to mitigate reduced volumes. In Ireland the COR has improved to 96.6% *(FY13: 99.2%)*, due to improvements in the commission and expense ratio partially offset by the non recurrence of the favourable weather experienced in 2013.

Europe's GI COR has improved by 0.4pp to 97.7% *(FY13: 98.1%)* mostly reflecting a lower expense ratio. Excluding the Turkish general insurance business disposed of in December 2014, Europe's GI COR was 96.0% (*FY13: 96.4%*). Improvements in the commission and expense ratio were largely driven by expense efficiencies and business growth in France and Italy. The claims ratio was primarily impacted by adverse weather events in France partly offset by improved prior year claims development mainly in Italy.

In **Canada** GI COR has deteriorated by 1.5pp to 96.1% *(FY13: 94.6%)*, driven by an increase in the claims ratio which was partly offset by improvements in the commission and expense ratio. The claims ratio has worsened by 2.3pp to 65.5% *(FY13: 63.2%)* due to higher large losses and lower prior year releases compared with 2013. Although more favourable than 2013, Canada weather experience in FY14 remained higher than the long term average reflecting the severe winter in the first quarter of the year followed by hailstorms in Alberta in August. This compares with the adverse impact from the Canadian floods in FY13, of which £62 million was included in the results of Canada, while the remaining £67 million was included in the results of our internal reinsurance company.

We continue to apply our reserving policy consistently and to focus on understanding the true cost of claims to ensure that reserves are maintained at an appropriate level. Prior year reserve movements will vary year to year but our business is predominantly short tail in nature and the loss development experience is generally stable. In FY14 we have had a positive prior year development in our GI & Health business, benefitting operating profit by £131 million *(FY13: £77 million benefit to operating profit)* mainly in Canada, the UK and Ireland.

Underlying combined operating ratio

	UK & Ireland		Europe		Canada		Total	
	2014 %	2013 %	**2014 %**	2013 %	**2014 %**	2013 %	**2014 %**	2013 %
Underlying claims ratio[1]	**64.2**	63.3	**67.2**	67.6	**67.0**	66.4	**65.4**	64.7
Prior year reserve strengthening/(release)[2]	**(1.4)**	0.7	**0.3**	1.1	**(3.5)**	(5.6)	**(1.6)**	(0.9)
Weather over/(under) long term average[3]	**(1.4)**	(1.9)	**2.2**	0.9	**2.0**	2.4	**0.2**	0.7
Claims ratio	**61.4**	62.1	**69.7**	69.6	**65.5**	63.2	**64.0**	64.5
Commission and expense ratio[4]	**33.5**	35.1	**28.0**	28.5	**30.6**	31.4	**31.7**	32.8
Combined operating ratio	**94.9**	97.2	**97.7**	98.1	**96.1**	94.6	**95.7**	97.3

1 Underlying claims ratio represents the claims ratio adjusted to exclude prior year claims development and weather variations vs. expectations, gross of the impact of profit sharing arrangements.
2 Prior year reserve strengthening/(release) represents the changes in the ultimate cost of the claims incurred in prior years, gross of the impact of profit sharing arrangements.
3 Weather over/(under) long term average represents the difference between the reported net incurred cost of general insurance claims that have occurred as a result of weather events and the equivalent long term average expected net costs, gross of the impact of profit sharing arrangements.
4 Commission and expense ratio includes the impact of profit sharing arrangements.

Group underlying claims ratio for the period has deteriorated by 0.7pp to 65.4% *(FY13: 64.7%)* with an overall improvement in Europe being offset by Canada and UKGI. The deterioration in Canada is mainly due to higher large losses in FY14 compared to FY13. In UKGI, underwriting actions to improve profitability in a challenging rating environment were more than offset by the fact that FY14 large loss experience was back in line with long-term average while FY13 benefitted from benign experience. The commission and expense ratio for the period has improved by 1.1pp to 31.7% *(FY13: 32.8%).*

6.i – United Kingdom and Ireland Life

	2014 £m	2013 £m
Cash remitted to Group	**437**	370
Life Operating profit: IFRS basis	**1,039**	952
Expenses		
Operating expenses	**565**	607
Integration and restructuring costs	**28**	59
	593	666
Value of new business	**482**	477

Cash

During the year total cash remitted to Group was £437 million, up 18% from 2013. The UK Life business paid a dividend of £390 million, a 30% increase from £300 million in 2013. Ireland paid a dividend to Group of £47 million (*FY13: £70 million*).

Operating profit: IFRS basis

UK & Ireland life operating profit increased by 9% to £1,039 million (*FY13: £952 million*). Within this total, UK life operating profit increased by 9% to £1,016 million (*FY13: £930 million*). 2014 results saw a net additional benefit to profit from non-recurring items of £282 million *(FY13: £116 million)*, mainly from longevity assumption changes and expense reserve releases, which are partially offset by increased DAC amortisation charges on pension business. Excluding these items, profits have decreased 10%, with the benefits of cost savings offset by the impact of reduced annuity trading and lower expected returns as a result of de-risking activity.

In Ireland, life operating profit was broadly stable at £23 million (*FY13: £22 million).*

Expenses

UK operating expenses reduced by 7% to £529 million *(FY13: £569 million)* reflecting cost savings within the business including reducing headcount and lower levels of property spend. UK integration and restructuring costs were £21 million *(FY13: £44 million)* and include the costs of Solvency II implementation.

Ireland operating expenses reduced to £36 million *(FY13: £38 million*) as cost savings were partly offset by the costs of the planned portfolio transfer to UK Life. Integration and restructuring costs decreased to £7 million (*FY13: £15 million*).

Value of new business

Value of new business (VNB) increased to £482 million (*FY13: £477 million*).

In the UK, VNB improved to £473 million (*FY13: £469 million*) following a good performance in the second half of the year. This reflects strong trading and improved margins on equity release products together with increased sales of bulk purchase annuities and protection products. This increase was partially offset by the significant decline in individual annuity volumes following the announcements made in the 2014 UK budget and a general market decline as increasingly customers are choosing to defer taking their pension, as well as lower pensions VNB mainly following the Department for Work and Pensions announcement to cap pension charges.

In Ireland, VNB improved to £9 million (*FY13: £8 million*), a 30% increase on a constant currency basis as a result of a strategic shift in business mix towards higher margin products, in particular protection business.

6.ii – United Kingdom and Ireland general insurance & health

	2014 £m	2013 £m
Cash remitted to Group[1]	**294**	347
Operating profit: IFRS basis	**499**	489
Expenses		
Operating expenses	**755**	818
Integration and restructuring costs	**11**	24
	766	842
Combined operating ratio[2]	**94.9%**	97.2%

1 Cash remittances include amounts of £273 million received from UKGI in February 2015 in respect of 2014 activity and £347 million received in January 2014 in respect of 2013 activity.
2 General insurance business only.

Cash

Total cash remitted to Group was £294 million (*FY13: £347 million*), a reduction driven by the lower interest received following reductions in the intercompany loan during the year. Total 2014 remittances include amounts received from Aviva Insurance Limited in February 2015 in respect of 2014 activity in that business and its subsidiaries.

Operating profit: IFRS basis

UK and Ireland general insurance and health operating profit increased to £499 million (*FY13: £489 million*).

In UK general insurance, operating profit increased 6% to £455 million (*FY13: £431 million*). Within this, the underwriting result improved to £199 million (*FY13: £117 million*) driven by expense savings, favourable prior year claims development and underwriting actions to improve profitability in a challenging rating environment, partly offset by the fact that 2013 benefitted from benign large loss experience. Our personal lines underwriting result declined to £96 million (*FY13: £161 million*), primarily due to higher weather-related claims experienced in 2014 compared to the prior period. The underwriting result in commercial lines continues to show an improvement at £103 million (*FY13: £(44) million*), mainly reflecting the reserve strengthening in FY13 which has not repeated in 2014, as well as the benefits from our reduced exposure to unprofitable commercial business. UKGI net written premium (NWP) declined 4% to £3,663 million (*FY13: £3,823 million*) mainly as a result of our disciplined underwriting approach in a continuing softening personal lines market and selected exits in some lines of commercial business. This compared with a 6% decline at the half year, with a gradual improvement in the second half of the year primarily driven by personal motor and commercial liability products.

In UK Health, operating profit was down £7 million to £11 million (*FY13: £18 million*) due to adverse claims experience.

In Ireland, general insurance and health operating profit decreased to £33 million (*FY13: £40 million*) mainly driven by higher claims costs in the Health business and the non recurrence of the favourable weather experienced in 2013, partly offset by cost savings.

UK and Ireland general insurance longer term investment return was £278 million (*FY13: £336 million*), a £58 million net decline, with a £65 million reduction as a result of the lower intercompany loan balance partially offset by a change in investment portfolio mix in UKGI.

Expenses

UK general insurance operating expenses have reduced by 7% to £658 million (*FY13: £704 million*) reflecting the impact of a reduction in headcount and focus on cost control. In Ireland, operating expenses reduced by 15% to £97 million (*FY13: £114 million*), reflecting cost saving initiatives to deliver the turnaround.

UK and Ireland's integration and restructuring costs reduced to £11 million (*FY13: £24 million*) as a result of non-recurring transformation costs in the prior period in Ireland partly offset by higher Solvency II spend in the UK in 2014.

Combined operating ratio[3]

	Claims ratio		Commission and expense ratio		Combined operating ratio	
United Kingdom & Ireland	**2014 %**	2013 %	**2014 %**	2013 %	**2014 %**	2013 %
Personal	**62.4**	57.7	**33.9**	35.4	**96.3**	93.1
Commercial	**59.9**	68.2	**32.9**	34.8	**92.8**	103.0
Total	**61.4**	62.1	**33.5**	35.1	**94.9**	97.2

3 General insurance business only.

The UK & Ireland general insurance combined operating ratio (COR) has improved by 2.3pp to 94.9% *(FY13: 97.2%)*, reflecting an improvement in the overall claims and commission and expenses ratios.

6.iii – Europe[1]

	2014 £m	2013 £m
Cash remitted to Group	**454**	388
Operating profit: IFRS basis		
Life	**852**	851
General insurance & health	**113**	112
	965	963
Expenses		
Operating expenses	**596**	644
Integration and restructuring costs	**17**	34
	613	678
Value of new business		
Value of new business – excluding Eurovita, Aseval & CxG	**392**	329
Effects of disposals/Assets held for sale (Eurovita, Aseval & CxG)	**(1)**	(6)
	391	323
Combined operating ratio[2]	**97.7%**	98.1%
Combined operating ratio[2] – excluding Turkey	**96.0%**	96.4%

1 Our European business includes life and general insurance business written in France, Poland, Italy, and Turkey, life business in Spain and health business in France.
2 General insurance business only.

There has been a weakening of the Euro, the Polish Zloty and the Turkish Lira by 5%, 5% and 20% respectively (average rate) over the period which has had an impact across a number of metrics.

Cash

Total cash remitted to Group increased to £454 million *(FY13: £388 million*), due to higher remittances from France (up 4% to £245 million), Poland (up 25% to £106 million), Italy (up 167% to £32 million) and Spain (up 33% to £68 million). Within this total, Spain benefitted from a £19 million one-off dividend in 2014 driven by remittance of surplus capital.

Life operating profit: IFRS basis

Life operating profit remained broadly in line with FY13 at £852 million (*FY13: £851 million*) but improved by 5% on a constant currency basis. In France, operating profit increased to £394 million *(FY13: £385 million*). Excluding adverse foreign exchange movements in 2014 and the positive impact from reducing the cost of guaranteed death benefits in 2013, operating profit was 19% higher than FY13. This was mainly from increased sales of unit-linked products and higher returns from improved asset mix. Operating profit[4] in Poland improved to £180 million *(FY13: £164 million)*, with a £39 million one-off benefit from regulatory pension changes partly offset by lower asset management charges. Italy's operating profit[4] increased to £129 million (*FY13: £114 million*) due to higher sales and improved margins on with-profits business. In Spain, operating profit[4] was stable at £101 million.

General insurance & health operating profit: IFRS basis

Operating profits of £113 million (*FY13: £112 million)* were largely in line with 2013 but increased by 4% on a constant currency basis. Italy's operating profit improved to £39 million (*FY13: £35 million*), a 21% increase in constant currency, primarily as a result of the reserve strengthening in FY13 which has not repeated in 2014. Operating profit in France was £78 million (*FY13: £84 million*) and was impacted by adverse weather events and higher healthcare claims costs reflecting a market wide trend. Operating profit in Poland was broadly stable, while operating losses continued in Turkey GI which was disposed of in December 2014.

Expenses

Operating expenses improved to £596 million (*FY13: £644 million*), a 2% improvement on a constant currency basis. This reflected reductions across all markets other than Poland, where costs increased by £9 million due to higher investment in distribution channels. Integration and restructuring costs of £17 million (*FY13: £34 million*) relate largely to Solvency II costs in France.

Value of new business

Europe's value of new business (VNB) increased by 19%[4] to £392 million (*FY13: £329 million*), a 27% increase in constant currency. VNB in France increased by 25%[5] due to sustained volume growth and a continued shift in product mix towards more profitable unit-linked investments. In Poland, VNB improved by 31%[4,5] benefitting from regulatory pension changes in Lithuania and an increase in sales of higher margin protection products. VNB in Italy increased by 55%[4,5] with higher volumes and improved margins on with-profits products following management actions to reduce the costs of guarantees. In Spain, VNB increased by 27%[4,5] due to expense reductions and improved margins on with-profits business following management action to reduce guarantees. The 3%[5] decline in Turkey was mainly driven by a reduction in our share of the business following the partial IPO.

Combined operating ratio[3]

Europe	Claims ratio 2014 %	Claims ratio 2013 %	Commission and expense ratio 2014 %	Commission and expense ratio 2013 %	Combined operating ratio 2014 %	Combined operating ratio 2013 %
France	**70.1**	69.5	**26.8**	27.6	**96.9**	97.1
Poland	**57.6**	61.9	**38.4**	33.3	**96.0**	95.2
Italy	**66.6**	67.6	**27.4**	27.6	**94.0**	95.2
Turkey	**101.5**	84.5	**45.4**	39.4	**146.9**	123.9
Total	**69.7**	69.6	**28.0**	28.5	**97.7**	98.1

3 General Insurance business only.

Combined operating ratio (COR) has improved to 97.7% (*FY13: 98.1%*), reflecting the general insurance business performance as described above.

4 Poland includes Lithuania, Italy excludes Eurovita and Spain excludes Aseval and CxG (sold at the end of December 2014).
5 On a constant currency basis.

6.iv – Canada

	2014 £m	2013 £m
Cash remitted to Group	**138**	130
General Insurance operating profit: IFRS basis	**189**	246
Expenses		
Operating expenses	**316**	378
Integration and restructuring costs	**4**	9
	320	387
Combined operating ratio	**96.1%**	94.6%

There has been a weakening of the Canadian dollar against sterling by 13% (average rate) over the period which has had a significant impact across a number of metrics.

Cash

Cash remitted to Group increased by 6% to £138 million (*FY13: £130 million*), a 15% increase on a local currency basis.

Operating profit: IFRS basis

General insurance operating profit was £189 million (*FY13: £246 million)*, a 23% reduction compared with the prior year (13% reduction on a constant currency basis). During the period, Canada experienced higher large losses and lower prior year reserve releases. These adverse factors were partially offset by an underwriting improvement in commercial lines and overall expense savings, but resulted in a lower underwriting result of £83 million *(FY13: £117 million)*. Longer term investment return reduced 17% to £112 million *(FY13: £135 million)*, down 7% on a constant currency basis, as a result of lower reinvestment yields.

Expenses

Operating expenses reduced by 16% to £316 million *(FY13: £378 million)*, a 6% improvement on a constant currency basis, reflecting the continued focus on expense management. Integration and restructuring costs were lower than prior year at £4 million *(FY13: £9 million)*.

Combined operating ratio

	Claims ratio		Commission and expense ratio		Combined operating ratio	
Canada	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
Personal	**68.1**	64.0	**28.3**	29.3	**96.4**	93.3
Commercial	**61.1**	61.8	**34.4**	35.1	**95.5**	96.9
Total	**65.5**	63.2	**30.6**	31.4	**96.1**	94.6

Combined operating ratio was 96.1% *(FY13: 94.6%)* with the deterioration driven mainly by the higher large losses and less favourable prior year development compared with the prior period. Although more favourable than 2013, Canada weather experience in FY14 remained higher than the long term average reflecting the severe winter in the first quarter of the year followed by hailstorms in Alberta in August. This compares with the adverse impact from the Canadian floods in FY13, of which £62 million was included in the results of Canada, while the remaining £67 million was included in the results of our internal reinsurance company. The commission and expense ratio has improved by 0.8pp reflecting the ongoing focus on expense and commission management.

Net written premiums were 6% lower at £2,104 million *(FY13: £2,250 million)*, but up 6% on a constant currency basis. The increase predominantly reflects new business growth in Western Canada along with rate hardening on personal property, rating increases on commercial lines and improved retention on personal lines reflecting pricing competitiveness.

6.v – Asia

	2014 £m	2013 £m
Cash remitted to Group	**23**	20
Operating profit: IFRS basis		
Life	**87**	96
General insurance & health	**(2)**	1
	85	97
Expenses		
Operating expenses	**80**	86
Integration and restructuring costs	**1**	7
	81	93
Value of new business		
Value of new business – excluding Malaysia	**127**	103
Effects of disposals (Malaysia)	**—**	1
	127	104
Combined operating ratio[1]	**97.8%**	108.1%

1 General insurance business only.

Cash

Total cash remitted to Group was £23 million (*FY13: £20 million*) from the Singapore life and fund management businesses.

Operating profit: IFRS basis

Overall operating profit from life and general insurance and health business reduced by 12% to £85 million (*FY13: £97 million*), a 7% reduction on a constant currency basis mainly driven by the investment in our start-up Indonesian joint venture as well as the disposal of our South Korean business.

Expenses

Operating expenses have decreased 7% to £80 million *(FY13: £86 million*) but remained stable on a constant currency basis, as the increased costs of developing our distribution network in Singapore were offset by lower spend in other markets. Integration and restructuring costs were lower than prior year at £1 million (*FY13: £7 million*).

Value of New Business

Value of new business[2] (VNB) increased 23% (30% in constant currency) to £127 million (*FY13: £103 million*) with the growth driven by Singapore and China. Excluding our South Korean business which was disposed of in the first half of the year, VNB in Asia was £122 million (*FY13: £93 million*), a 40% increase in constant currency. Singapore's VNB increased £11 million to £87 million (*FY13: £76 million*), principally due to the inclusion of the retail health business as covered business (included from the second half of 2013). VNB in China increased £15 million to £31 million (*FY13: £16 million*) driven by a shift towards higher margin protection products.

Combined Operating Ratio

Combined operating ratio for the general insurance business improved to 97.8% *(FY13: 108.1%)*, with the prior year impacted by a one-off increase in reserve margin in Singapore while 2014 benefitted from favourable experience.

Overall net written premium for the general insurance and health business reduced 13% (5% in constant currency) to £87 million (*FY13: £100 million*) primarily due to a change in shareholding of our Indonesian health business, partly offset by growth in the Singapore health business.

2 Asia excludes Malaysia.

6.vi – Fund management

	2014 £m	2013 £m
Cash remitted to Group[1]	**16**	14
Operating profit: IFRS basis		
Aviva Investors	**79**	68
United Kingdom	**6**	23
Asia	**1**	2
	86	93
Aviva Investors: Operating profit: IFRS basis		
Fund management	**79**	68
Other operations	**(18)**	(96)
	61	(28)
Expenses[1]		
Operating expenses	**298**	290
Integration and restructuring costs	**4**	41
	302	331
Value of new business[1]	**9**	—

1 Only includes Aviva Investors.

Cash

During 2014 a dividend of £16 million was paid to Group, compared with a dividend of £14 million in 2013, primarily reflecting an increased remittance by Aviva Investors France.

Operating profit: IFRS basis

Operating profit generated by Aviva Investors was £79 million (*FY13: £68 million*), an increase of £11 million compared with the prior year. This is mainly due to a £12 million contribution from the UK retail fund management business which has transferred from UK Life, as well as higher performance fees. This was partially offset by the adverse impact of the disposal of the River Road business in the first half of the year.

In 2013 we found evidence of improper allocation of trades in fixed income securities in Aviva Investors. In the 2013 result, there was a total adverse impact on operating profit from this activity of £96 million, reflecting the compensation expected to be claimed in respect of these breaches and associated costs. These client compensation costs were recognised within the 'Other operations' result.

In February 2015, Aviva Investors reached a settlement with the FCA for certain systems and controls failings that happened between August 2005 to June 2013 and agreed to pay a fine of £17.6 million. Provision for this expected cost was made at the year end and is fully reflected within the 'Other operations' FY14 result (note A1).

Expenses

Operating expenses in Aviva Investors have increased by £8 million to £298 million (*FY13: £290 million*), primarily due to the transfer of the UK retail fund management business (£14 million) and an increase in expenses incurred to support the further development of the business. This was partly offset by staff cost savings following the strategic review of the business at the end of 2013, together with savings arising from the River Road disposal.

Integration and restructuring costs reduced to £4 million (*FY13: £41 million*), with the prior year total reflecting the restructuring activity required as part of the 2013 strategic review.

Value of New Business

Value of new business in Aviva Investors was £9 million for the period following the transfer of the UK retail fund management business from UK Life.

Net flows and funds under management – Aviva Investors

	Internal £m	External £m	Total £m
Aviva Investors			
Funds under management at 1 January 2014	192,372	48,135	240,507
Gross Sales	18,365	8,580	26,945
Gross claims/redemptions	(21,559)	(10,363)	(31,922)
Market movements and other	11,237	5,436	16,673
Disposals	—	(6,305)	(6,305)
Funds under management at 31 December 2014	**200,415**	**45,483**	**245,898**

Aviva Investors funds under management have increased by £5.4 billion to £245.9 billion *(FY13: £240.5 billion)* during the year. This was driven by favourable market movements partly offset by net redemptions as well as adverse impacts from foreign exchange movements and the River Road disposal.

While we have seen strong external sales in 2014, primarily driven by real estate and fixed income funds, these have been more than offset by outflows in the year. The first two funds in our Aviva Investors multi strategy (AIMS) range were launched during 2014 and we expect to see steady inflows into these funds in 2015.

Within internal assets we have seen overall net outflows in our UK business.

7.i – Life business profit drivers

Life business operating profit before shareholder tax for continuing operations increased by 4% to £1,979 million *(FY13: £1,901 million)*.

Total income reduced by 5% to £3,179 million *(FY13: £3,358 million)*, while total expenses fell by 5% to £1,504 million *(FY13: £1,588 million)*. There has been an adverse foreign exchange impact on the life business result of £51 million during the year largely driven by the weakening of the euro (adverse impact on total income of £96 million, partly offset by a benefit of £43 million on total expenses and £2 million benefit on DAC, AVIF and other items).

	United Kingdom & Ireland		Europe		Asia		Total Continuing Operations	
	2014 £m	Restated 2013 £m	**2014 £m**	Restated 2013 £m	**2014 £m**	2013 £m	**2014 £m**	Restated 2013 £m
New business income	**462**	486	**227**	234	**126**	116	**815**	836
Underwriting margin	**175**	198	**230**	305	**58**	52	**463**	555
Investment return	**738**	782	**1,113**	1,122	**50**	63	**1,901**	1,967
Total Income	**1,375**	1,466	**1,570**	1,661	**234**	231	**3,179**	3,358
Acquisition expenses	**(278)**	(284)	**(263)**	(300)	**(96)**	(94)	**(637)**	(678)
Administration expenses	**(364)**	(390)	**(467)**	(482)	**(36)**	(38)	**(867)**	(910)
Total Expenses	**(642)**	(674)	**(730)**	(782)	**(132)**	(132)	**(1,504)**	(1,588)
DAC, AVIF and other	**306**	160	**12**	(28)	**(15)**	(3)	**303**	129
	1,039	952	**852**	851	**87**	96	**1,978**	1,899
Other business[1]							**1**	2
Total – continuing operations							**1,979**	1,901

1 Other business includes the total result for Aviva Investors Pooled Pensions and Aviva Life Reinsurance.

Income: New business income and underwriting margin

	United Kingdom & Ireland		Europe		Asia		Total	
	2014 £m	Restated 2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	Restated 2013 £m
New business income (£m)	**462**	486	**227**	234	**126**	116	**815**	836
APE (£m)[1]	**1,409**	1,390	**1,071**	1,022	**285**	298	**2,765**	2,710
As margin on APE (%)	**33%**	35%	**21%**	23%	**44%**	39%	**29%**	31%
Underwriting margin (£m)	**175**	198	**230**	305	**58**	52	**463**	555
Analysed by:								
Expenses	**44**	36	**55**	70	**30**	33	**129**	139
Mortality and longevity	**114**	130	**153**	210	**22**	14	**289**	354
Persistency	**17**	32	**22**	25	**6**	5	**45**	62

1 APE excludes UK Retail Fund Management and Health business in UK & Ireland and Asia.

(a) New business income

New business income reduced to £815 million *(FY13: £836 million)* mainly due to the impact of lower annuity trading in the UK following the budget announcement in March 2014 partly offset by an increase in Asia. Europe was broadly stable.

The net contribution from new business is the new business income less associated acquisition expenses (see (g) below). This increased to £178 million profit *(FY13: £158 million profit)*, largely driven by cost efficiencies across Europe and higher margins on new business in Asia, offset by a decrease in the UK.

In the UK & Ireland, net contribution from new business decreased to £184 million profit *(FY13: £202 million profit)*. Volumes based on APE increased by 1% largely due to an increase in pensions, protection, bulk purchase annuities and equity release business partly offset by a reduction in individual annuities. The reduction in margin on APE to 33% *(FY13: 35%)* is mainly as a result of the change in business mix.

In Europe, net contribution improved to a loss of £36 million *(FY13: loss of £66 million)*. Volumes based on APE increased by 5%, (11% on a constant currency basis), largely driven by higher sales in France, Italy and Poland. New business margin on APE reduced to 21% *(FY13: 23%)* largely due to changes in product mix.

In Asia, net contribution increased to a profit of £30 million *(FY13: £22 million profit)*.

(b) Underwriting margin

The underwriting margin reduced to £463 million *(FY13: £555 million)*. In the UK & Ireland, underwriting margin reduced to £175 million *(FY13: £198 million)* driven by lower positive mortality margins and a non-recurring release in 2013 of the cost of guarantees on a tranche of maturing bonds. In Europe, underwriting margin decreased to £230 million *(FY13: £305 million)* largely driven by France where management actions taken to reduce the cost of guaranteed death benefits created a non-recurring benefit of £42 million in 2013. The underwriting margin in Spain decreased mainly due to the sale of Aseval. In Asia, underwriting margin increased to £58 million *(FY13: £52 million)* mainly due to a favourable impact from mortality assumption changes in Singapore.

7.i – Life business profit drivers continued

Income: Investment return

	United Kingdom & Ireland		Europe		Asia		Total	
	2014 £m	Restated 2013 £m	**2014 £m**	Restated 2013 £m	**2014 £m**	2013 £m	**2014 £m**	Restated 2013 £m
Unit-linked margin (£m)	**434**	411	**439**	454	**13**	20	**886**	885
As Annual management charge on average reserves (bps)	**87**	88	**126**	119	**108**	167	**103**	102
Average reserves (£bn)	**49.8**	46.9	**34.8**	38.3	**1.2**	1.2	**85.8**	86.4
Participating business (£m)	**94**	86	**531**	531	**(1)**	(6)	**624**	611
As bonus on average reserves (bps)	**27**	23	**90**	85	**n/a**	n/a	**65**	61
Average reserves (£bn)	**34.4**	36.6	**59.3**	62.3	**1.7**	1.5	**95.4**	100.4
Spread margin (£m)	**136**	142	**25**	28	**26**	37	**187**	207
As spread margin on average reserves (bps)	**32**	35	**60**	67	**236**	195	**39**	45
Average reserves (£bn)	**42.1**	40.3	**4.2**	4.2	**1.1**	1.9	**47.4**	46.4
Expected return on shareholder assets (£m)	**74**	143	**118**	109	**12**	12	**204**	264
Total (£m)	**738**	782	**1,113**	1,122	**50**	63	**1,901**	1,967

(c) Unit-linked margin
The unit-linked margin was stable at £886 million *(FY13: £885 million)*. This result included an adverse foreign exchange impact of £26 million, predominantly in Europe. The margin as a proportion of average unit-linked reserves was 103 bps *(FY13: 102 bps)*, on average reserves of £86 billion *(FY13: £86 billion)*.

An improved unit linked margin in the UK was due to higher average reserves. In Europe, unit linked income increased on a constant currency basis. Average reserves were lower, driven by regulatory changes in Poland where over half of the pension assets were transferred to the Polish State in 2014, partly offset by higher average reserves in France including the benefit of improved sales. Unit linked margin on a constant currency basis improved as a result of higher profitability, particularly in Italy. Lower unit linked income in Asia was driven by lower margins during the year mainly in China.

(d) Participating business
Income from participating business increased to £624 million *(FY13: £611 million)*. In the UK & Ireland, the shareholder transfer from with-profit funds increased to £94 million *(FY13: £86 million)*, reflecting an increase in bonus rates. In Europe, income remained stable at £531 million *(FY13: £531 million)*, but increased on a constant currency basis driven by improvements in profitability, mainly in Italy. The majority of participating income is earned in France.

(e) Spread margin
Spread business income, which mainly relates to UK immediate annuity and equity release business, was £187 million *(FY13: £207 million)*. The spread margin on average reserves reduced to 39 bps *(FY13: 45 bps)*, on average reserves of £47 billion *(FY13: £46 billion)*. In Europe, the fall in spread margin was mainly as a result of worsened asset yields in Italy. In Asia, the majority of spread business income was generated in Korea which was sold in June 2014.

(f) Expected return on shareholder assets
Expected returns, representing investment income on surplus funds, reduced to £204 million *(FY13: £264 million)*. The reduction in income mainly relates to the UK, where there have been lower expected returns as a result of de-risking activity. In Europe, the increase in expected return was largely as a result of a change in asset mix in France.

7.i – Life business profit drivers continued

Expenses

	United Kingdom & Ireland		Europe		Asia		Total	
	2014 £m	Restated 2013 £m	**2014 £m**	Restated 2013 £m	**2014 £m**	2013 £m	**2014 £m**	Restated 2013 £m
Acquisition expenses (£m)	**(278)**	(284)	**(263)**	(300)	**(96)**	(94)	**(637)**	(678)
APE (£m)[1]	**1,409**	1,390	**1,071**	1,022	**285**	298	**2,765**	2,710
As acquisition expense ratio on APE (%)	**20%**	20%	**25%**	29%	**34%**	32%	**23%**	25%
Administration expenses (£m)	**(364)**	(390)	**(467)**	(482)	**(36)**	(38)	**(867)**	(910)
As existing business expense ratio on average reserves (bps)	**29**	32	**48**	46	**90**	83	**38**	39
Average reserves (£bn)	**126.3**	123.8	**98.3**	104.8	**4.0**	4.6	**228.6**	233.2

1 APE excludes UK Retail Fund Management and Health business in UK & Ireland and Asia.

(g) Acquisition expenses

Acquisition expenses reduced to £637 million *(FY13: £678 million)*, reflecting changes in business mix particularly in the UK and cost savings on new business across Europe. The overall group-wide ratio of acquisition expenses to APE improved to 23% *(FY13: 25%)*.

(h) Administration expenses

Administration expenses reduced to £867 million *(FY13: £910 million)*, mainly driven by cost efficiencies in the UK and beneficial exchange rate movements in Europe. The expense ratio was stable at 38 bps *(FY13: 39 bps)* on average reserves of £229 billion *(FY13: £233 billion)*. The overall reduction in life business acquisition and administration expenses was £84 million.

(i) DAC, AVIF and other

DAC, AVIF and other items amounted to an overall positive contribution of £303 million *(FY13: £129 million)*, which was mainly driven by the UK. In the UK, there has been a net additional benefit to profit from non-recurring items of £282 million *(FY13: £116 million)*, mainly from longevity assumption changes and expense reserve releases, which are partially offset by increased DAC amortisation charges on pension business. The movement in other items compared to the prior year also reflects a £39 million one-off benefit in Poland from a regulatory pension change.

7.ii – General insurance and health

2014	UK Personal £m	UK Commercial £m	**Total UK £m**	Ireland £m	**Total UK & Ireland £m**	Canada Personal £m	Canada Commercial £m	**Total Canada £m**	**Europe £m**	**Asia & Other[1] £m**	**Total £m**
General insurance											
Gross written premiums	2,239	1,694	**3,933**	285	**4,218**	1,344	832	**2,176**	**1,389**	**15**	**7,798**
Net written premiums	2,152	1,511	**3,663**	272	**3,935**	1,325	779	**2,104**	**1,313**	**20**	**7,372**
Net earned premiums	2,202	1,511	**3,713**	267	**3,980**	1,280	770	**2,050**	**1,308**	**23**	**7,361**
Net claims incurred	(1,359)	(905)	**(2,264)**	(179)	**(2,443)**	(872)	(471)	**(1,343)**	**(912)**	**(13)**	**(4,711)**
Of which claims handling costs			***(193)***	*(6)*	***(199)***			***(79)***	***(59)***	**—**	***(337)***
Written commission	(564)	(309)	**(873)**	(36)	**(909)**	(259)	(157)	**(416)**	**(250)**	**(1)**	**(1,576)**
Written expenses[2]	(175)	(189)	**(364)**	(44)	**(408)**	(115)	(111)	**(226)**	**(117)**	**(5)**	**(756)**
Movement in DAC	(8)	(5)	**(13)**	(3)	**(16)**	15	3	**18**	**1**	**—**	**3**
Underwriting result	96	103	**199**	5	**204**	49	34	**83**	**30**	**4**	**321**
Longer-term investment return[3]			**260**	18	**278**			**112**	**74**	**6**	**470**
Other[4]			**(4)**	—	**(4)**			**(6)**	**—**	**—**	**(10)**
Operating profit			**455**	23	**478**			**189**	**104**	**10**	**781**
Health insurance											
Underwriting result					**15**			**—**	**8**	**(3)**	**20**
Longer-term investment return					**6**			**—**	**1**	**—**	**7**
Operating profit					**21**			**—**	**9**	**(3)**	**27**
Total operating profit					**499**			**189**	**113**	**7**	**808**
General insurance combined operating ratio											
Claims ratio	61.7%	59.9%	**61.0%**	67.1%	**61.4%**	68.1%	61.1%	**65.5%**	**69.7%**		**64.0%**
Commission ratio	26.2%	20.4%	**23.8%**	13.4%	**23.1%**	19.6%	20.2%	**19.8%**	**19.1%**		**21.4%**
Expense ratio	8.1%	12.5%	**10.0%**	16.1%	**10.4%**	8.7%	14.2%	**10.8%**	**8.9%**		**10.3%**
Combined operating ratio[5]	96.0%	92.8%	**94.8%**	96.6%	**94.9%**	96.4%	95.5%	**96.1%**	**97.7%**		**95.7%**
Assets supporting general insurance and health business											
Debt securities			**4,429**	825	**5,254**			**3,261**	**2,140**	**203**	**10,858**
Equity securities			**7**	—	**7**			**222**	**22**	**—**	**251**
Investment property			**91**	4	**95**			**—**	**128**	**—**	**223**
Cash and cash equivalents			**865**	79	**944**			**123**	**185**	**48**	**1,300**
Other[6]			**3,372**	101	**3,473**			**122**	**172**	**—**	**3,767**
Assets at 31 December 2014			**8,764**	1,009	**9,773**			**3,728**	**2,647**	**251**	**16,399**
Debt securities			**3,515**	994	**4,509**			**3,098**	**2,255**	**243**	**10,105**
Equity securities			**15**	—	**15**			**301**	**23**	**—**	**339**
Investment property			**1**	6	**7**			**—**	**133**	**—**	**140**
Cash and cash equivalents[7]			**1,490**	194	**1,684**			**95**	**152**	**51**	**1,982**
Other[6,7]			**5,088**	109	**5,197**			**79**	**159**	**—**	**5,435**
Assets at 31 December 2013[7]			**10,109**	1,303	**11,412**			**3,573**	**2,722**	**294**	**18,001**
Average assets			**9,436**	1,156	**10,592**			**3,650**	**2,685**	**273**	**17,200**
LTIR as % of average assets			**2.8%**	1.6%	**2.7%**			**3.1%**	**2.8%**	**2.2%**	**2.8%**

1. Asia & Other includes Aviva Re
2. Operating expenses shown in note 3 includes claims handling costs and written expenses included in general insurance COR above, plus operating expenses of other (non-insurance) operations.
3. The UK & Ireland LTIR includes benefit of £156 million *(FY13: £221 million)* return on the internal loan. This is lower than 2013 primarily as a result of a reduction in the loan balance during 2014.
4. Includes unwind of discount and pension scheme net finance costs.
5. COR is calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums. COR is calculated using unrounded numbers so minor rounding differences may exist.
6. Includes loans and other financial investments.
7. Restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B1 for further information.

7.ii – General insurance and health continued

2013	UK Personal £m	UK Commercial £m	Total UK £m	Ireland £m	Total UK & Ireland £m	Canada Personal £m	Canada Commercial £m	Total Canada £m	Europe £m	Asia & Other[1] £m	Total £m
General insurance											
Gross written premiums	2,375	1,717	4,092	290	4,382	1,418	900	2,318	1,442	23	8,165
Net written premiums	2,276	1,547	3,823	278	4,101	1,396	854	2,250	1,360	47	7,758
Net earned premiums	2,344	1,629	3,973	312	4,285	1,364	832	2,196	1,368	48	7,897
Net claims incurred	(1,347)	(1,112)	(2,459)	(200)	(2,659)	(874)	(513)	(1,387)	(951)	(97)	(5,094)
Of which claims handling costs			*(200)*	*(6)*	*(206)*			*(88)*	*(49)*	—	*(343)*
Written commission	(631)	(333)	(964)	(42)	(1,006)	(283)	(170)	(453)	(256)	(1)	(1,716)
Written expenses[2]	(175)	(205)	(380)	(56)	(436)	(126)	(129)	(255)	(131)	(5)	(827)
Movement in DAC	(30)	(27)	(57)	(8)	(65)	11	5	16	(3)	—	(52)
Internal reallocation of result of UK run-off business	—	4	4	—	4	—	—	—	—	(4)	—
Underwriting result	161	(44)	117	6	123	92	25	117	27	(59)	208
Longer-term investment return[3]			318	18	336			135	71	7	549
Other[4]			(4)	—	(4)			(6)	—	—	(10)
Operating profit			431	24	455			246	98	(52)	747
Health insurance											
Underwriting result					28			—	13	1	42
Longer-term investment return					6			—	1	1	8
Operating profit					34			—	14	2	50
Total operating profit					489			246	112	(50)	797
General insurance combined operating ratio											
Claims ratio	57.5%	68.2%	61.9%	64.1%	62.1%	64.0%	61.8%	63.2%	69.6%		64.5%
Commission ratio	27.7%	21.5%	25.2%	15.1%	24.5%	20.3%	19.9%	20.1%	18.8%		22.1%
Expense ratio	7.7%	13.2%	9.9%	20.0%	10.6%	9.0%	15.2%	11.3%	9.7%		10.7%
Combined operating ratio[5]	92.9%	102.9%	97.0%	99.2%	97.2%	93.3%	96.9%	94.6%	98.1%		97.3%
Assets supporting general insurance and health business											
Debt securities			3,515	994	4,509			3,098	2,255	243	10,105
Equity securities			15	—	15			301	23	—	339
Investment property			1	6	7			—	133	—	140
Cash and cash equivalents[7]			1,490	194	1,684			95	152	51	1,982
Other[6,7]			5,088	109	5,197			79	159	—	5,435
Assets at 31 December 2013[7]			10,109	1,303	11,412			3,573	2,722	294	18,001
Debt securities			2,765	814	3,579			3,410	2,168	140	9,297
Equity securities			415	—	415			343	16	—	774
Investment property			1	7	8			—	131	—	139
Cash and cash equivalents[7]			1,500	390	1,890			103	426	230	2,649
Other[6,7]			5,705	110	5,815			143	50	—	6,008
Assets at 31 December 2012[7]			10,386	1,321	11,707			3,999	2,791	370	18,867
Average assets			10,247	1,312	11,559			3,786	2,757	332	18,434
LTIR as % of average assets			3.2%	1.4%	3.0%			3.5%	2.7%	2.4%	3.0%

1. Asia & Other includes Aviva Re
2. Operating expenses shown in note 3 includes claims handling costs and written expenses included in general insurance COR above, plus operating expenses of other (non-insurance) operations.
3. The UK LTIR includes benefit of £221 million *(FY12: £299 million)* relating to the internal loan. This is lower than 2012 primarily as a result of a reorganisation of this loan during 2013.
4. Includes unwind of discount and pension scheme net finance costs.
5. COR is calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums. COR is calculated using unrounded numbers so minor rounding differences may exist.
6. Includes loans and other financial investments.
7. Restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note B1 for further information.

7.iii – Fund flows

	Restated[1] Managed assets at 1 January 2014 £m	Premiums and deposits, net of reinsurance £m	Claims and redemptions, net of reinsurance £m	Net flows[2] £m	Effect of disposals, market and other movements £m	Managed assets at 31 December 2014 £m
Life and platform business						
UK – non-profit – platform	2,815	2,633	(296)	2,337	130	**5,282**
UK – non-profit – other	78,882	5,767	(6,600)	(833)	5,682	**83,731**
Ireland	5,564	400	(632)	(232)	186	**5,518**
United Kingdom & Ireland (excluding UK with-profits)	87,261	8,800	(7,528)	1,272	5,998	**94,531**
Europe	99,312	8,653	(7,442)	1,211	(3,921)	**96,602**
Asia	3,723	840	(465)	375	142	**4,240**
Other	1,767	46	(197)	(151)	246	**1,862**
	192,063	18,339	(15,632)	2,707	2,465	**197,235**
UK – with-profits and other	45,720					**46,677**
Total life and platform business	237,783					**243,912**

1 Restated following the inclusion of UK and Asia platform business and the adoption of amendments to IAS 32*: Financial instruments: Presentation*. Refer to note B1 for further information. Managed assets reflect financial investments, loans, investment property and cash and cash equivalents.
2 Life business net flows in the table above are net of reinsurance and exclude flows related to UK equity release products.

United Kingdom & Ireland (excluding UK with-profits)

During 2014, net inflows in UK Life (non-profit including platform) were £1,504 million. The UK Life Platform managed assets increased by 88% over the period driven by new business volumes. Other non-profit outflows were £833 million, including a group personal pension transfer out of around £500 million. The UK non-profit other movements of £5,682 million principally reflect fair value gains in the period, driven by the fall in interest rates.

In Ireland, net outflows were £232 million reflecting reduced new business inflows due to the strategic withdrawal from unprofitable product lines and the impact of surrenders on the unit linked pension business. In addition, claims exceeded premiums in the Irish with-profit fund which is closed to new business.

Europe

Net inflows were £1,211 million. In France this reflects increased volumes of unit linked sales and lower levels of redemptions. In Italy, increased sales of with-profits products have benefited net inflows. Other movements in Europe include fair value gains in the period offset by the disposal of our Italian and Spanish businesses, Eurovita and CxG respectively, and unfavourable foreign exchange movements.

Asia and other

Net inflows in Asia were £375 million and arise principally in Singapore. Other business net outflows of £151 million relate to Aviva Investors' Pooled Pensions business.

8.i – Summary of assets

The Group asset portfolio is invested to generate competitive investment returns for both policyholders and shareholders whilst remaining within the Group's appetite for market and credit risk.

The Group has a low appetite for interest rate risk and currency risk which means that the asset portfolios are well matched by duration and currency to the liabilities they cover. The Group also runs a low level of liquidity risk which results in a high proportion of income generating assets and a preference for more liquid assets where there is the potential need to realise those assets before maturity.

The Group seeks to diversify its asset portfolio in order to reduce risk and provide more attractive risk-adjusted returns. In order to achieve this there is a comprehensive risk limit framework in place. There is an allowance for diversification in our economic capital model, actions have been taken to reduce our exposure to the Eurozone periphery, and we are broadening the investment portfolio in individual businesses.

Asset allocation decisions are taken at legal entity level and in many cases by fund within a legal entity in order to reflect the nature of the liabilities, customer expectations, the local accounting and regulatory treatment, and any local constraints. These asset allocation decisions are made in accordance with a Group-wide framework that takes into account consensus investment views across the Group, prioritised Group objectives and metrics and Group risk limits and constraints. This framework is overseen by the Group ALCO (Asset Liability Committee) and facilitates a consistent approach to asset allocation across the business units in line with Group risk appetite and shareholder objectives.

The asset allocation as at 31 December 2014 across the Group, split according to the type of liability the assets are covering, is shown in the table below. Further information on these assets is given in the analysis of assets section.

2014 £m	Shareholder business assets: General Insurance & health & other[1]	Shareholder business assets: Annuity and non-profit	Policyholder (unit linked assets)	Participating fund assets: UK style with profits	Participating fund assets: Continental European-style participating funds	Total assets analysed	Less assets of operation classified as held for sale	Carrying value in the statement of financial position
Debt securities								
Government bonds	**7,248**	**9,066**	**5,961**	**16,297**	**26,991**	**65,563**	**—**	**65,563**
Corporate bonds	**3,867**	**13,768**	**5,235**	**7,473**	**25,455**	**55,798**	**—**	**55,798**
Other	**201**	**1,653**	**2,432**	**1,625**	**4,389**	**10,300**	**—**	**10,300**
	11,316	**24,487**	**13,628**	**25,395**	**56,835**	**131,661**	**—**	**131,661**
Loans								
Mortgage loans	**77**	**19,841**	**—**	**453**	**1**	**20,372**	**—**	**20,372**
Other loans	**129**	**623**	**302**	**3,055**	**779**	**4,888**	**—**	**4,888**
	206	**20,464**	**302**	**3,508**	**780**	**25,260**	**—**	**25,260**
Equity securities	**262**	**220**	**26,324**	**6,395**	**2,418**	**35,619**	**—**	**35,619**
Investment property	**222**	**74**	**4,019**	**2,979**	**1,631**	**8,925**	**—**	**8,925**
Other investments	**457**	**1,575**	**27,181**	**3,800**	**2,345**	**35,358**	**—**	**35,358**
Total as at 31 December 2014	**12,463**	**46,820**	**71,454**	**42,077**	**64,009**	**236,823**	**—**	**236,823**
Total as at 31 December 2013 (restated)[2]	11,843	42,097	69,294	42,364	64,434	230,032	(2,675)	227,357

1. Of the £12.5 billion of assets 5% relates to other shareholder business assets.
2. The statement of financial position has been restated following the adoption of amendments to IAS 32. There is no impact on the result or the total equity for any period presented as a result of this restatement.

There is an internal loan between Aviva Insurance Limited (AIL) and Aviva Group Holdings Limited (AGH) that has a net value of zero at a consolidated level.

General insurance and health

All the investment risk is borne by shareholders and the portfolio held to cover these liabilities contains a high proportion of fixed and variable income securities, of which 87% are rated A or above. The assets are relatively short duration reflecting the short average duration of the liabilities. Liquidity, interest rate and FX risks are maintained at a low level.

Annuity and other non-profit

All the investment risk is borne by shareholders. The annuity liabilities have a long duration but are also illiquid as customers cannot surrender their policies. The assets are chosen to provide stable income with a good cash flow, FX and interest rate match to the liabilities. We are able to invest part of the portfolio in less liquid assets in order to improve risk-adjusted returns given the illiquid nature of the liabilities. The asset portfolio is principally comprised of long maturity bonds and loans including a material book of commercial mortgage loans. As at 31 December 2014, unrealised losses and impairments on the bond portfolio of £24.5 billion amounted to £0.1 billion or 0.3% of the portfolio. The equivalent figure for 31 December 2013 was 1%. Unrealised gains on the portfolio were £4.1 billion as at 31 December 2014 or 17% of the portfolio. The equivalent unrealised gains figure for 31 December 2013 was 10%. The other non-profit business assets are a smaller proportion of this portfolio and are generally shorter in duration and have a high proportion invested in fixed income.

8.i – Summary of assets continued

The current asset value of the commercial mortgage portfolio (including Healthcare and PFI mortgages) backing the UK Annuity book is £12.0 billion. While these commercial mortgages are held at fair value on the asset side of the statement of financial position, we also carry an allowance against the risk of default on our riskier mortgages of £0.9 billion (*FY13: £1.3 billion*). Since FY13, £0.5 billion of the allowance has been utilised to take action on certain riskier mortgages, partly offset by a £0.1 billion increase in the cost of replacing lost cash flows on future defaults, caused by lower interest rates and lower spreads on new commercial mortgages. The valuation allowance (including supplementary allowances) for commercial mortgages, including Healthcare and PFI mortgages of £0.9 billion equates to 87bps at 31 December 2014 (*FY13: 124bps*).

Policyholder assets

These assets are invested in line with the fund choices made by our unit-linked policyholders and the investment risk is borne by the policyholder. This results in a high allocation to growth assets such as equity and property. Aviva's shareholder exposure to these assets arises from the fact that the income we receive is a proportion of the assets under management.

UK style with profits (WP)

UK style with profit funds hold relatively long term contracts with policyholders participating in pooled investment performance subject to some minimum guarantees. Smoothed returns are used to declare bonuses to policyholders which increase the level of the guarantees through time. The part of the portfolio to which policyholder bonuses are linked is invested in line with their expectations and includes growth assets such as equity and property as well as fixed income. The remainder of the portfolio is invested to mitigate the resultant shareholder risk. This leads us to an overall investment portfolio that holds a higher proportion of growth assets (such as equity and property) than our other business lines although there are still material allocations to fixed income assets.

Continental European style participating funds

Continental European style participating funds hold relatively long term contracts with policyholders participating in pooled investment performance subject to some minimum guarantees. Smoothed returns are used to declare bonuses to policyholders. Certain of the guarantees are subject to annual discretion declared at the start of the year. Other guarantees are subject to revision downwards at contractual dates. Italy has introduced zero percent guarantee products. The investment portfolio holds a higher proportion of fixed income assets than the UK style equivalent. Fixed income assets also give rise to less volatility on the local statutory balance sheet than growth assets.

8.ii – External leverage

Group capital	**2014 £m**	2013 £m
Subordinated debt	**4,594**	4,370
Senior debt	**716**	755
DCI, fixed rate tier 1 notes and preference shares	**1,342**	1,832
External debt	**6,652**	6,957
Total tangible capital employed[1,2]	**16,259**	14,632
Tangible debt leverage[1]	**41%**	48%

1. The definition of tangible capital employed has been adjusted in 2014 to deduct only goodwill from "tangible capital". Goodwill includes £1,302 million (*FY13: £1,480 million including £4 million within assets held for sale*) of goodwill in subsidiaries and £25 million (*FY13: £30 million*) of goodwill in joint ventures. AVIF and other intangibles are maintained within the capital base. As at FY14, AVIF and other intangibles comprise £1,028 million (*FY13: £1,068 million*) of intangibles in subsidiaries and £62 million *(FY13: £30 million)* of intangibles in joint ventures, net of deferred tax liabilities of £(180) million (*FY13: £(189) million*) and the non-controlling interest share of intangibles of £(198) million (*FY13: £(215) million*).
2. Tangible capital employed is total IFRS equity (including DCI, fixed rate Tier 1 Rate Notes, preference shares and non-controlling interests) and non equity items such as core structural borrowings.

At FY14 the debt leverage ratio was 41% *(FY13: 48%)* mainly as a result of a £1.6 billion increase in tangible capital employed, driven by current year operating profits and positive movements in the UK staff pension scheme, together with a £0.3 billion decrease in external debt.

8.iii – Net asset value

At the end of 2014, IFRS net asset value per share was 340 pence *(FY13: 270 pence)*. This increase was driven by operating profits and profit on the disposal of subsidiaries and associates, positive investment variances, and a benefit on remeasurement of the pension schemes, partially offset by the dividend payment to shareholders and adverse foreign exchange movements.

Total investment variances and economic assumption changes were £188 million positive. This included £116 million positive variance in the non-life businesses, reflecting positive short-term fluctuations in investment values offset by adverse economic assumption changes. This was driven by a decrease in risk-free rates increasing fixed income security market values in the UK, Canada and France, together with other market and foreign exchange movements benefitting the Group centre investments offset by the adverse impact of lower discount rates on latent claims reserves.

In the life businesses, investment return variances were £72 million positive mainly driven by lower risk free rates and narrowing credit spreads on government and corporate bonds in Italy and Spain. Adverse variances in the UK were due to the adverse impact of falling reinvestment yields net of improved underlying property values on commercial mortgages partly offset by a change to the model used to value certain equity release assets and the consequential impact on the liabilities that they back.

The positive movement on the Group's staff pension schemes of £1,315 million post tax is principally due to the main UK staff pension scheme. The surplus has increased over the period largely as a result of positive asset performance driven by a fall in interest rates. This was partially offset by an increase in the defined benefit obligation.

The adverse foreign exchange movement of £317 million is due to the strengthening of sterling, particularly compared with the Euro and Canadian dollar.

IFRS	2014 £m	pence per share[2]	2013 £m	pence per share[2]
Equity attributable to shareholders of Aviva plc at 1 January[1]	**7,964**	**270p**	8,204	278p
Operating profit – continuing operations	**2,173**	**74p**	2,049	70p
Operating profit – discontinued operations	**—**	**—**	290	10p
Investment return variances and economic assumption changes on life and non-life business	**188**	**6p**	100	3p
Profit/(loss) on the disposal and remeasurement of subsidiaries and associates	**232**	**8p**	923	31p
Goodwill impairment and amortisation of intangibles	**(114)**	**(4)p**	(177)	(6)p
Integration and restructuring costs	**(140)**	**(5)p**	(366)	(12)p
Tax on operating profit and on other activities	**(601)**	**(20)p**	(668)	(23)p
Non-controlling interests	**(169)**	**(6)p**	(143)	(5)p
Profit after tax attributable to shareholders of Aviva plc	**1,569**	**53p**	2,008	68p
AFS securities (fair value) & other reserve movements	**62**	**2p**	(840)	(29)p
Ordinary dividends	**(446)**	**(15)p**	(429)	(15)p
Direct capital instruments and fixed rate tier 1 notes interest and preference share dividend	**(86)**	**(3)p**	(87)	(3)p
Foreign exchange rate movements	**(317)**	**(11)p**	(354)	(12)p
Remeasurements of pension schemes	**1,315**	**45p**	(549)	(19)p
Other net equity movements[3]	**(43)**	**(1)p**	11	2p
Equity attributable to shareholders of Aviva plc at 31 December[1]	**10,018**	**340p**	7,964	270p

1 Excluding preference shares
2 Number of shares as at 31 December 2014: 2,950 million *(31 December 2013: 2,947 million)*.
3 Other net equity movements per share includes the dilution effect of the increase in number of shares during the period.

MCEV net asset value per share increased to 527 pence *(FY13: 463 pence)*. This movement has been driven by operating profits and a positive benefit on remeasurement of the pension schemes which have been partially offset by adverse foreign exchange movements and the dividend payment to shareholders.

Total MCEV investment variances were £36 million adverse, with adverse variance of £152 million in the group's life businesses, partially offset by positive investment variances in the non-life businesses of £116 million.

The adverse life investment variances were largely driven by lower risk-free rates and increased volatility increasing the cost of guarantees in France partially offset by net positive variances in the UK, Spain and Poland. In the UK positive variances are due to the benefit of falling risk-free rates and changes in corporate bond and mortgage spreads net of the change in liquidity premium, partially offset by a change to the model used to value certain equity release assets and the consequential impact on the liabilities that they back. In Spain and Poland investment variances have been positive as falling risk-free rates have increased the discounted value of future profits.

MCEV[2]	2014 £m	pence per share[1]	2013 £m	pence per share[1]
Equity attributable to shareholders of Aviva plc at 1 January[3]	**13,643**	**463p**	13,120	444p
Operating profit – continuing operations	**2,885**	**98p**	2,337	79p
Operating profit – discontinued operations	**—**	**—**	290	10p
Investment return variances and economic assumption changes on life and non-life business	**(36)**	**(1)p**	1,776	60p
Profit/(loss) on the disposal and remeasurement of subsidiaries and associates	**178**	**6p**	963	33p
Goodwill impairment and amortisation of intangibles	**(130)**	**(4)p**	(194)	(7)p
Integration costs and restructuring	**(159)**	**(6)p**	(357)	(12)p
Exceptional items	**(198)**	**(7)p**	(242)	(8)p
Tax on operating profit and on other activities	**(674)**	**(23)p**	(1,340)	(45)p
Non-controlling interests	**(208)**	**(7)p**	(488)	(17)p
Profit after tax attributable to shareholders of Aviva plc	**1,658**	**56p**	2,745	93p
AFS securities (fair value) & other reserve movements	**(1)**	**—**	(813)	(27)p
Ordinary dividends	**(446)**	**(15)p**	(429)	(15)p
Direct capital instruments and fixed rate tier 1 notes interest and preference share dividend	**(86)**	**(3)p**	(87)	(3)p
Foreign exchange rate movements	**(546)**	**(19)p**	(355)	(12)p
Remeasurements of pension schemes	**1,315**	**45p**	(549)	(19)p
Other net equity movements[4]	**10**	**—**	11	2p
Equity attributable to shareholders of Aviva plc at 31 December[3]	**15,547**	**527p**	13,643	463p

1 Number of shares as at 31 December 2014: 2,950 million *(31 December 2013: 2,947 million)*.
2 In preparing the MCEV information, the directors have done so in accordance with the European Insurance CFO Forum MCEV Principles with the exception of stating held for sale operations at their expected fair value, as represented by expected sale proceeds, less cost to sell at those dates.
3 Excluding preference shares
4 Other net equity movements per share includes the dilution effect of the increase in number of shares during the period.

8.iv – Return on equity

Return on equity shareholder funds is calculated as operating return (IFRS basis) net of tax expressed as a percentage of opening shareholders equity. This has decreased to 17.4% *(FY13:17.8%)* for FY14. Excluding the United States, the FY13 return on equity shareholders' fund was 15.3%.

The FY14 return on equity shareholders' funds has benefited from a lower opening capital position by £240 million, as profits in 2013 were more than offset by other movements including the remeasurement of pension schemes and foreign exchange movements.

	2014 **%**	2013 %
United Kingdom & Ireland Life	**15.7%**	16.0%
United Kingdom & Ireland General Insurance and Health	**8.9%**	8.0%
Europe	**11.7%**	10.9%
Canada	**15.0%**	17.4%
Asia	**10.0%**	10.1%
Fund management	**24.5%**	32.1%
Corporate and Other Business	**n/a**	n/a
Return on total capital employed (excluding United States)[1]	**11.5%**	11.0%
United States[1]	**—**	56.5%
Return on total capital employed	**11.5%**	12.0%
Subordinated debt	**5.2%**	5.4%
Senior debt	**2.1%**	2.2%
Return on total equity	**14.6%**	15.2%
Less: Non-controlling interest	**9.7%**	11.1%
Direct capital instruments and fixed rate tier 1 notes	**5.0%**	5.1%
Preference capital	**8.5%**	8.5%
Return on equity shareholders' funds	**17.4%**	17.8%
Return on equity shareholders' funds (excluding United States)[1]	**17.4%**	15.3%

1 The sale of the United States business completed on 2 October 2013.

8.v – European Insurance Groups Directive (IGD)

	UK life funds £bn	Other business £bn	31 December 2014 £bn	31 December 2013 £bn
Insurance Groups Directive (IGD) capital resources	**6.0**	**8.4**	**14.4**	14.4
Less: capital resources requirement	**(6.0)**	**(5.2)**	**(11.2)**	(10.8)
Insurance Group Directive (IGD) excess solvency	**—**	**3.2**	**3.2**	3.6
Cover over EU minimum (calculated excluding UK life funds)			**1.6 times**	1.7 times

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has decreased by £0.4 billion since FY13 to £3.2 billion. This total includes an adverse impact of £0.4 billion from recognising the proposed final dividend for 2014 that was announced on 2 December 2014 as part of the announcement of the Group's offer to acquire Friends Life Group Limited. The dividend is subject to approval by shareholders at the AGM, but is considered foreseeable and is therefore deducted from the 31 December 2014 IGD surplus. In contrast, the 2013 final dividend of £0.3 billion was not foreseeable as at 31 December 2013, and was not deducted from the 2013 year-end IGD surplus.

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

	£bn
IGD solvency surplus at 31 December 2013	**3.6**
Operating profits net of other income and expenses	**1.2**
Dividends and appropriations	**(0.6)**
Market movements including foreign exchange[1]	**0.2**
Hybrid debt redemption	**(0.2)**
Internal reinsurance	**(0.3)**
Pension scheme funding	**(0.2)**
Acquisitions and disposals	**0.2**
Increase in capital resources requirement	**(0.3)**
Estimated IGD solvency surplus at 31 December 2014 (excluding foreseeable dividend)	**3.6**
Foreseeable dividend	**(0.4)**
Estimated IGD solvency surplus at 31 December 2014	**3.2**

1 Market movements include the impact of equity, credit spread, interest rate and foreign exchange movements net of the effect of hedging instruments. In the period market movements also include positive variances in the UK due to the recent revaluation of the equity release business, offset by the higher cost of replacing mortgages after a fall in the risk free interest rate.

Group IGD sensitivity

	2014 £bn	Equities down 10%	Interest rates up 1%
Sensitivities on IGD	**3.2**	**(0.0)**	**(0.1)**

The Group proactively manages its balance sheet risk through monitoring, stress analysis and our hedging programme.

The Group's IGD surplus is resilient to global equity market falls or a 1% global interest rate rise. The Group's IGD surplus would be approximately £3.2 billion in the event of a 40% fall in equity markets from the 31 December 2014 position reflecting the hedging that the Group currently has in place.

The impact of a 1% rise in global interest rates is calculated with reference to the regulatory value of debt securities in continental Europe being capped to local minimum capital requirements in participating funds. This provides protection to the Group's IGD surplus from immediate market losses on debt securities.

8.vi – Economic capital

The estimated economic capital surplus represents the excess of Available Economic Capital over Required Economic Capital. Available Economic Capital is based on MCEV net assets, adjusted for items to convert to an economic basis. Required Economic Capital is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties.

Summary of estimated economic capital position

	2014 £bn	2013 £bn
Available economic capital	**18.6**	18.4
Standalone required economic capital	**(16.1)**	(15.9)
Diversification benefit	**5.9**	5.8
Diversified required economic capital	**(10.2)**	(10.1)
Estimated economic capital position at 31 December before foreseeable dividend accrual	**8.4**	8.3
Cover Ratio	**182%**	182%
Foreseeable dividend accrual	**(0.4)**	—
Estimated economic capital position at 31 December	**8.0**	8.3
Cover Ratio	**178%**	182%

Analysis of change in economic capital

	2014 £bn	2013 £bn
Economic capital surplus position at 1 January	**8.3**	5.3
MCEV operating earnings	**1.6**	1.4
Economic variances	**(0.5)**	0.7
Exceptional and other non-operating items	**(0.4)**	(0.9)
Dividend and appropriations, and shares issued in lieu of dividends	**(0.5)**	(0.5)
Repayment of subordinated debt	**(0.3)**	—
Available capital benefits from disposals	**0.2**	1.3
Economic capital staff pension scheme	**0.3**	0.3
Other (including change in commercial mortgage default allowance)	**(0.2)**	(0.5)
Change in available economic capital	**0.2**	1.8
Impact of trading operations and other	**0.4**	0.7
Economic capital staff pension scheme	**(0.1)**	(0.7)
Other changes in methodology	**(0.6)**	—
Impact of changes in Group hedging	**—**	(0.2)
Capital requirement benefits from acquisitions and disposals	**0.2**	1.4
Change in diversified required economic capital	**(0.1)**	1.2
Estimated economic capital surplus position at 31 December before foreseeable dividend accrual	**8.4**	8.3
Foreseeable dividend accrual	(0.4)	—
Estimated economic capital surplus position at 31 December	**8.0**	8.3

The estimated economic capital position (before allowing for the accrual of the foreseeable dividend) has increased by £0.1 billion to £8.4 billion at 31 December 2014 with a cover ratio of 182%. The change in available economic capital position is driven by underlying operating profits, beneficial movements to the staff pension schemes and benefits from acquisitions and disposals, offset by dividend payment, subordinated debt repayment, economic variances and other non-operating items. The change in required economic capital reflects changes in methodology and other items offset by the benefit from acquisitions and disposals.

The impact of accruing for the foreseeable dividend proposed by the Aviva Board on 2 December 2014 is to reduce the group economic capital position by £0.4 billion to £8.0 billion with a corresponding cover ratio of 178%.

8.vi – Economic capital continued

Summary analysis of diversified required economic capital

	2014 £bn	2013 £bn
Credit risk[1]	**2.4**	2.5
Equity risk[2]	**1.5**	2.1
Interest rate risk[3]	**0.6**	0.2
Other market risk[4]	**1.4**	1.4
Life insurance risk[5]	**1.3**	1.0
General insurance risk[6]	**0.8**	0.8
Other risk[7]	**2.2**	2.1
Total	**10.2**	10.1

1 Capital held in respect of credit risk recognises the Group's shareholder exposure to changes in the market value of assets and defaults. Assets captured within this category include corporate bonds and non-domestic sovereigns and domestic sovereigns.
2 Capital held in respect of equity risk recognises the Group's shareholder exposure to changes in the market value of assets.
3 Capital held in respect of interest rate risk recognises the Group's shareholder exposure to changes in the market value of assets. A range of specific stresses are applied reflecting the difference in assumed risk relative to investment grade and duration.
4 Capital held in respect of other market risk recognises the Group's shareholder exposure to changes in the market value of commercial mortgages and property, but also captures risk in association with inflation and foreign exchange.
5 Capital held in respect of life insurance risk recognises the Group's shareholder exposure to life insurance specific risks, such as longevity and lapse.
6 Capital held in respect of general insurance risk recognises the Group's shareholder exposure to general insurance specific risks, such as claims volatility and catastrophe.
7 Capital held in respect of other risk recognises the Group's shareholder exposure to specific risks unique to particular business units and other items.

Financial supplement

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Reconciliation of Group operating profit to profit after tax – IFRS basis

For the year ended 31 December 2014

	2014 £m Continuing Operations	2013 £m Continuing Operations	2013 £m Discontinued Operations[1]
Operating profit before tax attributable to shareholders' profits			
Life business			
United Kingdom & Ireland	**1,039**	952	—
Europe	**852**	851	—
Asia	**87**	96	—
Other	**1**	2	272
Total life business	**1,979**	1,901	272
General insurance and health			
United Kingdom & Ireland	**499**	489	—
Europe	**113**	112	—
Canada	**189**	246	—
Asia	**(2)**	1	—
Other	**9**	(51)	—
Total general insurance and health	**808**	797	—
Fund management			
Aviva Investors	**79**	68	31
United Kingdom	**6**	23	—
Asia	**1**	2	—
Total fund management	**86**	93	31
Other			
Other operations (note A1)	**(105)**	(90)	(4)
Market operating profit	**2,768**	2,701	299
Corporate centre (note A2)	**(132)**	(150)	—
Group debt costs and other interest (note A3)	**(463)**	(502)	(9)
Operating profit before tax attributable to shareholders' profits	**2,173**	2,049	290
Integration and restructuring costs	**(140)**	(363)	(3)
Operating profit before tax attributable to shareholders' profits after integration and restructuring costs	**2,033**	1,686	287
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business (note A4)	**72**	(49)	452
Short-term fluctuation in return on investments backing non-long-term business (note A5)	**261**	(336)	—
Economic assumption changes on general insurance and health business (note A6)	**(145)**	33	—
Impairment of goodwill, joint ventures and associates and other amounts expensed (note A7)	**(24)**	(77)	—
Amortisation and impairment of intangibles	**(90)**	(91)	(9)
Profit on the disposal and re-measurement of subsidiaries, joint ventures and associates (note A8)	**174**	115	808
Non-operating items before tax	**248**	(405)	1,251
Profit before tax attributable to shareholders' profits	**2,281**	1,281	1,538
Tax on operating profit	**(561)**	(534)	(83)
Tax on other activities	**(40)**	131	(182)
	(601)	(403)	(265)
Profit after tax	**1,680**	878	1,273
Profit from discontinued operations	**58**	1,273	
Profit for the year	**1,738**	2,151	

1 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) up until the date of disposal (2 October 2013).

Other Group Operating Profit Items
A1 – Other operations

	2014 £m	2013 £m
United Kingdom & Ireland Life	**(4)**	(14)
United Kingdom & Ireland General Insurance	**4**	(6)
Europe	**(26)**	(17)
Asia	**(8)**	(12)
Other Group operations[1]	**(71)**	(41)
Total – continuing operations	**(105)**	(90)
Total – discontinued operations	**—**	(4)
Total	**(105)**	(94)

1 Other Group operations include Group and head office costs.

Other operations relate to non insurance activities and primarily include costs associated with our Group and regional head offices, pension schemes expenses, as well as non insurance income. Total costs in relation to non insurance activities have increased by £11 million to £105 million (*FY13: £94 million*), mainly driven by 'Other Group operations' partly offset by improvements in the United Kingdom and Ireland.

In 2013 we found evidence of improper allocation of trades in fixed income securities in Aviva Investors. In the 2013 result, there was a total adverse impact on operating profit from this activity of £132 million reflecting compensation expected to be claimed in respect of these breaches and other associated costs. These amounts are shown in operating profit in 'Other Group operations'.

Within the 2013 result, this was more than offset by the gain of £145 million relating to the Ireland pension scheme curtailment gain.

In February 2015, Aviva Investors reached a settlement with the FCA for certain systems and controls failings that happened between August 2005 to June 2013 and agreed to pay a fine of £17.6 million. Provision for this expected cost was made at the year end and is fully reflected within the 'Other operations' FY14 result.

Excluding these one-offs, 'Other Group operations' costs in relation to non insurance activities of £53 million *(FY13: costs of £54 million)* were broadly stable.

A2 – Corporate centre

	2014 £m	2013 £m
Project spend	**(9)**	(27)
Central spend and share award costs	**(123)**	(123)
Total	**(132)**	(150)

A3 – Group debt costs and other interest

	2014 £m	2013 £m
External debt		
Subordinated debt	**(289)**	(305)
Other	**(21)**	(23)
Total external debt	**(310)**	(328)
Internal lending arrangements	**(186)**	(231)
Net finance income on main UK pension scheme	**33**	57
Total – continuing operations	**(463)**	(502)
Total – discontinued operations	**—**	(9)
Total	**(463)**	(511)

Non-operating profit items

A4 – Life Business: Investment variances and economic assumption changes

(a) Definitions

Operating profit for life 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, where not treated as exceptional. 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 life operating profit are as follows:

Life business	**2014 £m**	2013 £m
Investment variances and economic assumptions – continuing operations	**72**	(49)
Investment variances and economic assumptions – discontinued operations	**—**	452
Investment variances and economic assumptions	**72**	403

For continuing operations, investment variances were £72 million positive *(2013: £49 million negative)* mainly driven by lower risk free rates and narrowing credit spreads on government and corporate bonds in Italy and Spain. Adverse variances in the UK were due to the adverse impact of falling reinvestment yields net of improved underlying property values on commercial mortgages partly offset by a change to the model used to value certain equity release assets and the consequential impact on the liabilities that they back.

In 2013, for continuing operations, positive variances from narrowing spreads in Italy and Spain were offset by an increase in allowance for credit defaults in the UK.

Discontinued operations represent the US business disposed of in 2013, which benefitted from favourable equity market performance on embedded derivatives in 2013.

(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.

The principal assumptions underlying the calculation of the expected investment return for equities and properties are:

	Equities		Properties	
	2014 %	2013 %	**2014 %**	2013 %
United Kingdom	**6.6%**	5.4%	**5.1%**	3.9%
Eurozone	**5.7%**	5.1%	**4.2%**	3.6%

The expected return on equities and properties has been calculated by reference to the opening 10 year swap rate in the relevant currency plus an appropriate risk margin. These are the same assumptions as are used under MCEV principles to calculate the longer-term investment return for the Group's life business.

For fixed interest securities classified as fair value through profit or loss, the expected investment returns are based on average prospective yields for the actual assets held less an adjustment for credit risks; this includes an adjustment for credit risk on all Eurozone sovereign debt. Where such securities are classified as available for sale, the expected investment return comprises the expected interest or dividend payments and amortisation of the premium or discount at purchase.

A5 – Non-life business: Short-term fluctuation in return on investments

General Insurance and health – continuing operations	2014 £m	2013 £m
Analysis of investment income:		
– Net investment income	**666**	349
– Foreign exchange gains/losses and other charges	**(8)**	(35)
	658	314
– Longer-term investment return, reported within operating profit	**477**	557
– Short-term fluctuations in investment return, reported outside operating profit	**181**	(243)
	658	314
Short-term fluctuations:		
– General insurance and health	**181**	(243)
– Other operations[1]	**80**	(93)
Total short-term fluctuations	**261**	(336)

1 For 2014 represents short-term fluctuations on assets backing non-life business in Group centre investments, including the centre hedging programme. For 2013 represents short-term fluctuations on assets backing non-life business in the France holding company and Group centre investments, including the centre hedging programme.

The longer-term investment return is calculated separately for each principal non-life business unit. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of investment return. The longer-term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer-term return for other investments is the actual income receivable for the year. Actual income and longer-term investment return both contain the amortisation of the discounts/premium arising on the acquisition of fixed income securities.

Market value movements which give rise to variances between actual and longer-term investment returns are disclosed separately in short term fluctuations outside operating profit.

Following the corporate restructure in 2013, the impact of realised and unrealised gains and losses on Group centre investments, including the centre hedging programme which is designed to economically protect the total Group's capital against adverse equity and foreign exchange movements, is now included in short-term fluctuations on other operations instead of general insurance and health.

The favourable movement in short-term fluctuation during 2014 compared with 2013 is mainly due to a decrease in risk free rates increasing fixed income security market values and other market movements impacting Group centre investments and the centre hedging programme.

The total assets supporting the general insurance and health business, which contribute towards the longer-term return, are:

	2014 £m	Restated[2] 2013 £m
Debt securities	**10,858**	10,105
Equity securities	**251**	339
Properties	**223**	140
Cash and cash equivalents	**1,300**	1,982
Other[3]	**3,767**	5,435
Assets supporting general insurance and health business	**16,399**	18,001
Assets supporting other non-long term business[1]	**562**	695
Total assets supporting non-long term business	**16,961**	18,696

1 For 2014 represents assets backing non-life business in Group centre investments, including the centre hedging programme. For 2013 represents assets backing non-life business in the France holding company and Group centre investments, including the centre hedging programme.
2. Restated following adoption of amendments to 'IAS32: Financial Instruments: Presentation'. Refer to note B1 for further information.
3 Includes the internal loan.

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

	Longer-term rates of return on equities		Longer-term rates of return on property	
	2014 %	2013 %	2014 %	2013 %
United Kingdom	**6.6%**	5.4%	**5.1%**	3.9%
Eurozone	**5.7%**	5.1%	**4.2%**	3.6%
Canada	**6.8%**	5.8%	**5.3%**	4.3%

The underlying reference rates are shown in F2 within the MCEV financial supplement.

A6 – General insurance and health business: Economic assumption changes

Economic assumption changes of £145 million adverse *(FY13: £33 million favourable)* arise mainly as a result of a decrease in the swap rates used to discount latent claims reserves and periodic payment orders.

A7 – Impairment of goodwill, associates, joint ventures and other amounts expensed

Impairment of goodwill, joint ventures and associates from continuing operations is a charge of £24 million *(FY13: £77 million charge)* as management determined that the goodwill held in respect of the associate in India is not recoverable.

A8 – Profit/loss on the disposal and re-measurement of subsidiaries, joint ventures and associates

The total Group profit on disposal and re-measurement of subsidiaries, joint ventures and associates from continuing operations is £174 million *(FY13: £115 million profit)*.

This includes profits on the disposals of US equity manager River Road Asset Management (£35 million), the Spanish long-term business CxG (£132 million) and the Group's South Korean business Woori Aviva Life Insurance Co. Ltd (£2 million). A gain of £15 million was also recognised on the sale of shares in the Turkey Life business initial public offering. This is partly offset by a loss on the disposal of the Italian long-term business Eurovita (£6 million) and the Turkey general insurance business (£16 million). Additionally, a net gain of £12 million was recognised on re-measurement and disposals of other small operations.

Profit on the disposal of subsidiaries relating to discontinued operations is £58 million *(FY13: £808 million)*. Further detail is provided in note B5.

A9 – Exceptional items

Exceptional items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. Exceptional items for FY14 were £nil *(FY13: £nil)*.

IFRS financial statements

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Consolidated income statement

For the year ended 31 December 2014

	Note	2014 £m Continuing operations	2013 £m Continuing operations	2013 £m Discontinued operations[1]
Income				
Gross written premiums		**21,670**	22,035	1,589
Premiums ceded to reinsurers		**(1,614)**	(1,546)	(100)
Premiums written net of reinsurance		**20,056**	20,489	1,489
Net change in provision for unearned premiums		**1**	134	—
Net earned premiums		**20,057**	20,623	1,489
Fee and commission income		**1,230**	1,279	28
Net investment income		**21,889**	12,509	2,340
Share of profit after tax of joint ventures and associates		**147**	120	—
Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates		**174**	115	808
		43,497	34,646	4,665
Expenses				
Claims and benefits paid, net of recoveries from reinsurers		**(19,474)**	(22,093)	(2,037)
Change in insurance liabilities, net of reinsurance		**(5,570)**	2,493	(312)
Change in investment contract provisions		**(6,518)**	(7,050)	(31)
Change in unallocated divisible surplus		**(3,364)**	280	—
Fee and commission expense		**(3,389)**	(3,975)	(438)
Other expenses		**(1,979)**	(2,220)	(293)
Finance costs		**(540)**	(609)	(16)
		(40,834)	(33,174)	(3,127)
Profit before tax		**2,663**	1,472	1,538
Tax attributable to policyholders' returns	B7	**(382)**	(191)	—
Profit before tax attributable to shareholders' profits		**2,281**	1,281	1,538
Tax expense	B7	**(983)**	(594)	(265)
Less: tax attributable to policyholders' returns	B7	**382**	191	—
Tax attributable to shareholders' profits		**(601)**	(403)	(265)
Profit after tax		**1,680**	878	1,273
Profit from discontinued operations		**58**	1,273	
Profit for the year		**1,738**	2,151	
Attributable to:				
Equity shareholders of Aviva plc		**1,569**	2,008	
Non-controlling interests		**169**	143	
Profit for the year		**1,738**	2,151	
Earnings per share	B8			
Basic (pence per share)		**50.4p**	65.3p	
Diluted (pence per share)		**49.6p**	64.5p	
Continuing operations – Basic (pence per share)		**48.4p**	22.0p	
Continuing operations – Diluted (pence per share)		**47.7p**	21.8p	

1 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) until the date of disposal (2 October 2013). See note B5 for further details.

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	2014 £m	2013 £m
Profit for the year from continuing operations	**1,680**	878
Profit for the year from discontinued operations[1]	**58**	1,273
Total profit for the year	**1,738**	2,151
Other comprehensive income from continuing operations:		
Items that may be reclassified subsequently to income statement		
Investments classified as available for sale		
Fair value gains	**62**	19
Fair value (losses)/gains transferred to profit on disposals	**(7)**	1
Share of other comprehensive income of joint ventures and associates	**22**	(37)
Foreign exchange rate movements	**(396)**	(35)
Aggregate tax effect – shareholder tax on items that may be reclassified into profit or loss	**(9)**	(14)
Items that will not be reclassified to income statement		
Owner-occupied properties – fair value gains/(losses)	**7**	(2)
Remeasurements of pension schemes	**1,662**	(674)
Aggregate tax effect – shareholder tax on items that will not be reclassified into profit or loss	**(347)**	125
Other comprehensive income, net of tax from continuing operations	**994**	(617)
Other comprehensive income, net of tax from discontinued operations[1]	**—**	(319)
Total other comprehensive income, net of tax	**994**	(936)
Total comprehensive income for the year from continuing operations	**2,674**	261
Total comprehensive income for the year from discontinued operations[1]	**58**	954
Total comprehensive income for the year	**2,732**	1,215
Attributable to:		
Equity shareholders of Aviva plc	**2,642**	1,038
Non-controlling interests	**90**	177
	2,732	1,215

1 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) until the date of disposal (2 October 2013). See note B5 for further details.

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Shares held by employee trusts £m	Other Reserves £m	Retained earnings £m	Equity attributable to shareholders of Aviva plc £m	DCI and fixed rate tier 1 notes £m	Non-controlling interests £m	Total equity £m
Balance at 1 January	736	200	1,165	3,271	(31)	475	2,348	8,164	1,382	1,471	11,017
Profit for the year	—	—	—	—	—	—	1,569	1,569	—	169	1,738
Other comprehensive income	—	—	—	—	—	(242)	1,315	1,073	—	(79)	994
Total comprehensive income for the year	—	—	—	—	—	(242)	2,884	2,642	—	90	2,732
Owner-occupied properties fair value gains transferred to retained earnings on disposals	—	—	—	—	—	(2)	2	—	—	—	—
Dividends and appropriations	—	—	—	—	—	—	(551)	(551)	—	—	(551)
Non-controlling interests share of dividends declared in the year	—	—	—	—	—	—	—	—	—	(189)	(189)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	—	—	—	—	—	(13)	2	(11)	—	—	(11)
Changes in non-controlling interests in subsidiaries	—	—	—	—	—	—	(36)	(36)	—	(206)	(242)
Shares distributed by employee trusts	—	—	—	—	23	—	(18)	5	—	—	5
Reserves credit for equity compensation plans	—	—	—	—	—	39	—	39	—	—	39
Shares issued under equity compensation plans	1	—	7	—	—	(28)	24	4	—	—	4
Aggregate tax effect – shareholder tax	—	—	—	—	—	—	19	19	—	—	19
Redemption of direct capital instrument[1]	—	—	—	—	—	—	(57)	(57)	(490)	—	(547)
Balance at 31 December	737	200	1,172	3,271	(8)	229	4,617	10,218	892	1,166	12,276

1 £57 million relates to the foreign exchange loss on redemption of €700 million direct capital instrument on 28 November 2014. See Note B20 for further detail.

For the year ended 31 December 2013

	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Shares held by employee trusts £m	Other Reserves £m	Retained earnings £m	Equity attributable to shareholders of Aviva plc £m	DCI and fixed rate tier 1 notes £m	Non-controlling interests £m	Total equity £m
Balance at 1 January	736	200	1,165	3,271	(32)	1,675	1,389	8,404	1,382	1,574	11,360
Profit for the year	—	—	—	—	—	—	2,008	2,008	—	143	2,151
Other comprehensive income	—	—	—	—	—	(421)	(549)	(970)	—	34	(936)
Total comprehensive income for the year	—	—	—	—	—	(421)	1,459	1,038	—	177	1,215
Dividends and appropriations	—	—	—	—	—	—	(538)	(538)	—	—	(538)
Capital contributions from non-controlling interests	—	—	—	—	—	—	—	—	—	1	1
Non-controlling interests share of dividends declared in the year	—	—	—	—	—	—	—	—	—	(134)	(134)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	—	—	—	—	—	(803)	1	(802)	—	—	(802)
Changes in non-controlling interests in subsidiaries	—	—	—	—	—	—	—	—	—	(147)	(147)
Shares acquired by employee trusts	—	—	—	—	(32)	—	—	(32)	—	—	(32)
Shares distributed by employee trusts	—	—	—	—	33	—	(28)	5	—	—	5
Reserves credit for equity compensation plans	—	—	—	—	—	37	—	37	—	—	37
Shares issued under equity compensation plans	—	—	—	—	—	(43)	43	—	—	—	—
Aggregate tax effect – shareholder tax	—	—	—	—	—	30	22	52	—	—	52
Balance at 31 December	736	200	1,165	3,271	(31)	475	2,348	8,164	1,382	1,471	11,017

Consolidated statement of financial position

As at 31 December 2014

	Note	2014 £m	Restated[1] 2013 £m	Restated[1] 2012 £m
Assets				
Goodwill		**1,302**	1,476	1,520
Acquired value of in-force business and intangible assets		**1,028**	1,068	1,084
Interests in, and loans to, joint ventures		**1,140**	1,200	1,390
Interests in, and loans to, associates		**404**	267	265
Property and equipment		**357**	313	391
Investment property		**8,925**	9,451	9,939
Loans		**25,260**	23,879	24,537
Financial investments		**202,638**	194,027	189,651
Reinsurance assets	B12	**7,958**	7,220	6,684
Deferred tax assets		**76**	244	188
Current tax assets		**27**	76	67
Receivables		**5,933**	7,476	8,034
Deferred acquisition costs and other assets		**5,091**	3,051	3,778
Prepayments and accrued income		**2,466**	2,635	2,776
Cash and cash equivalents		**23,105**	26,131	24,213
Assets of operations classified as held for sale		**9**	3,113	42,603
Total assets		**285,719**	281,627	317,120
Equity				
Capital				
Ordinary share capital		**737**	736	736
Preference share capital		**200**	200	200
		937	936	936
Capital reserves				
Share premium		**1,172**	1,165	1,165
Merger reserve		**3,271**	3,271	3,271
		4,443	4,436	4,436
Shares held by employee trusts		**(8)**	(31)	(32)
Other reserves		**229**	475	1,675
Retained earnings		**4,617**	2,348	1,389
Equity attributable to shareholders of Aviva plc		**10,218**	8,164	8,404
Direct capital instruments and fixed rate tier 1 notes		**892**	1,382	1,382
Non-controlling interests		**1,166**	1,471	1,574
Total equity		**12,276**	11,017	11,360
Liabilities				
Gross insurance liabilities	B10	**113,445**	110,555	113,091
Gross liabilities for investment contracts	B11	**117,245**	116,058	110,494
Unallocated divisible surplus	B14	**9,467**	6,713	6,931
Net asset value attributable to unitholders		**9,482**	10,362	9,983
Provisions	B16	**879**	984	1,119
Deferred tax liabilities		**1,091**	563	547
Current tax liabilities		**169**	116	112
Borrowings		**7,378**	7,819	8,179
Payables and other financial liabilities		**12,012**	11,945	12,051
Other liabilities		**2,273**	2,472	1,842
Liabilities of operations classified as held for sale		**2**	3,023	41,411
Total liabilities		**273,443**	270,610	305,760
Total equity and liabilities		**285,719**	281,627	317,120

1 The statement of financial position has been restated following the adoption of amendments to IAS 32 '*Financial Instruments: Presentation*' – see note B2 for details. There is no impact on the result or the total equity for any period presented as a result of this restatement.

Consolidated statement of cash flows

For the year ended 31 December 2014

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.

	2014 £m	Restated[2] 2013 £m
Cash flows from operating activities		
Cash (used in)/generated from continuing operations	**(87)**	2,562
Tax paid	**(457)**	(463)
Net cash (used in)/from operating activities – continuing operations	**(544)**	2,099
Net cash from operating activities – discontinued operations[1]	**—**	1,919
Total net cash (used in)/from operating activities	**(544)**	4,018
Cash flows from investing activities		
Acquisitions of, and additions to, subsidiaries, joint ventures and associates, net of cash acquired	**(79)**	(29)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	**110**	377
New loans to joint ventures and associates	**(73)**	(6)
Repayment of loans to joint ventures and associates	**33**	25
Net new loans to joint ventures and associates	**(40)**	19
Purchases of property and equipment	**(116)**	(30)
Proceeds on sale of property and equipment	**19**	56
Other cash flow related to intangible assets	**(122)**	(59)
Net cash (used in)/from investing activities – continuing operations	**(228)**	334
Net cash (used in)/from investing activities – discontinued operations[1]	**(20)**	(1,588)
Total net cash (used in)/from investing activities	**(248)**	(1,254)
Cash flows from financing activities		
Redemption of direct capital instrument	**(547)**	—
Proceeds from issue of ordinary shares	**8**	—
Treasury shares purchased for employee trusts	**—**	(32)
New borrowings drawn down, net of expenses	**2,383**	2,201
Repayment of borrowings	**(2,442)**	(2,441)
Net repayment of borrowings	**(59)**	(240)
Interest paid on borrowings	**(527)**	(605)
Preference dividends paid	**(17)**	(17)
Ordinary dividends paid[3]	**(447)**	(429)
Coupon payments on direct capital instruments and fixed rate tier 1 notes	**(88)**	(92)
Capital contributions from non-controlling interests of subsidiaries	**—**	1
Dividends paid to non-controlling interests of subsidiaries	**(189)**	(134)
Changes in controlling interest in subsidiaries[4]	**(89)**	—
Net cash used in financing activities – continuing operations	**(1,955)**	(1,548)
Net cash from financing activities – discontinued operations[1]	**—**	19
Total net cash used in financing activities	**(1,955)**	(1,529)
Total net (decrease)/increase in cash and cash equivalents	**(2,747)**	1,235
Cash and cash equivalents at 1 January	**25,989**	24,564
Effect of exchange rate changes on cash and cash equivalents	**(678)**	190
Cash and cash equivalents at 31 December	**22,564**	25,989

1 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) until the date of disposal (2 October 2013). See note B5 for further details.
2 The statement of cash flows has been restated following the adoption of amendments to IAS 32 '*Financial Instruments: Presentation*' – see note B2 for details.
3 Ordinary dividends paid amounted to £449 million. £2 million of unclaimed and waived dividends has been set off against this above.
4 Changes in controlling interests in subsidiaries primarily relate to Italy where we increased our ownership interest in certain existing subsidiaries during 2014.

B1(i) Basis of preparation

(a) The results in this preliminary announcement have been taken from the Group's 2014 Annual report and accounts which will be available on the Company's website on 16 March 2015. The consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS.

The basis of preparation and summary of accounting policies applicable to the Group's consolidated financial statements can be found in the Accounting policies section of the 2014 Annual report and accounts. The Group has adopted new standards, interpretations and amendments to published standards as described in B1(ii).

The preliminary announcement for the year ended 31 December 2014 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The results on an IFRS basis for full year 2014 and 2013 have been audited by PricewaterhouseCoopers LLP (PwC). PwC have reported on the 2014 and 2013 consolidated financial statements. Both reports were unqualified and neither contained a statement under section 498 (2) or (3) of the Companies Act 2006. The Group's 2013 report and accounts have been filed with the Registrar of Companies.

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

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 pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m).

c) The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, short-term realised and unrealised investment gains and losses are treated as non-operating items. As a result, the Group focuses on an operating profit measure that incorporates an expected return on investments supporting its long-term and non-long-term businesses. Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. For non-long-term business, the total investment income, including realised and unrealised gains, is analysed between that calculated using a longer-term return and short-term fluctuations from that level. Operating profit also excludes impairment of goodwill, associates and joint ventures; amortisation and impairment of intangibles; the profit or loss on disposal and remeasurement of subsidiaries, joint ventures and associates; integration and restructuring costs; and exceptional items.

B1(ii) New standards, interpretations and amendments to published standards that have been adopted by the Group

The Group has adopted the following new standards or amendments to standards which became effective for financial years beginning on or after 1 January 2014.

(i) Amendments to IAS 32, Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
These amendments clarify the meaning of 'currently legally enforceable right to set-off' to reinforce that a right to set-off must not be contingent on any future event, including counterparty default or bankruptcy. Additionally, amendments to IAS 32 clarify that a settlement mechanism must be in place to ensure settlement in practice that is either simultaneous or sufficient to result in insignificant credit and liquidity risk. The amendments to IAS 32 have been applied retrospectively in accordance with the transitional provisions of the standard. The primary impact of the application of the amendments has resulted in the grossing up of certain assets and liabilities related to derivatives and repurchase arrangements in the statement of financial position that were previously reported net. There is no impact on the profit or loss or equity for any period presented. The effect on amounts previously reported at 1 January 2013 and 31 December 2013 is set out in B2.

(ii) Amendments to IAS 39, Financial Instruments – Novation of Derivatives and Continuation of Hedge Accounting
The amendments provide an exemption from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the Group's consolidated financial statements as the Group has not novated its derivatives to a central counterparty in the current or prior periods.

(iii) Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities Exception
The amendments provide an exemption from consolidation of subsidiaries under IFRS 10 *Consolidated Financial Statements* for entities which meet the definition of an 'investment entity', such as certain investment funds. There are no implications for the Group's consolidated financial statements as the Group does not meet the definition of an investment entity.

(iv) IFRIC 21, Levies
The interpretation clarifies when an entity recognises a liability for a levy imposed by government in accordance with legislation (other than taxes and fines or other penalties). The adoption of the amendment has no significant impact for the Group's consolidated financial statements.

(v) Annual Improvements to IFRSs 2010-2012
These improvements to IFRSs consist of amendments to seven IFRSs including IFRS 2 *Share-based Payment*, IFRS 3 *Business Combinations* and IFRS 13 *Fair Value Measurement*. The amendments clarify existing guidance and there is no significant impact on the Group's consolidated financial statements.

B2 – Analysis of the impact of new standards and amendments to published standards that have been adopted by the Group

Impact of amendments to accounting standards on the consolidated statement of financial position

	1 January 2013			31 December 2013		
	As previously reported £m	Effect of amendments to IAS 32 £m	Restated £m	As previously reported £m	Effect of amendments to IAS 32 £m	Restated £m
Total assets	314,467	2,653	317,120	278,876	2,751	281,627
Effect analysed as:						
Financial investments	188,743	908	189,651	192,961	1,066	194,027
Receivables	7,476	558	8,034	7,060	416	7,476
Prepayments and accrued income	2,700	76	2,776	2,498	137	2,635
Cash and cash equivalents	23,102	1,111	24,213	24,999	1,132	26,131
Total equity and liabilities	314,467	2,653	317,120	278,876	2,751	281,627
Total liabilities	303,107	2,653	305,760	267,859	2,751	270,610
Effect analysed as:						
Payables and other financial liabilities	9,398	2,653	12,051	9,194	2,751	11,945

The change in cash and cash equivalents of £1,132 million at 31 December 2013 has been presented in the consolidated statement of cash flows as an increase of opening cash and cash equivalents of £1,111 million as at 1 January 2013, a decrease in net cash flows from operating activities for the year then ended of £8 million and an increase in the effect of exchange rate changes of £29 million. There is no impact from the adoption of these amendments on the consolidated income statement, consolidated statement of comprehensive income or consolidated statement of changes in equity for the year ended 31 December 2013.

B3 – Exchange rates

The Group's principal overseas operations during the year were located within the eurozone, Canada and Poland. The results and cash flows of these operations have been translated into sterling at the average rates for the year and the assets and liabilities have been translated at the year end rates as follows:

	2014	2013
Eurozone		
Average rate (€1 equals)	**£0.81**	£0.85
Period end rate (€1 equals)	**£0.78**	£0.83
Canada		
Average rate ($CAD1 equals)	**£0.55**	£0.62
Period end rate ($CAD1 equals)	**£0.55**	£0.57
Poland		
Average rate (PLN1 equals)	**£0.19**	£0.20
Period end rate (PLN1 equals)	**£0.18**	£0.20
United States		
Average rate ($US1 equals)	**£0.61**	£0.64
Period end rate ($US1 equals)	**£0.64**	£0.60

B4 – Presentation of discontinued operations

The sale of the Group's US Life and annuity business and related internal investment management operations ("US Life"), as described in note B5(b)(viii), has been classified as discontinued operations together with the results of US Life for preceding years, as the Group exited from a major geographical area of operation. This is consistent with the presentation in the 2013 Annual Report and Accounts.

B5 – Subsidiaries

This note provides details of the acquisitions and disposals of subsidiaries, joint ventures and associates that the Group has made during the year, together with details of businesses held for sale at the year end.

(a) Acquisitions

There have been no material acquisitions during the year.

On 2 December 2014 Aviva plc and Friends Life Group Limited ("Friends Life") announced they had reached agreement on the terms of a recommended all share acquisition of Friends Life by Aviva plc. The proposed acquisition is subject to a number of conditions including approval from shareholders at a general meeting on 26 March 2015. If the conditions to the proposed transaction are satisfied, it is expected to complete in the second quarter of 2015.

(b) Disposal and re-measurements of subsidiaries, joint ventures and associates

The profit on the disposal and re-measurement of subsidiaries, joint ventures and associates comprises:

	2014 £m	2013 £m
Spain – long-term business (see (vi) below)	**132**	197
Italy – long-term business (see (iii) below)	**(6)**	(178)
Korea (see (ii) below)	**2**	(20)
Turkey – general insurance (see (vii) below)	**(16)**	(9)
Aviva Investors (see (iv) below)	**35**	—
Turkey – long-term business (see (v) below)	**15**	—
Indonesia (see (i) below)	**(3)**	—
Ireland – long-term business	**—**	87
Malaysia	**—**	39
Russia	**—**	1
Czech Republic, Hungary and Romania	**—**	1
Poland	**—**	(4)
Other small operations	**15**	1
Profit on disposal and remeasurement from continuing operations	**174**	115
Profit on disposal and remeasurement from discontinued operations (see (viii) below)	**58**	808
Total profit on disposal and remeasurement	**232**	923

(i) Indonesia

In the second half of 2013, management decided to restructure existing operations in Indonesia and establish a new joint venture. The Indonesian operations were classified as held for sale at 31 December 2013 as Aviva's holding was to change from a 60% controlling interest, which was consolidated as a subsidiary, to a 50% joint venture accounted for using the equity method.

On 17 January 2014, Aviva and PT Astra International Tbk ("Astra") signed an agreement to form the 50-50 joint venture (Astra Aviva Life) which completed in May 2014. As of that date, Aviva and Astra began to share joint control and the Group's holding in Astra Aviva Life was reclassified as a joint venture.

A net gain of £1 million was recognised during 2014. Recycling of currency translation and investment valuation reserves of £4 million on completion resulted in an overall net loss on disposal of £3 million.

(ii) Korea

In 2013, management determined that the value of our long-term business joint venture in South Korea, Woori Aviva Life Insurance Co. Ltd, would be principally recovered through sale and it was classified as held for sale and re-measured at fair value, based on expected sales proceeds less costs to sell of £19 million.

On 27 June 2014 the Group completed its disposal of the 47% interest for consideration of £17 million, after transaction costs. Net assets disposed of were £19 million resulting in a loss of £2 million (*2013: £20 million loss on re-measurement*). Recycling of currency translation and investment valuation reserves of £4 million on completion resulted in an overall net gain in 2014 of £2 million.

B5 – Subsidiaries continued

(iii) Italy – long-term business – Eurovita

In the first half of 2013, the Italian long-term business Eurovita Assicurazioni S.p.A ("Eurovita") was classified as held for sale, as a result of management determining that the value of the business would be principally recovered through sale. Finoa Srl ("Finoa"), an Italian holding company in which Aviva owns a 50% share, owned a 77.55% share of Eurovita. Following classification as held for sale, Eurovita was re-measured at fair value based on expected sales proceeds less costs to sell of £39 million with a re-measurement loss of £178 million (Aviva share: £74 million loss) in 2013.

On 30 June 2014 Finoa disposed of its entire interest in Eurovita for gross cash consideration of £36 million. The overall loss on the sale of Finoa's 77.55% stake in Eurovita was £6 million analysed as:

	2014 £m
Loss on disposal attributable to:	
Aviva	**4**
Non-controlling interest	**(10)**
Total loss on disposal	**(6)**

Aviva's £4 million gain was calculated as follows:

	2014 £m
Assets	
Financial Investments	**2,857**
Other assets	**4**
Cash and cash equivalents	**175**
Total assets	**3,036**
Liabilities	
Insurance liabilities	**103**
Liability for investment contracts	**2,687**
Unallocated divisible surplus	**123**
External borrowings	**28**
Other liabilities	**23**
Total liabilities	**2,964**
Net assets	**72**
Non-controlling interests before disposal	**(44)**
Group's share of net assets disposed of	**28**
Cash consideration received	**18**
Less: transaction costs attributable to Aviva	**(4)**
Net cash consideration	**14**
Loan settlement[1]	**9**
Currency translation reserve recycled to the income statement	**9**
Profit on disposal	**4**

1 A loan between Aviva and Eurovita had been provided against in 2013 as its repayment was uncertain as of 31 December 2013. However, this provision was reversed in 2014 as the loan was repaid in full upon the closing of the sale.

(iv) Aviva Investors – River Road

On 28 March 2014 Aviva Investors announced its agreement to sell US equity manager River Road Asset Management, LLC ("River Road") to Affiliated Managers Group, Inc. The sale was completed on 30 June 2014 for consideration of £75 million, after transaction costs. Assets disposed of were £40 million, comprised of £38 million of goodwill and intangibles and £2 million of other investments, resulting in a £35 million gain on disposal.

(v) Turkey – long-term business – initial public offering

On 13 November 2014 Aviva and its joint venture partner Sabanci Holdings completed an initial public offering of a minority share of their Turkish life and pensions joint venture AvivaSA Emeklilik ve Hayat A.S ("Aviva SA"), reducing the Group's holding in Aviva SA from 49.8% to 41.3%. Sabanci and the Group continue to share contractual joint control of Aviva SA and it continues to be equity accounted for as a joint venture. The Group received cash proceeds of £40 million, net of transaction costs, from the share sale resulting in a gain of £23 million. Recycling of currency translation reserves of £8 million on completion resulted in an overall net gain of £15 million.

B5 – Subsidiaries continued

(vi) Spain – long-term business

On 19 September 2014 Aviva announced the sale of its 50% holding in CXG Aviva Corporacion Caixa Galicia de Seguros y Reaseguros, S.A. ("CxG") a Spanish life assurance company to NCG Corporacion Industrial S.L. ("NCG Banco") following a decision by the Spanish Arbitration Tribunal which concluded legal proceedings between Aviva and NCG Banco.

On 11 December 2014 the Group transferred its entire holding in CxG for cash consideration of £221 million resulting in a net profit on disposal of £132 million, calculated as follows:

	2014 £m
Assets	
Goodwill	**56**
Intangible assets	**3**
Financial investments	**806**
Receivables and other assets	**5**
Prepayments and accrued income	**13**
Cash and cash equivalents	**23**
Total assets	**906**
Liabilities	
Insurance liabilities	**718**
Payables and other financial liabilities	**24**
Other liabilities	**7**
Total liabilities	**749**
Net assets	**157**
Non-controlling interests before disposal	**(51)**
Group's share of net assets disposed of	**106**
Cash consideration received	**221**
Less: transaction costs attributable to Aviva	**(1)**
Net cash consideration	**220**
Currency translation reserve recycled to the income statement	**18**
Profit on disposal	**132**

(vii) Turkey general insurance

In the second half of 2013 management committed to sell the Turkey general insurance subsidiary Aviva Sigorta S.A. ("Turkey GI"). At 31 December 2013 the business was remeasured to fair value based on an expected sales price less costs to sell of £2 million resulting in a loss on remeasurement of £9 million in FY13 following its classification as held for sale.

In 2014 the underlying carrying value decreased from £11 million to £(2) million. On 18 December 2014 Aviva completed the sale of Turkey GI resulting in a loss on sale of £17 million after transaction costs and post completion adjustments.

The net loss recognised within "Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates" in 2014 is calculated as follows:

	2014 £m
Loss on sale	**(17)**
Reversal of 2013 impairment	**9**
Currency translation reserve recycled to the income statement	**(8)**
Net loss on disposal	**(16)**

(viii) Discontinued operations – US Life

On 21 December 2012, the Group announced that it had agreed to sell US Life for consideration of £1.0 billion including the shareholder loan. Following classification as held for sale, US Life was remeasured to fair value less costs to sell in 2012 resulting in an impairment loss of £2,359 million recognised as a loss on remeasurement of subsidiaries.

The sale of US Life completed on 2 October 2013 and the transaction proceeds received were based on the estimated earnings and other improvements in statutory surplus over the period from 30 June 2012 to 30 September 2013. The final purchase price was subject to customary completion adjustments. A profit on disposal of £808 million was recorded in 2013, reflecting management's best estimate of the completion adjustments as of 31 December 2013.

In 2014, the Group paid a settlement of £20 million related to the purchase price adjustment. The settlement and the aggregate development of other provisions related to the discontinued operations in 2014 resulted in a net £58 million gain which has been presented as profit on disposal of discontinued operations.

B5 – Subsidiaries continued

(c) Assets and liabilities of operations classified as held for sale

During 2014 it was determined that the value of the Group's Taiwan joint venture, First-Aviva Life Insurance Co. Ltd. ("Taiwan"), would no longer be recovered principally through a sale. As a result, the business was reclassified out of "Assets of operations classified as held for sale" and into "Interests in, and loans to, joint ventures". As the recoverable amount at the date it ceased to be held for sale was lower than its carrying value when it was classified as held for sale, no remeasurement gain or loss was recorded following this reclassification.

The assets and liabilities of operations classified as held for sale as at 31 December 2014 are as follows:

	2014 £m	2013 £m
Assets		
Goodwill	—	4
Interests in, and loans to, joint ventures and associates	—	29
Financial investments	—	2,675
Reinsurance assets	—	37
Deferred acquisition costs	—	6
Other assets	—	196
Cash and cash equivalents	**9**	351
	9	3,298
Additional impairment to write down the disposal group to fair value less costs to sell	—	(185)
Total assets	**9**	3,113
Liabilities		
Insurance liabilities	**(1)**	(238)
Liability for investment contracts	—	(2,710)
Unallocated divisible surplus	—	4
Provisions	—	(3)
Deferred tax liabilities	—	(1)
External borrowings	—	(29)
Other liabilities	**(1)**	(46)
Total liabilities	**(2)**	(3,023)
Net assets	**7**	90

Assets and liabilities held for sale at 31 December 2014 relate to small reinsurance operations in the Group.

(d) Subsequent events

On 25 February 2015, Crédit du Nord, the Group's partner in Antarius S.A. ("Antarius"), exercised its call option to purchase Aviva France's 50% share of Antarius. In accordance with the shareholders agreement, the exercise of the call option starts a period of approximately two years to complete the disposal. In accordance with IFRS 5, the subsidiary will be classified as Held for Sale from the date when the transaction is expected to complete within 12 months.

B6 – Segmental information

The Group's results can be segmented, either by activity or by geography. Our primary reporting format is on market reporting lines, with supplementary information being given by business activity. This note provides segmental information on the consolidated income statement and consolidated statement of financial position.

The Group has determined its operating segments along market reporting lines. These reflect the management structure whereby a member of the Executive Management team is accountable to the Group CEO for the operating segment for which they are responsible.

United Kingdom & Ireland

The United Kingdom and Ireland comprises two operating segments – Life and General Insurance. The principal activities of our UK and Ireland Life operations are life insurance, long-term health (in the UK) and accident insurance, savings, pensions and annuity business. UK and Ireland General Insurance provides insurance cover to individuals and businesses, for risks associated mainly with motor vehicles, property and liability (such as employers' liability and professional indemnity liability) and medical expenses. UK & Ireland General Insurance includes the results of our Ireland Health business.

France

The principal activities of our French operations are long-term business and general insurance. The long-term business offers a range of long-term insurance and savings products, primarily for individuals, with a focus on the unit-linked market. The general insurance business predominantly sells personal and small commercial lines insurance products through agents and a direct insurer.

Poland

Activities in Poland comprise long-term business and general insurance operations, including our long-term business in Lithuania.

Italy, Spain and Other

These countries are not individually significant at a Group level, so have been aggregated into a single reporting segment in line with IFRS 8. This segment includes our operations in Italy (including Eurovita up until the date of disposal in June 2014) and Spain (including Aseval and CxG up until the dates of their disposals in April 2013 and December 2014 respectively). The principal activities of our Italian operations are long-term business and general insurance. The life business offers a range of long-term insurance and savings products, and the general insurance business provides motor and home insurance products to individuals, as well as small commercial risk insurance to businesses. The principal activity of the Spanish operation is the sale of long-term business, accident and health insurance and a selection of savings products. Our Other European operations include our life operations in Turkey (including our reduced joint venture share following IPO in November 2014) and our Turkish general insurance business (up until the date of disposal in December 2014). This segment also includes the results of our Russian and Romanian businesses until the date of their disposals in 2013.

Canada

The principal activity of the Canadian operation is general insurance. In particular it provides personal and commercial lines insurance products principally distributed through insurance brokers.

Asia

Our activities in Asia principally comprise our long-term business operations in China, India, Singapore, Hong Kong, Vietnam, Indonesia and Taiwan. This segment also includes the results of Malaysia and Korea until the date of their disposals (in April 2013 and June 2014 respectively). Asia also includes general insurance and health operations in Singapore and health operations in Indonesia.

Aviva Investors

Aviva Investors operates in most of the markets in which the Group operates, in particular the UK, France, North America, Asia Pacific 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. This segment also includes the results of River Road Asset Management LLC until the date of its disposal in June 2014.

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', along with central core structural borrowings and certain tax balances in the segmental statement of financial position. The results of our reinsurance operations are also included in this segment.

Discontinued operations

In October 2013 the Group sold its US life operations (including the related internal asset management operations of Aviva Investors), which has been presented as a discontinued operation for the comparative periods in the income statement, statement of comprehensive income and statement of cash flows. As described in note B5(b)(viii) the settlement of the purchase price adjustment, in conjunction with the aggregate development of other provisions is presented as profit from discontinued operations in 2014.

B6 – Segmental information continued

(a) (i) Segmental income statement for the year ended 31 December 2014

	United Kingdom & Ireland		Europe							
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m	Aviva Investors[2] £m	Other Group activities[3] £m	Total £m
Gross written premiums	4,306	4,484	5,756	490	3,514	2,176	942	—	2	21,670
Premiums ceded to reinsurers	(784)	(454)	(70)	(7)	(68)	(70)	(161)	—	—	(1,614)
Internal reinsurance revenue	(7)	(2)	(2)	(1)	(2)	(2)	—	—	16	—
Premiums written net of reinsurance	3,515	4,028	5,684	482	3,444	2,104	781	—	18	20,056
Net change in provision for unearned premiums	23	43	(27)	6	10	(54)	(3)	—	3	1
Net earned premiums	3,538	4,071	5,657	488	3,454	2,050	778	—	21	20,057
Fee and commission income	398	160	203	87	115	15	9	243	—	1,230
	3,936	4,231	5,860	575	3,569	2,065	787	243	21	21,287
Net investment income/(expense)	13,301	362	5,174	147	2,392	180	125	267	(59)	21,889
Inter-segment revenue	—	—	—	—	—	—	—	158	—	158
Share of profit/(loss) of joint ventures and associates	139	—	7	4	9	—	(12)	—	—	147
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	—	—	—	—	125	14	(1)	35	1	174
Segmental income[1]	17,376	4,593	11,041	726	6,095	2,259	899	703	(37)	43,655
Claims and benefits paid, net of recoveries from reinsurers	(7,522)	(2,745)	(4,594)	(331)	(2,572)	(1,276)	(362)	—	(72)	(19,474)
Change in insurance liabilities, net of reinsurance	(3,955)	88	(1,119)	(70)	(212)	(70)	(294)	—	62	(5,570)
Change in investment contract provisions	(3,036)	—	(1,881)	8	(1,347)	—	—	(262)	—	(6,518)
Change in unallocated divisible surplus	(62)	—	(2,182)	(6)	(1,055)	—	(59)	—	—	(3,364)
Fee and commission expense	(462)	(1,294)	(564)	(65)	(289)	(570)	(60)	(24)	(61)	(3,389)
Other expenses	(674)	(228)	(232)	(59)	(127)	(81)	(61)	(332)	(185)	(1,979)
Inter-segment expenses	(137)	(4)	(4)	(7)	—	(4)	—	—	(2)	(158)
Finance costs	(191)	(4)	(3)	—	(4)	(5)	—	(2)	(331)	(540)
Segmental expenses	(16,039)	(4,187)	(10,579)	(530)	(5,606)	(2,006)	(836)	(620)	(589)	(40,992)
Profit/(loss) before tax from continuing operations	1,337	406	462	196	489	253	63	83	(626)	2,663
Tax attributable to policyholders' returns	(357)	—	—	—	—	—	(25)	—	—	(382)
Profit/(loss) before tax attributable to shareholders' profits from continuing operations	980	406	462	196	489	253	38	83	(626)	2,281
Profit from discontinued operations[4,5]									58	58
Adjusted for non-operating items from continuing operating:										
Reclassification of corporate costs and unallocated interest	—	11	16	—	1	—	—	—	(28)	—
Investment return variances and economic assumption changes on long-term business	13	—	9	(4)	(101)	—	11	—	—	(72)
Short-term fluctuation in return on investments backing non-long-term business	—	(82)	(50)	(1)	13	(65)	—	—	(76)	(261)
Economic assumption changes on general insurance and health business	—	145	—	—	—	3	—	—	(3)	145
Impairment of goodwill, joint ventures and associates and other amounts expensed	—	—	—	—	—	—	24	—	—	24
Amortisation and impairment of intangibles	31	1	—	—	17	10	3	11	17	90
(Profit)/loss on the disposal and remeasurement of subsidiaries, joint ventures and associates	—	—	—	—	(125)	(14)	1	(35)	(1)	(174)
Integration and restructuring costs	28	11	15	1	1	4	1	4	75	140
Adjusted for non-operating items from discontinued operations[5]	—	—	—	—	—	—	—	—	(58)	(58)
Operating profit/(loss) before tax attributable to shareholders	1,052	492	452	192	295	191	78	63	(642)	2,173

1 Total reported income, excluding inter-segment revenue, includes £20,816 million from the United Kingdom (Aviva plc's country of domicile). Income is attributed on the basis of geographical origin which does not differ materially from revenue by geographical destination, as most risks are located in the countries where the contracts were written.
2 Aviva Investors operating profit includes £2 million profit relating to the Aviva Investors Pooled Pensions business.
3 Other Group activities include Group Reinsurance.
4 Discontinued operations represent the results of the US Life and related internal asset management business (US Life) until the date of disposal (2 October 2013). For further details, see note B5.
5 In 2014, the Group paid a settlement of £20 million related to the purchase price adjustment relating to the disposal of the US Life business in 2013. The settlement and the aggregate development of other provisions related to the discontinued operations in 2014 resulted in a net £58 million gain which has been presented as profit on disposal of discontinued operations.

B6 – Segmental information continued

(a) (ii) Segmental income statement for the year ended 31 December 2013

	United Kingdom & Ireland		Europe									
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m	Aviva Investors[2] £m	Other Group activities[3] £m	Continuing operations £m	Discontinued operations[4] £m	Total £m
Gross written premiums	4,971	4,664	5,634	484	3,277	2,318	678	—	9	22,035	1,589	23,624
Premiums ceded to reinsurers	(743)	(455)	(63)	(6)	(79)	(60)	(146)	—	6	(1,546)	(100)	(1,646)
Internal reinsurance revenue	—	(9)	(6)	(3)	(5)	(8)	—	—	31	—	—	—
Premiums written net of reinsurance	4,228	4,200	5,565	475	3,193	2,250	532	—	46	20,489	1,489	21,978
Net change in provision for unearned premiums	(9)	185	(25)	(2)	31	(54)	8	—	—	134	—	134
Net earned premiums	4,219	4,385	5,540	473	3,224	2,196	540	—	46	20,623	1,489	22,112
Fee and commission income	424	198	190	60	115	40	14	238	—	1,279	28	1,307
	4,643	4,583	5,730	533	3,339	2,236	554	238	46	21,902	1,517	23,419
Net investment income/(expense)	6,898	293	3,332	180	1,628	17	40	148	(27)	12,509	2,340	14,849
Inter-segment revenue	—	—	—	—	—	—	—	143	—	143	49	192
Share of (loss)/profit of joint ventures and associates	88	—	8	3	6	—	15	—	—	120	—	120
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	87	—	—	(4)	13	—	19	—	—	115	808	923
Segmental income[1]	11,716	4,876	9,070	712	4,986	2,253	628	529	19	34,789	4,714	39,503
Claims and benefits paid, net of recoveries from reinsurers	(8,960)	(2,818)	(4,858)	(363)	(3,222)	(1,342)	(489)	—	(41)	(22,093)	(2,037)	(24,130)
Change in insurance liabilities, net of reinsurance	4,102	119	(1,618)	(103)	(2)	(42)	92	—	(55)	2,493	(312)	2,181
Change in investment contract provisions	(4,829)	—	(1,725)	34	(386)	—	—	(144)	—	(7,050)	(31)	(7,081)
Change in unallocated divisible surplus	199	—	426	16	(363)	—	2	—	—	280	—	280
Fee and commission expense	(598)	(1,479)	(554)	(60)	(286)	(620)	(61)	(23)	(294)	(3,975)	(438)	(4,413)
Other expenses	(370)	(301)	(280)	(51)	(214)	(136)	(73)	(446)	(349)	(2,220)	(293)	(2,513)
Inter-segment expenses	(129)	(4)	—	(7)	—	(3)	—	—	—	(143)	(49)	(192)
Finance costs	(224)	(6)	(4)	—	(4)	(6)	—	(5)	(360)	(609)	(16)	(625)
Segmental expenses	(10,809)	(4,489)	(8,613)	(534)	(4,477)	(2,149)	(529)	(618)	(1,099)	(33,317)	(3,176)	(36,493)
Profit/(loss) before tax	907	387	457	178	509	104	99	(89)	(1,080)	1,472	1,538	3,010
Tax attributable to policyholders' returns	(190)	—	—	—	—	—	(1)	—	—	(191)	—	(191)
Profit/(loss) before tax attributable to shareholders' profits	717	387	457	178	509	104	98	(89)	(1,080)	1,281	1,538	2,819
Adjusted for non-operating items:												
Reclassification of corporate costs and unallocated interest	—	7	21	—	—	—	—	—	(28)	—	—	—
Investment return variances and economic assumption changes on long-term business	414	—	(70)	1	(267)	—	(29)	—	—	49	(452)	(403)
Short-term fluctuation in return on investments on non-long-term business	—	74	15	—	12	122	—	—	113	336	—	336
Economic assumption changes on general insurance and health business	—	(28)	—	—	—	(4)	—	—	(1)	(33)	—	(33)
Impairment of goodwill, joint ventures and associates and other amounts expensed	—	—	—	—	48	—	29	—	—	77	—	77
Amortisation and impairment of intangibles	21	1	—	—	17	15	1	22	14	91	9	100
(Profit)/loss on the disposal and remeasurement of subsidiaries, joint ventures and associates	(87)	—	—	4	(13)	—	(19)	—	—	(115)	(808)	(923)
Integration and restructuring costs	59	24	25	1	8	9	7	41	189	363	3	366
Operating profit/(loss) before tax attributable to shareholders	1,124	465	448	184	314	246	87	(26)	(793)	2,049	290	2,339

1 Total reported income, excluding inter-segment revenue, includes £15,862 million from the United Kingdom (Aviva plc's country of domicile). Income is attributed on the basis of geographical origin which does not differ materially from revenue by geographical destination, as most risks are located in the countries where the contracts were written.
2 Aviva Investors operating profit includes £2 million profit relating to Aviva Investors Pooled Pensions business.
3 Other Group activities include Group Reinsurance.
4 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) until the date of disposal (2 October 2013). For further details see note B5.

B6 – Segmental information continued

(a) (iii) Segmental statement of financial position as at 31 December 2014

	United Kingdom & Ireland		Europe							
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m	Aviva Investors £m	Other Group activities £m	Total £m
Goodwill	—	1,031	—	8	190	23	50	—	—	1,302
Acquired value of in-force business and intangible assets	127	103	96	5	581	60	2	25	29	1,028
Interests in, and loans to, joint ventures and associates	953	—	145	10	82	2	352	—	—	1,544
Property and equipment	74	33	214	3	6	9	4	1	13	357
Investment property	5,558	95	1,758	—	1	—	—	1,120	393	8,925
Loans	24,178	84	788	—	58	122	30	—	—	25,260
Financial investments	97,410	5,415	66,484	2,829	19,959	3,483	3,192	660	3,206	202,638
Deferred acquisition costs	1,310	438	227	23	89	280	4	7	—	2,378
Other assets	19,092	4,895	10,009	171	1,585	937	459	784	4,346	42,278
Assets of operations classified as held for sale	—	—	—	—	—	—	—	—	9	9
Total assets	**148,702**	**12,094**	**79,721**	**3,049**	**22,551**	**4,916**	**4,093**	**2,597**	**7,996**	**285,719**
Insurance liabilities										
Long-term business and outstanding claims provisions	71,619	5,515	16,179	2,444	8,414	2,317	2,598	—	36	109,122
Unearned premiums	225	2,038	402	34	247	1,114	46	—	1	4,107
Other insurance liabilities	—	79	46	—	—	89	—	—	2	216
Liability for investment contracts	57,201	—	48,316	10	9,867	—	—	1,851	—	117,245
Unallocated divisible surplus	1,879	—	6,104	71	1,202	—	211	—	—	9,467
Net asset value attributable to unitholders	19	—	2,928	—	317	—	—	—	6,218	9,482
External borrowings	2,016	—	—	—	52	—	—	—	5,310	7,378
Other liabilities, including inter-segment liabilities	9,539	(1,787)	3,673	120	662	404	388	377	3,048	16,424
Liabilities of operations classified as held for sale	—	—	—	—	—	—	—	—	2	2
Total liabilities	**142,498**	**5,845**	**77,648**	**2,679**	**20,761**	**3,924**	**3,243**	**2,228**	**14,617**	**273,443**
Total equity										**12,276**
Total equity and liabilities										**285,719**

B6 – Segmental information continued

(a) (iv) Segmental statement of financial position as at 31 December 2013 – (Restated)[1]

	United Kingdom & Ireland		Europe							
	Life £m	GI £m	France £m	Poland £m	Italy, Spain and Other £m	Canada £m	Asia £m	Aviva Investors £m	Other Group activities £m	Total £m
Goodwill	—	1,039	—	9	303	49	49	27	—	1,476
Acquired value of in-force business and intangible assets	148	2	122	8	637	58	2	48	43	1,068
Interests in, and loans to, joint ventures and associates	1,001	—	153	9	94	—	210	—	—	1,467
Property and equipment	22	20	229	2	5	12	4	1	18	313
Investment property	6,364	7	1,545	—	2	—	—	982	551	9,451
Loans	22,629	270	852	—	23	76	29	—	—	23,879
Financial investments	90,646	4,696	65,601	3,045	20,469	3,402	2,756	687	2,725	194,027
Deferred acquisition costs	1,316	456	229	23	100	268	4	—	1	2,397
Other assets	19,620	4,167	11,051	220	1,967	1,081	343	532	5,455	44,436
Assets of operations classified as held for sale	—	—	—	—	3,042	—	62	—	9	3,113
Total assets	141,746	10,657	79,782	3,316	26,642	4,946	3,459	2,277	8,802	281,627
Insurance liabilities										
Long-term business and outstanding claims provisions	67,484	5,657	16,185	2,640	9,575	2,372	2,142	—	45	106,100
Unearned premiums	248	2,094	404	43	298	1,088	50	—	1	4,226
Other insurance liabilities	—	84	50	—	1	92	—	—	2	229
Liability for investment contracts	54,679	—	49,856	14	9,750	—	—	1,759	—	116,058
Unallocated divisible surplus	1,857	—	4,292	72	342	—	150	—	—	6,713
Net asset value attributable to unitholders	287	—	3,032	—	324	—	—	—	6,719	10,362
External borrowings	2,620	—	—	—	72	—	—	—	5,127	7,819
Other liabilities, including inter-segment liabilities	8,489	(3,337)	3,782	114	963	411	354	272	5,032	16,080
Liabilities of operations classified as held for sale	—	—	—	—	3,003	—	20	—	—	3,023
Total liabilities	135,664	4,498	77,601	2,883	24,328	3,963	2,716	2,031	16,926	270,610
Total equity										11,017
Total equity and liabilities										281,627

1 The statement of financial position has been restated following the adoption of amendments to IAS 32 'Financial Instruments: Presentation' – see note B2 for details. There is no impact on the result or the total equity for any period presented as a result of this statement.

(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. Long-term business also includes 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 and provides investment management services for institutional pension fund mandates. It 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 service companies, head office expenses such as Group treasury and finance functions, and certain financing costs and taxes not allocated to business segments.

Discontinued operations

In the products and services analysis, the results of US Life (including the related internal asset management business) for comparative periods are presented as discontinued operations up to the date of disposal in October 2013.

B6 – Segmental information continued

(b) (i) Segmental income statement – products and services for the year ended 31 December 2014

	Long-term business £m	General insurance and health[2] £m	Fund management £m	Other £m	Total £m
Gross written premiums[1]	12,727	8,943	—	—	21,670
Premiums ceded to reinsurers	(971)	(643)	—	—	(1,614)
Premiums written net of reinsurance	11,756	8,300	—	—	20,056
Net change in provision for unearned premiums	—	1	—	—	1
Net earned premiums	11,756	8,301	—	—	20,057
Fee and commission income	705	54	256	215	1,230
	12,461	8,355	256	215	21,287
Net investment income/(expense)	21,295	666	5	(77)	21,889
Inter-segment revenue	—	—	158	—	158
Share of profit of joint ventures and associates	144	3	—	—	147
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	140	(16)	35	15	174
Segmental income	34,040	9,008	454	153	43,655
Claims and benefits paid, net of recoveries from reinsurers	(13,861)	(5,613)	—	—	(19,474)
Change in insurance liabilities, net of reinsurance	(5,604)	34	—	—	(5,570)
Change in investment contract provisions	(6,518)	—	—	—	(6,518)
Change in unallocated divisible surplus	(3,364)	—	—	—	(3,364)
Fee and commission expense	(977)	(2,247)	(26)	(139)	(3,389)
Other expenses	(920)	(402)	(321)	(336)	(1,979)
Inter-segment expenses	(148)	(10)	—	—	(158)
Finance costs	(191)	(11)	(2)	(336)	(540)
Segmental expenses	(31,583)	(8,249)	(349)	(811)	(40,992)
Profit/(loss) before tax from continuing operations	2,457	759	105	(658)	2,663
Tax attributable to policyholder returns	(382)	—	—	—	(382)
Profit/(loss) before tax attributable to shareholders' profits from continuing operations	2,075	759	105	(658)	2,281
Adjusted for:					
Non-operating items from continuing operations	(96)	49	(19)	(42)	(108)
Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations	1,979	808	86	(700)	2,173
Operating profit/(loss) before tax attributable to shareholders' profits	1,979	808	86	(700)	2,173

1 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £164 million, of which £81 million relates to property and liability insurance and £83 million relates to long-term business.
2 General insurance and health business segment includes gross written premiums of £1,146 million relating to health business. The remaining business relates to property and liability insurance.

B6 – Segmental information continued

(b) (ii) Segmental income statement – products and services for the year ended 31 December 2013

	Long-term business £m	General insurance and health[2] £m	Fund management £m	Other £m	Total £m
Gross written premiums[1]	12,674	9,361	—	—	22,035
Premiums ceded to reinsurers	(905)	(641)	—	—	(1,546)
Premiums written net of reinsurance	11,769	8,720	—	—	20,489
Net change in provision for unearned premiums	—	134	—	—	134
Net earned premiums	11,769	8,854	—	—	20,623
Fee and commission income	656	80	292	251	1,279
	12,425	8,934	292	251	21,902
Net investment income/(expense)	12,184	349	3	(27)	12,509
Inter-segment revenue	—	—	143	—	143
Share of profit of joint ventures and associates	117	3	—	—	120
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	125	(10)	—	—	115
Segmental income	24,851	9,276	438	224	34,789
Claims and benefits paid, net of recoveries from reinsurers	(16,333)	(5,760)	—	—	(22,093)
Change in insurance liabilities, net of reinsurance	2,519	(26)	—	—	2,493
Change in investment contract provisions	(7,050)	—	—	—	(7,050)
Change in unallocated divisible surplus	280	—	—	—	280
Fee and commission expense	(1,078)	(2,492)	(34)	(371)	(3,975)
Other expenses	(764)	(495)	(369)	(592)	(2,220)
Inter-segment expenses	(134)	(9)	—	—	(143)
Finance costs	(219)	(11)	(4)	(375)	(609)
Segmental expenses	(22,779)	(8,793)	(407)	(1,338)	(33,317)
Profit/(loss) before tax from continuing operations	2,072	483	31	(1,114)	1,472
Tax attributable to policyholder returns	(191)	—	—	—	(191)
Profit/(loss) before tax attributable to shareholders' profits from continuing operations	1,881	483	31	(1,114)	1,281
Adjusted for:					
Non-operating items from continuing operations	20	314	62	372	768
Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations	1,901	797	93	(742)	2,049
Operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations[3]	272	—	31	(13)	290
Operating profit/(loss) before tax attributable to shareholders' profits	2,173	797	124	(755)	2,339

1 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £246 million, of which £142 million relates to property and liability insurance and £104 million relates to long-term business.
2 General insurance and health business segment includes gross written premiums of £1,196 million relating to health business. The remaining business relates to property and liability insurance.
3 Discontinued operations represent the results of the US life and related internal asset management businesses (US Life) until the date of disposal (2 October 2013). For further details see note B5.

B6 – Segmental information continued

(b) (iii) Segmental statement of financial position – products and services as at 31 December 2014

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	**216**	**1,043**	**—**	**43**	**1,302**
Acquired value of in-force business and intangible assets	**691**	**270**	**25**	**42**	**1,028**
Interests in, and loans to, joint ventures and associates	**1,526**	**16**	**—**	**2**	**1,544**
Property and equipment	**230**	**100**	**1**	**26**	**357**
Investment property	**8,310**	**223**	**—**	**392**	**8,925**
Loans	**25,053**	**207**	**—**	**—**	**25,260**
Financial investments	**188,094**	**11,435**	**23**	**3,086**	**202,638**
Deferred acquisition costs	**1,519**	**852**	**7**	**—**	**2,378**
Other assets	**29,839**	**6,270**	**657**	**5,512**	**42,278**
Assets of operations classified as held for sale	**—**	**9**	**—**	**—**	**9**
Total assets	**255,478**	**20,425**	**713**	**9,103**	**285,719**
Gross insurance liabilities	**99,453**	**13,992**	**—**	**—**	**113,445**
Gross liabilities for investment contracts	**117,245**	**—**	**—**	**—**	**117,245**
Unallocated divisible surplus	**9,467**	**—**	**—**	**—**	**9,467**
Net asset value attributable to unitholders	**3,264**	**—**	**—**	**6,218**	**9,482**
External borrowings	**2,068**	**—**	**—**	**5,310**	**7,378**
Other liabilities, including inter-segment liabilities	**12,689**	**(952)**	**354**	**4,333**	**16,424**
Liabilities of operations classified as held for sale	**—**	**2**	**—**	**—**	**2**
Total liabilities	**244,186**	**13,042**	**354**	**15,861**	**273,443**
Total equity					**12,276**
Total equity and liabilities					**285,719**

(b) (iv) Segmental statement of financial position – products and services as at 31 December 2013 – (Restated)[1]

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	328	1,048	27	73	1,476
Acquired value of in-force business and intangible assets	791	160	48	69	1,068
Interests in, and loans to, joint ventures and associates	1,462	5	—	—	1,467
Property and equipment	187	91	1	34	313
Investment property	8,760	140	—	551	9,451
Loans	23,523	346	—	10	23,879
Financial investments	180,694	10,742	35	2,556	194,027
Deferred acquisition costs	1,525	862	10	—	2,397
Other assets	31,328	4,845	459	7,804	44,436
Assets of operations classified as held for sale	2,949	164	—	—	3,113
Total assets	251,547	18,403	580	11,097	281,627
Gross insurance liabilities	96,153	14,402	—	—	110,555
Gross liabilities for investment contracts	116,058	—	—	—	116,058
Unallocated divisible surplus	6,713	—	—	—	6,713
Net asset value attributable to unitholders	3,643	—	—	6,719	10,362
External borrowings	2,678	—	—	5,141	7,819
Other liabilities, including inter-segment liabilities	12,019	(2,574)	346	6,289	16,080
Liabilities of operations classified as held for sale	2,881	142	—	—	3,023
Total liabilities	240,145	11,970	346	18,149	270,610
Total equity					11,017
Total equity and liabilities					281,627

1 The statement of financial position has been restated following the adoption of amendments to IAS 32 "Financial Instruments: Presentation' – see note B2 for details. There is no impact on the result or the total equity for any period presented as a result of this statement.

B7 – Tax

This note analyses the tax charge for the year and explains the factors that affect it.

(a) Tax charged to the income statement

(i) The total tax charge comprises:

	2014 £m	2013 £m
Current tax		
For the year	**680**	517
Prior year adjustments	**12**	13
Total current tax from continuing operations	**692**	530
Deferred tax		
Origination and reversal of temporary differences	**315**	63
Changes in tax rates or tax laws	**(17)**	(13)
Write-(back)/down of deferred tax assets	**(7)**	14
Total deferred tax from continuing operations	**291**	64
Total tax charged to income statement from continuing operations	**983**	594
Total tax charged to income statement from discontinued operations	**—**	265
Total tax charged to income statement	**983**	859

(ii) The Group, as a proxy for policyholders in the UK, Ireland and Singapore, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish and Singapore life insurance policyholder returns is included in the tax charge. The tax charge attributable to policyholder returns included in the charge above is £382 million *(2013: £191 million)*.

(iii) The tax charge can be analysed as follows:

	2014 £m	2013 £m
UK tax	**462**	76
Overseas tax	**521**	783
	983	859

(iv) Unrecognised tax losses and temporary differences of previous years were used to reduce the current tax expense and deferred tax expense by £5 million and £nil *(2013: £3 million and £57 million),* respectively.

(v) Deferred tax charged to the income statement represents movements on the following items:

	2014 £m	2013 £m
Long-term business technical provisions and other insurance items	**(1,209)**	(24)
Deferred acquisition costs	**34**	(90)
Unrealised gains/(losses) on investments	**1,254**	145
Pensions and other post-retirement obligations	**7**	6
Unused losses and tax credits	**32**	112
Subsidiaries, associates and joint ventures	**5**	(2)
Intangibles and additional value of in-force long-term business	**(7)**	(6)
Provisions and other temporary differences	**175**	(77)
Deferred tax charged to income statement from continuing operations	**291**	64
Deferred tax charged to income statement from discontinued operations	**—**	187
Total deferred tax charged to income statement	**291**	251

B7 – Tax continued

(b) Tax charged/(credited) to other comprehensive income

(i) The total tax charge/(credit) comprises:

	2014 £m	2013 £m
Current tax from continuing operations		
In respect of pensions and other post-retirement obligations	**(77)**	(15)
In respect of foreign exchange movements	**(12)**	6
	(89)	(9)
Deferred tax from continuing operations		
In respect of pensions and other post-retirement obligations	**424**	(110)
In respect of unrealised gains on investments	**21**	8
	445	(102)
Tax charged/(credited) to other comprehensive income arising from continuing operations	**356**	(111)
Tax credited to other comprehensive income arising from discontinued operations	**—**	(169)
Total tax charged/(credited) to other comprehensive income	**356**	(280)

(ii) The tax charge attributable to policyholders' returns included above is £nil *(2013: £nil).*

(c) Tax credited to equity

Tax credited directly to equity in the year amounted to £19 million *(2013: £52 million)*. This comprises £19 million in respect of coupon payments on the direct capital instruments and fixed rate tier 1 notes (*2013: £22 million*). In 2013, £30 million related to the currency translation reserve recycled to the income statement on the sale of Aviva USA Corporation.

(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:

	Shareholder £m	Policyholder £m	2014 £m	Shareholder £m	Policyholder £m	2013 £m
Total profit before tax	**2,339**	**382**	**2,721**	2,819	191	3,010
Tax calculated at standard UK corporation tax rate of 21.5% *(2013: 23.25%)*	**503**	**82**	**585**	656	44	700
Reconciling items						
Different basis of tax – policyholders	**—**	**302**	**302**	—	147	147
Adjustment to tax charge in respect of prior periods	**(36)**	**—**	**(36)**	(18)	—	(18)
Non-assessable income and items not taxed at the full statutory rate	**(22)**	**—**	**(22)**	(54)	—	(54)
Non-taxable loss/(profit) on sale of subsidiaries and associates	**(31)**	**—**	**(31)**	(154)	—	(154)
Disallowable expenses	**76**	**—**	**76**	98	—	98
Different local basis of tax on overseas profits	**138**	**(2)**	**136**	184	—	184
Change in future local statutory tax rates	**(17)**	**—**	**(17)**	(9)	—	(9)
Movement in deferred tax not recognised	**3**	**—**	**3**	(21)	—	(21)
Tax effect of (profit)/loss from joint ventures and associates	**(4)**	**—**	**(4)**	(10)	—	(10)
Other	**(9)**	**—**	**(9)**	(4)	—	(4)
Total tax charged to income statement	**601**	**382**	**983**	668	191	859

The tax charge attributable to policyholder returns is removed from the Group's total profit before tax in arriving at the Group's profit before tax attributable to shareholders' profits. As the net of tax profits attributable to with-profit and unit-linked policyholders is zero, the Group's pre-tax profit attributable to policyholders is an amount equal and opposite to the tax charge attributable to policyholders included in the total tax charge. The difference between the policyholder tax charge and the impact of this item in the tax reconciliation can be explained as follows:

	2014 £m	2013 £m
Tax attributable to policyholder returns	**382**	191
UK corporation tax at a rate of 21.5% *(2013: 23.25%)* in respect of the policyholder tax deduction	**(82)**	(44)
Different local basis of tax of overseas profits	**2**	—
Different basis of tax – policyholders per tax reconciliation	**302**	147

UK legislation was substantively enacted in July 2013 to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014, resulting in an effective rate for the year ended 31 December 2014 of 21.5%. A further reduction to 20% was also enacted with effect from 1 April 2015. The 20% rate has been used in the calculation of the UK's deferred tax assets and liabilities as at 31 December 2014.

B8 – 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 attributable to ordinary shareholders is:

Continuing operations	2014 Operating profit £m	2014 Non-operating items £m	2014 Total £m	2013 Operating profit £m	2013 Non-operating items £m	2013 Total £m
Profit/(loss) before tax attributable to shareholders' profits	**2,173**	**108**	**2,281**	2,049	(768)	1,281
Tax attributable to shareholders' profit	**(561)**	**(40)**	**(601)**	(534)	131	(403)
Profit/(loss) for the year	**1,612**	**68**	**1,680**	1,515	(637)	878
Amount attributable to non-controlling interests	**(143)**	**(26)**	**(169)**	(174)	31	(143)
Cumulative preference dividends for the year	**(17)**	**—**	**(17)**	(17)	—	(17)
Coupon payments in respect of direct capital instruments (DCI) and fixed rate tier 1 notes (net of tax)	**(69)**	**—**	**(69)**	(70)	—	(70)
Profit/(loss) attributable to ordinary shareholders from continuing operations	**1,383**	**42**	**1,425**	1,254	(606)	648
Profit attributable to ordinary shareholders from discontinued operations	**—**	**58**	**58**	207	1,066	1,273
Profit attributable to ordinary shareholders	**1,383**	**100**	**1,483**	1,461	460	1,921

(ii) Basic earnings per share is calculated as follows:

Continuing operations	2014 Before tax £m	2014 Net of tax, non-controlling interests, preference dividends and DCI[1] £m	2014 Per share p	2013 Before tax £m	2013 Net of tax, non-controlling interests, preference dividends and DCI[1] £m	2013 Per share p
Operating profit attributable to ordinary shareholders	**2,173**	**1,383**	**47.0**	2,049	1,254	42.6
Non-operating items:						
Investment return variances and economic assumption changes on long-term business	**72**	**4**	**0.1**	(49)	(142)	(4.8)
Short-term fluctuation in return on investments backing non-long-term business	**261**	**197**	**6.7**	(336)	(254)	(8.6)
Economic assumption changes on general insurance and health business	**(145)**	**(114)**	**(3.9)**	33	27	0.9
Impairment of goodwill, joint ventures and associates and other amounts expensed	**(24)**	**(24)**	**(0.8)**	(77)	(77)	(2.6)
Amortisation and impairment of intangibles	**(90)**	**(61)**	**(2.1)**	(91)	(65)	(2.2)
Profit on disposal and remeasurement of subsidiaries, joint ventures and associates	**174**	**170**	**5.8**	115	220	7.4
Integration and restructuring costs and exceptional items	**(140)**	**(130)**	**(4.4)**	(363)	(315)	(10.7)
Profit attributable to ordinary shareholders from continuing operations	**2,281**	**1,425**	**48.4**	1,281	648	22.0
Profit attributable to ordinary shareholders from discontinued operations	**58**	**58**	**2.0**	1,538	1,273	43.3
Profit attributable to ordinary shareholders	**2,339**	**1,483**	**50.4**	2,819	1,921	65.3

1 DCI includes direct capital instruments and fixed rate tier 1 notes.

(iii) The calculation of basic earnings per share uses a weighted average of 2,943 million *(2013: 2,940 million)* ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 31 December 2014 was 2,950 million *(2013: 2,947 million)* and 2,948 million *(2013: 2,938 million)* excluding shares owned by the employee share trusts.

B8 – Earnings per share continued

(b) Diluted earnings per share

(i) Diluted earnings per share is calculated as follows:

	2014			2013		
	Total £m	**Weighted average number of shares million**	**Per share p**	Total £m	Weighted average number of shares million	Per share p
Profit attributable to ordinary shareholders	**1,425**	**2,943**	**48.4**	648	2,940	22.0
Dilutive effect of share awards and options	**—**	**44**	**(0.7)**	—	39	(0.2)
Diluted earnings per share from continuing operations	**1,425**	**2,987**	**47.7**	648	2,979	21.8
Profit attributable to ordinary shareholders	**58**	**2,943**	**2.0**	1,273	2,940	43.3
Dilutive effect of share awards and options	**—**	**44**	**(0.1)**	—	39	(0.6)
Diluted earnings per share from discontinued operations	**58**	**2,987**	**1.9**	1,273	2,979	42.7
Diluted earnings per share	**1,483**	**2,987**	**49.6**	1,921	2,979	64.5

(ii) Diluted earnings per share on operating profit attributable to ordinary shareholders is calculated as follows:

	2014			2013		
	Total £m	**Weighted average number of shares million**	**Per share p**	Total £m	Weighted average number of shares million	Per share p
Operating profit attributable to ordinary shareholders	**1,383**	**2,943**	**47.0**	1,254	2,940	42.6
Dilutive effect of share awards and options	**—**	**44**	**(0.7)**	—	39	(0.5)
Diluted operating profit per share from continuing operations	**1,383**	**2,987**	**46.3**	1,254	2,979	42.1
Operating profit attributable to ordinary shareholders	**—**	**2,943**	**—**	207	2,940	7.0
Dilutive effect of share awards and options	**—**	**44**	**—**	—	39	(0.1)
Diluted operating profit per share from discontinued operations	**—**	**2,987**	**—**	207	2,979	6.9
Diluted operating profit per share	**1,383**	**2,987**	**46.3**	1,461	2,979	49.0

B9 – Dividends and appropriations

This note analyses the total dividends and other appropriations we paid during the year. The table below does not include the final dividend proposed in December 2014 because it is not accrued in these financial statements.

	2014 £m	2013 £m
Ordinary dividends declared and charged to equity in the year		
Final 2013 – 9.40 pence per share, paid on 16 May 2014	**277**	—
Final 2012 – 9.00 pence per share, paid on 17 May 2013	**—**	264
Interim 2014 – 5.85 pence per share, paid on 17 November 2014	**172**	—
Interim 2013 – 5.60 pence per share, paid on 15 November 2013	**—**	165
	449	429
Dividends waived/unclaimed returned to the company	**(3)**	—
Preference dividends declared and charged to equity in the year	**17**	17
Coupon payments on direct capital instruments and fixed rate tier 1 notes	**88**	92
	551	538

In December 2014, the directors proposed a final dividend for 2014 of 12.25 pence per ordinary share *(2013: 9.40 pence)*, amounting to £361 million *(2013: £277 million)* in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 15 May 2015 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2015.

Interest payments on the direct capital instruments issued in November 2004 and the fixed rate tier 1 notes issued in May 2012 are treated as an appropriation of retained profits and, accordingly, are accounted for when paid. Tax relief is obtained at a rate of 21.50% *(2013: 23.25%)*.

B10 – Insurance liabilities

This note analyses the Group insurance contract liabilities by type of product and describes how the Group calculates these liabilities and the assumptions used.

(a) Carrying amount

(i) Insurance liabilities (gross of reinsurance) at 31 December comprise:

	2014			2013		
	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	**44,834**	**—**	**44,834**	45,098	—	45,098
Unit-linked non-participating	**7,963**	**—**	**7,963**	8,714	—	8,714
Other non-participating	**45,313**	**—**	**45,313**	41,160	—	41,160
	98,110	**—**	**98,110**	94,972	—	94,972
Outstanding claims provisions	**1,343**	**7,298**	**8,641**	1,287	7,730	9,017
Provision for claims incurred but not reported	**—**	**2,578**	**2,578**	—	2,568	2,568
	1,343	**9,876**	**11,219**	1,287	10,298	11,585
Provision for unearned premiums	**—**	**4,107**	**4,107**	—	4,226	4,226
Provision arising from liability adequacy tests	**—**	**10**	**10**	—	10	10
Total	**99,453**	**13,993**	**113,446**	96,259	14,534	110,793
Less: Amounts classified as held for sale	**—**	**(1)**	**(1)**	(106)	(132)	(238)
	99,453	**13,992**	**113,445**	96,153	14,402	110,555

(ii) Change in insurance liabilities recognised as an expense

The purpose of the following table is to reconcile the change in insurance liabilities, net of reinsurance, shown on the income statement, to the change in insurance liabilities recognised as an expense in the relevant movement tables in this note. The components of the reconciliation are the change in provision for outstanding claims on long-term business (which is not included in a separate movement table), and the unwind of discounting on GI reserves (which is included within finance costs within the income statement). For general insurance and health business, the change in the provision for unearned premiums is not included in the reconciliation, as within the income statement, this is included within earned premiums.

2014	**Gross £m**	**Reinsurance £m**	**Net £m**
Long-term business liabilities			
Change in long-term business provisions (note B10(b)(iv))	**5,847**	**(376)**	**5,471**
Change in provision for outstanding claims	**128**	**4**	**132**
	5,975	**(372)**	**5,603**
General insurance and health liabilities			
Change in insurance liabilities (note B10(c)(iv) and B12(c)(ii))	**(76)**	**49**	**(27)**
Less: Unwind of discount on GI reserves and other	**(9)**	**3**	**(6)**
	(85)	**52**	**(33)**
Total change in insurance liabilities	**5,890**	**(320)**	**5,570**

	Continuing Operations			Discontinued Operations			Total		
2013	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Long term business liabilities									
Change in long term business provisions (note B10(b)(iv))	(2,423)	(164)	(2,587)	331	(19)	312	(2,092)	(183)	(2,275)
Change in provision for outstanding claims	75	(7)	68	(11)	11	—	64	4	68
	(2,348)	(171)	(2,519)	320	(8)	312	(2,028)	(179)	(2,207)
General insurance and health liabilities									
Change in insurance liabilities (note B10(c)(iv) and B12c(ii))	(33)	64	31	—	—	—	(33)	64	31
Less: Unwind of discount on GI reserves and other	(15)	10	(5)	—	—	—	(15)	10	(5)
	(48)	74	26	—	—	—	(48)	74	26
Total change in insurance liabilities	(2,396)	(97)	(2,493)	320	(8)	312	(2,076)	(105)	(2,181)

B10 – Insurance liabilities continued

(b) Long-term business liabilities

(i) Business description

The Group underwrites long-term business in a number of countries as follows:

- In the UK mainly in:
  - New With-Profits sub-fund (NWPSF) of Aviva Life & Pensions UK (UKLAP), where the with-profit policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance. Any surplus or deficit emerging in NWPSF that is not distributed as bonus will be transferred from this sub-fund to the Reattributed Inherited Estate External Support Account (RIEESA) (see below).
  - Old With-Profits sub-fund (OWPSF), With-Profits sub-fund (WPSF) and Provident Mutual sub-fund (PMSF) of UKLAP, where the with-profit policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance.
  - 'Non-profit' funds of Aviva Annuity UK and UKLAP, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by WPSF and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.
  - The RIEESA of UKLAP, which is a non-profit fund where shareholders are entitled to 100% of the distributed profits, but these cannot be distributed until the 'lock-in' criteria set by the Reattribution Scheme have been met. The RIEESA has been 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 other operations in Europe and Asia, a range of long-term insurance and savings products are written.

(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, modified where necessary to reflect the requirements of the Companies Act 2006.

Material judgment 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. Where discount rate assumptions are based on current market yields on fixed interest securities, allowance is made for default risk implicit in the yields on the underlying assets.

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.

For UK with-profit life funds falling within the scope of the PRA realistic capital regime, and hence FRS 27, an amount may be recognised for the present value of future profits (PVFP) on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value. For our UK with-profit funds, no adjustment for this value is made to the participating insurance and investment contract liabilities or the unallocated divisible surplus.

(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.

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.

(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;
- Guarantees on surrender, including no-MVR (Market Value Reduction) Guarantees and Guarantees linked to inflation
- Guaranteed Annuity Options;
- GMP (Guaranteed Minimum Pension) underpin on Section 32 transfers; and
- Expected payments under Mortgage Endowment Promise.

B10 – Insurance liabilities continued

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 swaps is used for the valuation of With-Profits business. The rates vary according to the outstanding term of the policy, with a typical rate as at 31 December 2014 of 1.88% *(2013: 3.11%)* 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.

Volatility	**2014**	2013
Equity returns	**22.3%**	22.1%
Property returns	**15.0%**	15.0%
Fixed interest yields	**27.2%**	16.3%

The equity volatility used depends on term, money-ness and region. The figure shown is for a sample UK equity, at the money, with a ten-year term. Fixed interest yield volatility is also dependent on term and money-ness. The figure shown is for a ten-year swap option with ten-year term, currently at the money.

Future regular bonuses

Annual bonus assumptions for 2015 have been set consistently with the year-end 2014 declaration. Future annual bonus rates reflect the principles and practices of each 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 for with-profit business 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	**2014**	2013
Assurances, pure endowments and deferred annuities before vesting	**Nil or Axx00 adjusted**	Nil or Axx00 adjusted
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

Allowance for future mortality improvement is in line with the rates shown for non-profit business below.

Non-profit business

The valuation of non-profit business is based on regulatory requirements, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity 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.

B10 – Insurance liabilities continued

Valuation discount rates for business in the non-profit funds are as follows:

Valuation discount rates	**2014**	2013
Assurances		
Life conventional non-profit	**1.7%**	2.5%
Pensions conventional non-profit	**2.1%**	3.2%
Annuities		
Conventional immediate and deferred annuities	**1.3% to 3.3%**	3.2% to 4.7%
Non-unit reserves on Unit Linked business		
Life	**1.7%**	2.8%
Pensions	**2.1%**	3.5%
Income Protection		
Active lives	**1.8%**	2.9%
Claims in payment – level	**1.8%**	3.1%
Claims in payment – index linked	**(0.9)%**	(0.6)%

The above valuation discount rates are after reduction for investment expenses and credit risk. For conventional immediate annuity business the allowance for credit risk comprises long-term assumptions for defaults and downgrades, which vary by asset category and rating, and short-term supplementary allowances for higher expected defaults during the current economic conditions. The credit risk allowance made for corporate bonds and mortgages, including healthcare mortgages, held by Aviva Annuity UK Limited equated to 55 bps and 87 bps respectively at 31 December 2014 *(2013: 48 bps and 124 bps respectively)*. For corporate bonds, the allowance represented c40% of the average credit spread for the portfolio *(2013: 44%)*. The total valuation allowance held by Aviva Annuity UK Limited in respect of corporate bonds and mortgages, including healthcare mortgages, was £1.9 billion *(2013: £2.0 billion)* over the remaining term of the UK Life corporate bond and mortgage portfolio. Total liabilities for the annuity business were £34 billion at 31 December 2014 *(2013: £30 billion)*.

During 2014 there has been a change to the model and assumptions used to value certain equity release assets and the consequential impact on the liabilities that they back. The revised model derives a best estimate view on property growth and explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash flows. This results in a lower value of assets and a corresponding lower value of liabilities due to changes in the valuation interest rate. Changes in the Aviva Annuity UK Limited net asset value are driven by changes in the "No Negative Equity Guarantee" (NNEG) as any changes to asset values that are not driven by NNEG result in a corresponding offset to the liability values through a revised valuation interest rate. As a result the annuity liabilities have reduced by £452 million and the backing equity release mortgages have reduced by £278 million during the year.

Mortality assumptions for non-profit business 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	**2014**	2013
Assurances		
Non-profit	**AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors**	AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors
Pure endowments and deferred annuities before vesting	**AM00/AF00 adjusted**	AM00/AF00 adjusted
Annuities in payment		
Pensions business and general annuity business	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

For the main pensions annuity business in Aviva Annuity UK Limited, the underlying mortality assumptions for Males are 101.5% of PCMA00 (*2013: 102.0% of PCMA00*) with base year 2000; for Females the underlying mortality assumptions are 96.5% of PCFA00 (*2013: 97.5% of PCFA00*) with base year 2000. Improvements are materially unchanged from prior year and are based on CMI_2013 with a long-term improvement rate of 1.75% for males and 1.5% for females, both with an addition of 0.5% to all future annual improvement. Year-specific adjustments are made to allow for selection effects due to the development of the Enhanced Annuity market.

(b) France

The majority of reserves arise from single premium savings products and are based on the accumulated fund values, adjusted to maintain consistency with the value of the assets backing the policyholder liabilities. For traditional business, 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
	2014 and 2013	2014 and 2013
Life assurances	**0% to 4.5%**	TD73-77, TD88-90,TH00-02 TF00-02, H_AVDBS, F_AVDBS H_SSDBS, F_SSDBS
Annuities	**0% to 4.5%**	TGF05/TGH05

B10 – Insurance liabilities continued

(c) 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 gross long-term business provisions during the year:

	2014 £m	2013[1] £m
Carrying amount at 1 January	**94,972**	131,190
Provisions in respect of new business	**4,796**	5,671
Expected change in existing business provisions	**(5,806)**	(8,015)
Variance between actual and expected experience	**1,383**	2,871
Impact of operating assumption changes	**(1,118)**	428
Impact of economic assumption changes	**6,819**	(2,812)
Other movements	**(227)**	(235)
Change in liability recognised as an expense	**5,847**	(2,092)
Effect of portfolio transfers, acquisitions and disposals[2]	**(805)**	(34,441)
Foreign exchange rate movements	**(1,904)**	509
Other movements	**—**	(194)
Carrying amount at 31 December	**98,110**	94,972

1 The 2013 comparatives include US Life in each line of the analysis up to the "effect of portfolio transfers, acquisitions and disposals" item.
2 The movement during 2014 includes £103 million related to the disposal of Eurovita, £696 million related to the disposal of CxG and £6 million related to the restructuring of our operations in Indonesia.

The variance between actual and expected experience of £1.4 billion in 2014 is primarily due to the impact of favourable property returns on liabilities for unit-linked and participating contracts in the UK and Ireland. 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. Less significant variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors in Italy and Spain.

The impact of operating assumption changes of £1.1 billion in 2014 reduces the carrying value of insurance liabilities and relates mainly to longevity and expense releases in the UK business (with the impact on profit significantly offset by a corresponding reduction in reinsurance assets).

The £6.8 billion impact of economic assumption changes reflects reductions in valuation interest rates, primarily in respect of immediate annuity and participating insurance contracts in the UK.

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 B13, together with the impact of movements in related non-financial assets.

(c) General insurance and health liabilities

(i) Provisions for outstanding claims

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves for general insurance and health business are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

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.

The Group only establishes loss reserves for losses that have already occurred. The Group therefore does 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, the Group takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability.

The table below shows the split of total general insurance and health outstanding claim provisions and IBNR provisions, gross of reinsurance, by major line of business.

	As at 31 December 2014			As at 31 December 2013		
	Outstanding claim provisions £m	IBNR provisions £m	Total claim provisions £m	Outstanding claim provisions £m	IBNR provisions £m	Total claim provisions £m
Motor	**3,510**	**1,130**	**4,640**	3,724	1,001	4,725
Property	**1,402**	**67**	**1,469**	1,493	180	1,673
Liability	**1,916**	**1,224**	**3,140**	2,035	1,208	3,243
Creditor	**25**	**21**	**46**	26	18	44
Other	**445**	**136**	**581**	452	161	613
	7,298	**2,578**	**9,876**	7,730	2,568	10,298

B10 – Insurance liabilities continued

(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	**2014**	2013	**2014**	2013
Reinsured London Market business	**2.1%**	2.5%	**10 years**	12 years
Latent claims	**0.16% to 2.75%**	0.36% to 3.76%	**6 to 15 years**	6 to 15 years
Structured settlements	**2.0%**	2.8%	**35 years**	35 years

The gross outstanding claims provision before discounting was £10,326 million *(2013: £10,914 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 6 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 outside of operating profit as an economic assumption change.

During 2014, the Group has seen a reduction in the number of new bodily injury claims settled by periodic payment orders (PPOs) or structured settlements, 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 set by skilled claims technicians and established case setting procedures. Claim technicians apply their experience and knowledge to the circumstances of individual claims. They take 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 estimate authorisation.

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 individual large or unusual claims 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.

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 and legal fees.

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 £245 million *(2013: £235 million)* greater than the best estimate, or £75 million *(2013: £70 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 2014, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £120 million *(2013: £90 million)*, excluding the offsetting effect on asset values as assets are not hypothecated across classes of business. The impact of a 1% fall in interest rates across all assets and liabilities of our general insurance and health businesses is shown in note B19.

B10 – Insurance liabilities continued

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 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.

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the Lord Chancellor and that is applied when calculating the present value of loss of earnings for claims settlement purposes. The process for setting this discount rate is under review. The timing of the conclusion of this review is unclear and it is still uncertain whether or by how much the rate will change. However an allowance has been included in provisions for a change in the Ogden discount rates. A reduction in the Ogden discount rates would increase lump sum payments to UK bodily injury claimants.

(iv) Movements

The following changes have occurred in the general insurance and health claims provisions during the year:

	2014 £m	2013 £m
Carrying amount at 1 January	**10,298**	10,554
Impact of changes in assumptions	**211**	(80)
Claim losses and expenses incurred in the current year	**5,950**	6,337
Decrease in estimated claim losses and expenses incurred in prior years	**(329)**	(237)
Incurred claims losses and expenses	**5,832**	6,020
Less:		
Payments made on claims incurred in the current year	**(3,253)**	(3,352)
Payments made on claims incurred in prior years	**(2,933)**	(3,001)
Recoveries on claim payments	**269**	285
Claims payments made in the year, net of recoveries	**(5,917)**	(6,068)
Unwind of discounting	**9**	15
Changes in claims reserve recognised as an expense	**(76)**	(33)
Effect of portfolio transfers, acquisitions and disposals	**(121)**	(44)
Foreign exchange rate movements	**(222)**	(178)
Other movements	**(3)**	(1)
Carrying amount at 31 December	**9,876**	10,298

The effect of changes in the main assumptions is given in note B13.

(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 2005 to 2014. 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 2005, by the end of 2014 £6,537 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 £7,106 million was re-estimated to be £6,612 million at 31 December 2014.

The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

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. The Group establishes strong reserves in respect of the current accident year (2014) where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. 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. 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 2014 were:

- £112 million release from UK & Ireland due to favourable development in UK & Ireland on personal and commercial motor, and commercial property claims.
- £97 million release from Canada mainly due to continued favourable experience on motor, following the legislative changes in Ontario.
- £15 million release from Europe mainly due to favourable development in France and Italy, partly offset by strengthening of motor third party claims in Turkey.

Key elements of the movement in prior accident year general insurance and health net provisions during 2013 were:

- £32 million release from UK & Ireland, including Group reinsurance business, mainly due to favourable development in health, commercial motor and commercial liability in Ireland, slightly offset by a small strengthening in the UK.
- £160 million release from Canada mainly due to continued favourable experience on motor, following the legislative changes in Ontario.
- £9 million release from Europe mainly due to favourable development across a number of lines of business in France.

B10 – Insurance liabilities continued

(ii) Gross figures

Before the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	**Total £m**
Gross cumulative claim payments												
At end of accident year		(3,345)	(3,653)	(4,393)	(4,915)	(3,780)	(3,502)	(3,420)	(3,055)	(3,068)	(3,102)	
One year later		(5,011)	(5,525)	(6,676)	(7,350)	(5,464)	(5,466)	(4,765)	(4,373)	(4,476)		
Two years later		(5,449)	(5,971)	(7,191)	(7,828)	(6,102)	(5,875)	(5,150)	(4,812)			
Three years later		(5,784)	(6,272)	(7,513)	(8,304)	(6,393)	(6,163)	(5,457)				
Four years later		(6,001)	(6,531)	(7,836)	(8,607)	(6,672)	(6,405)					
Five years later		(6,156)	(6,736)	(8,050)	(8,781)	(6,836)						
Six years later		(6,311)	(6,936)	(8,144)	(8,906)							
Seven years later		(6,467)	(7,015)	(8,224)								
Eight years later		(6,496)	(7,062)									
Nine years later		(6,537)										
Estimate of gross ultimate claims												
At end of accident year		7,106	7,533	8,530	9,508	7,364	6,911	6,428	6,201	6,122	5,896	
One year later		6,938	7,318	8,468	9,322	7,297	7,006	6,330	6,028	6,039		
Two years later		6,813	7,243	8,430	9,277	7,281	6,950	6,315	6,002			
Three years later		6,679	7,130	8,438	9,272	7,215	6,914	6,292				
Four years later		6,603	7,149	8,409	9,235	7,204	6,912					
Five years later		6,605	7,167	8,446	9,252	7,239						
Six years later		6,591	7,167	8,381	9,213							
Seven years later		6,596	7,176	8,381								
Eight years later		6,604	7,184									
Nine years later		6,612										
Estimate of gross ultimate claims		6,612	7,184	8,381	9,213	7,239	6,912	6,292	6,002	6,039	5,896	
Cumulative payments		(6,537)	(7,062)	(8,224)	(8,906)	(6,836)	(6,405)	(5,457)	(4,812)	(4,476)	(3,102)	
	2,575	75	122	157	307	403	507	835	1,190	1,563	2,794	**10,528**
Effect of discounting	(447)	3	1	—	(4)	(3)	—	—	—	—	—	**(450)**
Present value	2,128	78	123	157	303	400	507	835	1,190	1,563	2,794	**10,078**
Cumulative effect of foreign exchange movements	—	8	12	7	(25)	(30)	(42)	(50)	(51)	(38)	—	**(209)**
Effect of acquisitions	2	1	4	—	—	—	—	—	—	—	—	**7**
Present value recognised in the statement of financial position	**2,130**	**87**	**139**	**164**	**278**	**370**	**465**	**785**	**1,139**	**1,525**	**2,794**	**9,876**

B10 – Insurance liabilities continued

(iii) Net of reinsurance

After the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	**Total £m**
Net cumulative claim payments												
At end of accident year		(3,281)	(3,612)	(4,317)	(4,808)	(3,650)	(3,386)	(3,300)	(2,925)	(2,905)	(2,972)	
One year later		(4,925)	(5,442)	(6,542)	(7,165)	(5,286)	(5,242)	(4,578)	(4,166)	(4,240)		
Two years later		(5,344)	(5,881)	(7,052)	(7,638)	(5,885)	(5,637)	(4,963)	(4,575)			
Three years later		(5,671)	(6,181)	(7,356)	(8,094)	(6,177)	(5,905)	(5,263)				
Four years later		(5,892)	(6,434)	(7,664)	(8,356)	(6,410)	(6,137)					
Five years later		(6,039)	(6,625)	(7,852)	(8,515)	(6,568)						
Six years later		(6,188)	(6,724)	(7,942)	(8,626)							
Seven years later		(6,245)	(6,789)	(8,004)								
Eight years later		(6,294)	(6,831)									
Nine years later		(6,318)										
Estimate of net ultimate claims												
At end of accident year		6,982	7,430	8,363	9,262	7,115	6,650	6,202	5,941	5,838	5,613	
One year later		6,818	7,197	8,302	9,104	7,067	6,751	6,103	5,765	5,745		
Two years later		6,688	7,104	8,244	9,028	7,036	6,685	6,095	5,728			
Three years later		6,544	6,996	8,249	9,007	6,978	6,644	6,077				
Four years later		6,476	6,980	8,210	8,962	6,940	6,634					
Five years later		6,448	6,992	8,221	8,949	6,977						
Six years later		6,397	6,939	8,149	8,926							
Seven years later		6,372	6,938	8,143								
Eight years later		6,385	6,947									
Nine years later		6,384										
Estimate of net ultimate claims		6,384	6,947	8,143	8,926	6,977	6,634	6,077	5,728	5,745	5,613	
Cumulative payments		(6,318)	(6,831)	(8,004)	(8,626)	(6,568)	(6,137)	(5,263)	(4,575)	(4,240)	(2,972)	
	1,623	66	116	139	300	409	497	814	1,153	1,505	2,641	**9,263**
Effect of discounting	(287)	3	1	—	(4)	(3)	—	—	—	—	—	**(290)**
Present value	1,336	69	117	139	296	406	497	814	1,153	1,505	2,641	**8,973**
Cumulative effect of foreign exchange movements	—	7	12	7	(25)	(29)	(40)	(48)	(50)	(35)	—	**(201)**
Effect of acquisitions	2	1	4	—	—	—	—	—	—	—	—	7
Present value recognised in the statement of financial position	**1,338**	**77**	**133**	**146**	**271**	**377**	**457**	**766**	**1,103**	**1,470**	**2,641**	**8,779**

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 2005. The undiscounted claim provisions for continuing operations, net of reinsurance, in respect of this business at 31 December 2014 were £984 million *(2013: £976 million)*. The movement in the year reflects reclassification from other commercial liability provisions of £65 million partly offset by favourable claims development of £12 million in the UK *(2013: £5 million strengthening)*, other decreases in undiscounted provisions of £12 million *(2013: £2 million)*, claim payments net of reinsurance recoveries and foreign exchange rate movements.

(e) Provision for unearned premiums

Movements

The following changes have occurred in the provision for unearned premiums (UPR) during the year:

	2014 £m	2013 £m
Carrying amount at 1 January	**4,226**	4,441
Premiums written during the year	**8,943**	9,361
Less: Premiums earned during the year	**(8,935)**	(9,497)
Change in UPR recognised as income	**8**	(136)
Gross portfolio transfers and disposals	**(31)**	—
Foreign exchange rate movements	**(96)**	(79)
Carrying amount at 31 December	**4,107**	4,226

B11 – Liability for investment contracts

This note analyses our investment contract liabilities by type of product and describes how the Group calculates these liabilities and the assumptions used.

(a) Carrying amount

The liability for investment contracts (gross of reinsurance) at 31 December comprised:

Long-term business	2014 £m	2013 £m
Participating contracts	**67,232**	70,628
Non-participating contracts at fair value	**50,013**	48,140
Non-participating contracts at amortised cost	**—**	—
	50,013	48,140
Total	**117,245**	118,768
Less: Amounts classified as held for sale	**—**	(2,710)
	117,245	116,058

(b) Long-term business investment liabilities

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS.

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts and are measured according to the methodology and Group practice for long-term business liabilities as described in note B10. 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 divisible 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. Following the disposal of the US, we currently have no non-participating investment contracts measured at amortised cost.

Of the non-participating investment contracts measured at fair value, £49,737 million in 2014 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 generally 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 of units in issue, and any non-unit reserve is insignificant.

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.

For non-participating investment contracts, deposits collected and amounts withdrawn are not shown on the income statement, but are accounted for directly through the statement of financial position as an adjustment to the gross liabilities for investment contracts. The associated change in investment contract provisions shown on the income statement consists of the attributed investment return. Participating investment contracts are treated consistently with insurance contracts with the change in investment contract provisions primarily consisting of the movement in participating investment contract liabilities (net of reinsurance) over the reporting period.

(c) Movements in the year

The following movements have occurred in the gross provisions for investment contracts in the year:

(i) Participating investment contracts

	2014 £m	2013 £m
Carrying amount at 1 January	**70,628**	66,849
Provisions in respect of new business	**4,144**	3,421
Expected change in existing business provisions	**(1,972)**	(2,243)
Variance between actual and expected experience	**713**	1,085
Impact of operating assumption changes	**14**	329
Impact of economic assumption changes	**303**	(301)
Other movements	**16**	(47)
Change in liability recognised as an expense	**3,218**	2,244
Effect of portfolio transfers, acquisitions and disposals[1]	**(2,671)**	(39)
Foreign exchange rate movements	**(3,943)**	1,380
Other movements[2]	**—**	194
Carrying amount at 31 December	**67,232**	70,628

1 The movements during 2014 related to the disposal of Eurovita.

2 Other movements (outside change in liability recognised as an expense) in 2013 of £194 million represented the reclassification of liabilities from insurance to participating investment in Eurovita.

B11 – Liability for investment contracts continued

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.

The variance between actual and expected experience of £0.7 billion is driven by favourable property returns on liabilities in the UK. Additionally, minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the analysis shows the resulting movement in the carrying value of participating investment contract liabilities. 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 B13, together with the impact of movements in related non-financial assets.

(ii) Non-participating investment contracts

	2014 £m	2013[1] £m
Carrying amount at 1 January	**48,140**	47,699
Provisions in respect of new business	**2,273**	3,386
Expected change in existing business provisions	**(1,442)**	(2,698)
Variance between actual and expected experience	**1,575**	3,122
Impact of operating assumption changes	**2**	4
Impact of economic assumption changes	**11**	1
Other movements	**8**	46
Change in liability	**2,427**	3,861
Effect of portfolio transfers, acquisitions and disposals[2]	**(20)**	(3,785)
Foreign exchange rate movements	**(534)**	365
Carrying amount at 31 December	**50,013**	48,140

1 The 2013 comparatives include US business in each line of the analysis up to the effect of portfolio transfers, acquisitions and disposals item.
2 The movements during 2014 relate primarily to the disposal of Eurovita. 2013 related to the disposals of US Life and Ark Life.

For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. The variance between actual and expected experience of £1.6 billion is primarily driven by the impact of favourable movements in property returns on liabilities for unit linked contracts in UK and Ireland. In addition there are variances in Italy due to lower lapses than expected.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of non-participating investment contract liabilities. The impacts of assumption changes on profit are included in the effect of changes in assumptions and estimates during the year shown in note B13, which combines participating and non-participating investment contracts together with the impact of movements in related non-financial assets.

B12 – 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:

	2014 £m	2013 £m
Long-term business		
Insurance contracts	**4,032**	3,734
Participating investment contracts	**3**	2
Non-participating investment contracts[1]	**2,533**	2,048
	6,568	5,784
Outstanding claims provisions	**43**	53
	6,611	5,837
General insurance and health		
Outstanding claims provisions	**724**	849
Provisions for claims incurred but not reported	**373**	315
	1,097	1,164
Provisions for unearned premiums	**250**	256
	1,347	1,420
	7,958	7,257
Less: Amounts classified as held for sale	**—**	(37)
Total	**7,958**	7,220

1 Balances in respect of all reinsurance treaties are included under reinsurance assets, regardless of whether they transfer significant insurance risk. The reinsurance assets classified as non-participating investment contracts are financial instruments measured at fair value through profit or loss.

Of the above total, £5,974 million *(2013: £5,553 million)* is expected to be recovered more than one year after the statement of financial position date.

(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.

B12 – Reinsurance assets continued

(c) Movements

The following movements have occurred in the reinsurance asset during the year:

(i) In respect of long-term business provisions

	2014 £m	2013 £m
Carrying amount at 1 January	**5,784**	5,972
Asset in respect of new business	**316**	268
Expected change in existing business asset	**7**	19
Variance between actual and expected experience	**536**	454
Impact of operating assumption changes	**(585)**	247
Impact of economic assumption changes	**554**	(426)
Other movements	**34**	81
Change in asset	**862**	643
Effect of portfolio transfers, acquisitions and disposals[1]	**(13)**	(873)
Foreign exchange rate movements	**(65)**	42
Carrying amount at 31 December	**6,568**	5,784

1 The movements during 2014 includes £12 million related to the disposal of Eurovita and £1 million related to the disposal of CxG. Prior year movements primarily relates to the disposal of US Life in 2013.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of reinsurance assets. The changes to the reinsurance asset from assumption changes mainly relates to business in the UK and Ireland, with corresponding movements in 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 B13, together with the impact of movements in related liabilities and other non-financial assets.

(ii) In respect of general insurance and health outstanding claims provisions and IBNR

	2014 £m	2013 £m
Carrying amount at 1 January	**1,164**	1,254
Impact of changes in assumptions	**65**	(45)
Reinsurers' share of claim losses and expenses		
Incurred in current year	**292**	312
Incurred in prior years	**(105)**	(32)
Reinsurers' share of incurred claim losses and expenses	**187**	280
Less:		
Reinsurance recoveries received on claims		
Incurred in current year	**(131)**	(169)
Incurred in prior years	**(173)**	(140)
Reinsurance recoveries received in the year	**(304)**	(309)
Unwind of discounting	**3**	10
Change in reinsurance asset recognised as income	**(49)**	(64)
Effect of portfolio transfers, acquisitions and disposals	**(31)**	(9)
Foreign exchange rate movements	**8**	(11)
Other movements	**5**	(6)
Carrying amount at 31 December	**1,097**	1,164

(iii) Reinsurers' share of the provision for UPR

	2014 £m	2013 £m
Carrying amount at 1 January	**256**	248
Premiums ceded to reinsurers in the year	**643**	641
Less: Reinsurers' share of premiums earned during the year	**(634)**	(643)
Change in reinsurance asset recognised as income	**9**	(2)
Reinsurers' share of portfolio transfers and acquisitions	**(2)**	7
Foreign exchange rate movements	**(10)**	—
Other movements	**(3)**	3
Carrying amount at 31 December	**250**	256

B13 – 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 2013 to 2014, affecting the profit recognised for the year with an equivalent effect on liabilities. This note analyses the effect of the changes. This note only allows for the impact on liabilities and related assets, such as unallocated divisible surplus, reinsurance, deferred acquisition costs and AVIF, and does not allow for offsetting movements in the value of backing financial assets.

	Effect on profit 2014 £m	Effect on profit 2013 £m
Assumptions		
Long-term insurance business		
Interest rates	**(4,578)**	1,389
Expenses	**75**	3
Persistency rates	**15**	(1)
Mortality for assurance contracts	**20**	8
Mortality for annuity contracts	**283**	85
Tax and other assumptions	**75**	20
Investment contracts		
Interest rates	**(2)**	—
Expenses	**—**	—
Persistency rates	**—**	—
Tax and other assumptions	**—**	—
General insurance and health business		
Change in loss ratio assumptions	**—**	3
Change in discount rate assumptions	**(145)**	33
Change in expense ratio and other assumptions	**1**	—
Total	**(4,256)**	1,540

The impact of interest rates on long-term business relates primarily to UK annuities, where a reduction in the valuation interest rates has increased liabilities. The overall impact on profit also depends on movements in the value of assets backing the liabilities, which is not included in this disclosure.

There has been a release of expense reserves for the UK annuity business as a result of continuing restructuring and process improvements, reducing the current and long term cost base and a release of mortality reserves following the annual review of experience, most of which relates to annuitant mortality.

Tax and other assumptions includes the effect of changes in the equity release default assumptions used to derive the valuation interest rate for UK annuities resulting in a £163 million reduction in annuity liabilities (changes in other default risk assumptions are included within “interest rate” changes). This is partially offset by a write down of DAC in the UK in part to include the impact of the DWP announcement of a 0.75% charge cap and ban on active member discounts.

The adverse change in discount rate assumptions on general insurance and health business of £145 million *(FY13: £33 million favourable)* arises mainly as a result of a decrease in the swap rates used to discount latent claims reserves and periodic payment orders.

B14 – 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 at the reporting date. Therefore the expected duration for settlement of the UDS is not defined.

This note shows the movements in the UDS during the year.

	2014 £m	2013 £m
Carrying amount at 1 January	**6,709**	6,986
Change in participating contract assets	**3,087**	(262)
Change in participating contract liabilities	**299**	(22)
Other movements	**(22)**	4
Change in liability recognised as an expense	**3,364**	(280)
Effect of portfolio transfers, acquisitions and disposals	**(131)**	(115)
Foreign exchange rate movements	**(444)**	118
Other movements	**(31)**	—
Carrying amount at 31 December	**9,467**	6,709
Less: Amounts classified as held for sale	**—**	4
	9,467	6,713

The amount of UDS has increased to £9.5 billion at 31 December 2014 *(2013: £6.7 billion)* driven primarily by positive investment market movements in Continental Europe. These have mainly been caused by the significant appreciation of assets due to the fall in Eurozone government and corporate bond yields during the year.

Negative UDS balances result from an accounting mismatch between participating assets carried at market value and participating liabilities measured using local practice. Any negative balances are tested for recoverability using embedded value methodology and in line with local accounting practice. Testing is conducted at a participating fund-level within each life entity.

Following the reversal of previous losses, all Italian participating funds at 31 December 2014 had positive UDS balances with the exception of one very small fund. The method for estimation of the recoverable negative UDS balance uses a real-world embedded value method, with a risk-discount rate of 5.00% (*2013: 6.60%).* The embedded value method includes an implicit allowance for the time value of options and guarantees. The negative UDS balance in Italy was tested for recoverability and £0.1 million of negative UDS was considered irrecoverable (*2013: £42 million, of which £39 million was for Eurovita).* Following this there are no longer any negative UDS balances in Italy at 31 December 2014. The total UDS balance in Italy was £953 million positive at 31 December 2014 (*2013: £205 million positive).*

In Spain, all participating funds had positive UDS balances at 31 December 2014, and consequently testing of negative UDS was not required. The carrying value of UDS was £248 million positive (*2013: £132 million positive).*

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B15 – Borrowings

Our borrowings are either core structural borrowings or operational borrowings. This note shows the carrying values and contractual maturity amounts of each type, and explains their main features and movements during the year.

(a) Analysis of total borrowings

Total borrowings comprise:

	2014 £m	2013 £m
Core structural borrowings, at amortised cost	**5,310**	5,125
Operational borrowings, at amortised cost	**696**	1,410
Operational borrowings, at fair value	**1,372**	1,313
	2,068	2,723
	7,378	7,848
Less: Amounts classified as held for sale	**—**	(29)
	7,378	7,819

(b) Movements during the year

Movements in borrowings during the year were:

	2014			2013		
	Core Structural £m	**Operational £m**	**Total £m**	Core Structural £m	Operational £m	Total £m
New borrowings drawn down, excluding commercial paper, net of expenses	**552**	**1**	**553**	554	184	738
Repayment of borrowings, excluding commercial paper	**(241)**	**(372)**	**(613)**	(546)	(347)	(893)
Movement in commercial paper[1]	**1**	**—**	**1**	(50)	—	(50)
Net cash inflow/(outflow)	**312**	**(371)**	**(59)**	(42)	(163)	(205)
Foreign exchange rate movements	**(132)**	**(5)**	**(137)**	24	(42)	(18)
Borrowings acquired/(loans repaid) for non-cash consideration[2]	**—**	**(321)**	**(321)**	—	(183)	(183)
Fair value movements	**—**	**70**	**70**	—	(4)	(4)
Amortisation of discounts and other non-cash items	**5**	**(29)**	**(24)**	5	(21)	(16)
Movements in debt held by Group companies[3]	**—**	**1**	**1**	(1)	(49)	(50)
Movements in the year	**185**	**(655)**	**(470)**	(14)	(462)	(476)
Balance at 1 January	**5,125**	**2,723**	**7,848**	5,139	3,185	8,324
Balance at 31 December	**5,310**	**2,068**	**7,378**	5,125	2,723	7,848

1 Gross issuances of commercial paper were £1,830 million in 2014 *(2013: £1,583 million)*, offset by repayments of £1,829 million *(2013: £1,633 million)*.
2 Includes borrowings disposed of / repaid as part of the disposal of US Life in 2013 of £179 million.
3 Certain subsidiary companies have purchased issued subordinated notes and securitised loan notes as part of their investment portfolios. In the consolidated statement of financial position, borrowings are shown net of these holdings but movements in such holdings over the year are reflected in the tables above.

All movements in fair value in 2013 and 2014 on securitised mortgage loan notes designated as fair value through profit or loss were attributable to changes in market conditions.

B16 – Pension obligations

The Group operates a number of defined benefit and defined contribution pension schemes. The material defined benefit schemes are in the UK, Ireland, and Canada with the main UK scheme being the largest. The assets and liabilities of these defined benefit schemes as at 31 December 2014 are shown below.

	2014				2013			
	UK £m	**Ireland £m**	**Canada £m**	**Total £m**	UK £m	Ireland £m	Canada £m	Total £m
Total fair value of scheme assets	**14,733**	**483**	**258**	**15,474**	11,734	431	233	12,398
Present value of defined benefit obligation	**(12,079)**	**(748)**	**(343)**	**(13,170)**	(11,185)	(640)	(334)	(12,159)
Net surpluses/(deficits) in the schemes	**2,654**	**(265)**	**(85)**	**2,304**	549	(209)	(101)	239
Surpluses included in other assets	**2,695**	**—**	**—**	**2,695**	606	—	—	606
Deficits included in provisions	**(41)**	**(265)**	**(85)**	**(391)**	(57)	(209)	(101)	(367)
	2,654	**(265)**	**(85)**	**2,304**	549	(209)	(101)	239

B16 – Pension obligations continued

Movements in the scheme deficits and surpluses

Movements in the pension schemes' surpluses and deficits comprise:

2014	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus/ (deficits) £m
Net surplus in the schemes at 1 January	**12,398**	**(12,159)**	**239**
Administrative expenses[1]	**—**	**(27)**	**(27)**
Total pension cost charged to expenses	**—**	**(27)**	**(27)**
Net interest credited/(charged) to investment income/(finance costs)[2]	**542**	**(522)**	**20**
Total recognised in income from continuing operations	**542**	**(549)**	**(7)**
Remeasurements:			
Actual return on scheme assets	**3,135**	**—**	**3,135**
Less: Interest income on scheme assets	**(542)**	**—**	**(542)**
Return on scheme assets excluding amounts in interest income	**2,593**	**—**	**2,593**
Losses from change in financial assumptions	**—**	**(1,063)**	**(1,063)**
Gains from change in demographic assumptions	**—**	**150**	**150**
Experience losses	**—**	**(18)**	**(18)**
Total remeasurements recognised in other comprehensive income from continuing operations	**2,593**	**(931)**	**1,662**
Employer contributions	**391**	**—**	**391**
Employee contributions	**—**	**—**	**—**
Benefits paid	**(385)**	**385**	**—**
Administrative expenses paid from scheme assets[1]	**(27)**	**27**	**—**
Foreign exchange rate movements	**(38)**	**57**	**19**
Net surplus in the schemes at 31 December	**15,474**	**(13,170)**	**2,304**

1 Administrative expenses are expensed as incurred.
2 Net interest income of £33 million has been credited to investment income and net interest expense of £13 million has been charged to finance costs.
3 Total recognised in income from discontinued operations is £nil and total remeasurements recognised in other comprehensive income from discontinued operations is £nil.

The increase in the net surplus in the pension schemes was primarily due to positive asset performance driven by a fall in interest rates. This was partially offset by an increase in the defined benefit obligation due to a fall in discount rate. Within the discount rate the adverse impact from the fall in interest rates was partly countered by the benefit from a widening of the spread between UK corporate bond yields and gilt yields.

2013	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus/ (deficits) £m
Net surplus in the schemes at 1 January	12,281	(11,675)	606
Current service costs	—	(4)	(4)
Past service costs – amendments[1]	—	142	142
Past service costs – curtailment gain	—	5	5
Administrative expenses[2]	—	(18)	(18)
Total pension cost charged to net operating expenses	—	125	125
Net interest credited/(charged) to investment income/(finance costs)[3]	543	(506)	37
Total recognised in income from continuing operations	543	(381)	162
Remeasurements:			
Actual return on scheme assets	366	—	366
Less: Interest income on scheme assets	(543)	—	(543)
Return on scheme assets excluding amounts in interest income	(177)	—	(177)
Losses from change in financial assumptions	—	(730)	(730)
Gains from change in demographic assumptions	—	186	186
Experience gains	—	47	47
Total remeasurements recognised in other comprehensive income from continuing operations	(177)	(497)	(674)
Employer contributions	149	—	149
Employee contributions	1	(1)	—
Benefits paid	(371)	371	—
Administrative expenses paid from scheme assets[2]	(18)	18	—
Foreign exchange rate movements	(10)	6	(4)
Net surplus in the schemes at 31 December	12,398	(12,159)	239

1 Includes £145 million gain relating to plan amendments in Ireland.
2 Administrative expenses are expensed as incurred.
3 Net interest income of £57 million has been credited to investment income and net interest expense of £20 million has been charged to finance costs.
4 Total recognised in income from discontinued operations is £nil and total remeasurements recognised in other comprehensive income from discontinued operations is £nil.

B17 – Cash and cash equivalents

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

	2014 £m	Restated[1] 2013 £m
Cash and cash equivalents	**23,105**	26,131
Cash and cash equivalents of operations classified as held for sale	**9**	351
Bank overdrafts	**(550)**	(493)
Net cash and cash equivalents at 31 December	**22,564**	25,989

1 The statement of cash flows and the statement of financial position have been restated for the adoption of amendments to IAS 32 'Financial Instruments: Presentations' – see note B2 for details.

B18 – Related party transactions

This note gives details of the transactions between Group companies and related parties which comprise our joint ventures, associates and staff pension schemes.

The Group undertakes transactions with related parties in the normal course of business. Loans to related parties are made on normal arm's-length commercial terms.

Services provided to, and by related parties

	2014				2013			
	Income earned in period £m	**Expenses incurred in period £m**	**Payable at period end £m**	**Receivable at period end £m**	Income earned in period £m	Expenses incurred in period £m	Payable at period end £m	Receivable at period end £m
Associates	**7**	**(2)**	**—**	**—**	3	(3)	—	11
Joint ventures	**28**	**—**	**—**	**154**	51	—	—	56
Employee pension schemes	**11**	**—**	**—**	**3**	12	—	—	9
	46	**(2)**	**—**	**157**	66	(3)	—	76

Transactions with joint ventures in the UK relate to the property management undertakings. 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. 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 holds 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.

B19 – Risk management

This note sets out the major risks our businesses and its shareholders face and describes the Group's approach to managing these. It also gives sensitivity analyses around the major economic and non-economic assumptions that can cause volatility in the Group's earnings and capital position.

(a) Risk management framework

The risk management framework (RMF) in Aviva forms an integral part of the management and Board processes and decision-making framework across the Group. The key elements of our risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to Aviva's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance, general insurance, asset management and operational risk. Risks falling within these types may affect a number of metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products we deliver to our customers and the service to our customers and distributors, which can be categorised as risks to our brand and reputation or as conduct risk.

To promote a consistent and rigorous approach to risk management across all businesses we have a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Group's worldwide operations. On a semi-annual basis the business chief executive officers and chief risk officers sign-off compliance with these policies and standards, providing assurance to the relevant oversight committees that there is a consistent framework for managing our business and the associated risks.

A regular top-down key risk identification and assessment process is carried out by the risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. This process is replicated at the business unit level. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

Risk models are an important tool in our measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. We carry out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

B19 – Risk management continued

Roles and responsibilities for risk management in Aviva are based around the 'three lines of defence model' where ownership for risk is taken at all levels in the Group. Line management in the business is accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The risk function is accountable for quantitative and qualitative oversight and challenge of the IMMMR process and for developing the risk management framework. Internal Audit provides an independent assessment of the risk framework and internal control processes.

Board oversight of risk and risk management across the Group is maintained on a regular basis through its Risk Committee and Governance Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital, liquidity and franchise value at Group and in the business units. Economic capital risk appetites are also set for each risk type. The Group's position against risk appetite is monitored and reported to the Board on a regular basis. The oversight of risk and risk management at the Group level is supported by the Asset Liability Committee (ALCO), which focuses on business and financial risks, and the Operational Risk Committee (ORC) which focuses on operational and reputational risks. Similar committee structures with equivalent terms of reference exist in the business units.

Further information on the types and management of specific risk types is given in sections (b) – (j) below.

The risk management framework of a small number of our joint ventures and strategic equity holdings differs from the Aviva framework outlined in this note. We work with these entities to understand how their risks are managed and to align them, where possible, with Aviva's framework.

(b) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to Aviva, or variations in market values as a result of changes in expectations related to these risks. Credit risk is an area where we can provide the returns required to satisfy policyholder liabilities and to generate returns for our shareholders. In general we prefer to take credit risk over equity and property risks, due to the better expected risk adjusted return, our credit risk analysis capability and the structural investment advantages conferred to insurers with long-dated, relatively illiquid liabilities.

Our approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. Our credit risks arise principally through exposures to debt security investments, structured asset investments, bank deposits, derivative counterparties, mortgage lending and reinsurance counterparties.

The Group manages its credit risk at business unit and Group level. All business units are required to implement credit risk management 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 a Group limit framework that must be adhered to by all.

A detailed breakdown of the Group's current credit exposure by credit quality is shown below.

(i) 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 sub-investment grade. The following table provides information regarding the aggregated credit risk exposure of the Group for financial assets with external credit ratings, excluding assets 'held for sale'. 'Not rated' assets capture assets not rated by external ratings agencies.

As at 31 December 2014	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Not rated**	**Carrying value including held for sale**	**Less: Amounts classified as held for sale**	**Carrying value £m**
Debt securities	**13.6%**	**35.6%**	**21.3%**	**21.9%**	**2.1%**	**5.5%**	**131,661**	**—**	**131,661**
Reinsurance assets	**0.3%**	**71.3%**	**21.9%**	**0.1%**	**0.0%**	**6.4%**	**7,958**	**—**	**7,958**
Other investments	**0.0%**	**0.1%**	**1.3%**	**0.0%**	**0.2%**	**98.4%**	**35,358**	**—**	**35,358**
Loans	**1.3%**	**9.0%**	**2.1%**	**0.2%**	**0.0%**	**87.4%**	**25,260**	**—**	**25,260**
Total							**200,237**	**—**	**200,237**

As at 31 December 2013 restated[1]	AAA	AA	A	BBB	Speculative grade	Not rated	Carrying value including held for sale	Less: Amounts classified as held for sale	Carrying value £m
Debt securities	13.0%	33.1%	20.8%	24.9%	2.8%	5.4%	126,805	(2,420)	124,385
Reinsurance assets	0.3%	53.6%	37.1%	1.1%	0.1%	7.8%	7,257	(37)	7,220
Other investments	0.0%	0.2%	0.7%	1.0%	0.1%	98.0%	32,517	(201)	32,316
Loans	3.8%	12.1%	1.2%	0.0%	0.3%	82.6%	23,879	—	23,879
Total							190,458	(2,658)	187,800

1 Restated for the adoption of amendments to IAS 32 'Financial Instruments: Presentation' – see note B2 for details.

B19 – Risk management continued

(ii) Financial exposures to peripheral European countries and worldwide banks

Included in our debt securities and other financial assets are exposures to peripheral European countries and worldwide banks. We continued in 2014 to limit our direct shareholder and participating assets exposure to the governments (including local authorities and agencies) and banks of Greece, Portugal, Italy and Spain, which has benefitted from an increase in market values. The completion of the disposal of the Group's interest in Eurovita has resulted in a reduction of our exposure to Italian sovereign and corporate debt. In light of the improving economic situation in Ireland, we have made a modest increase in our exposure to Irish sovereign debt during 2014. Information on our exposures to peripheral European sovereigns and banks is provided in notes D.3.3.5. We continue to monitor closely the situation in the eurozone and have had additional restrictions on further investment in place since late 2009 as well as taking actions to reduce exposure to higher risk assets.

(iii) Other investments

Other investments (including assets of operations classified as held for sale) include unit trusts and other investment vehicles; derivative financial instruments, representing positions to mitigate the impact of adverse market movements; and other assets includes deposits with credit institutions and minority holdings in property management undertakings.

The credit quality of the underlying debt securities within investment vehicles is managed by the safeguards built into the investment mandates for these funds which determine the funds' risk profiles. At the Group level, we also monitor the asset quality of unit trusts and other investment vehicles against Group set limits.

A proportion of the assets underlying these investments are represented by equities and so credit ratings are not generally applicable. Equity exposures are managed against agreed benchmarks that are set with reference to overall appetite for market risk.

(iv) Loans

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.

We use loan to value; interest and debt service cover; and diversity and quality of the tenant base metrics to internally monitor our exposures to mortgage loans. We use credit quality, based on dynamic market measures, and collateralisation rules to manage our stock lending activities. Policy loans are loans and advances made to policyholders, and are collateralised by the underlying policies.

(v) Credit concentration risk

The long-term and general insurance businesses are generally not individually exposed to significant concentrations of credit risk due to the regulations applicable in most markets and the Group credit policy and limits framework, which limit investments in individual assets and asset classes. Credit concentrations are monitored as part of the regular credit monitoring process and are reported to Group ALCO. With the exception of government bonds the largest aggregated counterparty exposure within shareholder assets (i.e. excluding potential exposures arising from reinsurance of unit linked funds) is approximately 1.6% of the total shareholder assets (gross of 'held for sale').

(vi) 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 Group ALM and Group Risk teams have an active monitoring role with escalation to the Chief Financial Officer (CFO), Chief Risk Officer (CRO), Group ALCO and the Board Risk Committee as appropriate.

The Group's largest reinsurance counterparty is BlackRock Life Ltd (including subsidiaries) as a result of the BlackRock funds offered to UK Life customers via unit linked contracts. At 31 December 2014, the reinsurance asset recoverable, including debtor balances, from BlackRock Life Ltd was £2,048 million.

(vii) Securities finance

The Group has significant securities financing operations within the UK and smaller operations in some other businesses. The risks within this activity are mitigated by over-collateralisation and minimum counterparty credit quality requirements which are designed to minimise residual risk. The Group operates strict standards around counterparty quality, collateral management, margin calls and controls.

(viii) 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 foreign exchange trades where it has historically been the market norm not to collateralise). Residual exposures are captured within the Group's credit management framework.

(ix) Unit-linked business

In unit-linked business the policyholder bears the direct market risk and credit risk on investment assets in the unit funds and the shareholders' exposure to credit risk is limited to the extent of the income arising from asset management charges based on the value of assets in the fund.

B19 – Risk management continued

(x) Impairment of financial assets

The following table provides information regarding the carrying value of financial assets subject to impairment testing that have been impaired and the ageing of those assets that are past due but not impaired. The table excludes assets carried at fair value through profit or loss or 'held for sale'.

At 31 December 2014	Neither past due nor impaired £m	Financial assets that are past due but not impaired: 0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Debt securities	**1,021**	**—**	**—**	**—**	**—**	**—**	**1,021**
Reinsurance assets	**5,425**	**—**	**—**	**—**	**—**	**—**	**5,425**
Other investments	**1**	**—**	**—**	**—**	**—**	**4**	**5**
Loans	**4,286**	**2**	**2**	**—**	**—**	**75**	**4,365**
Receivables and other financial assets	**5,849**	**60**	**9**	**7**	**8**	**—**	**5,933**

At 31 December 2013 Restated[1]	Neither past due nor impaired £m	Financial assets that are past due but not impaired: 0-3 months £m	3-6 months £m	6 months-1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value £m
Debt securities	1,133	—	—	—	—	—	1,133
Reinsurance assets	5,172	—	—	—	—	—	5,172
Other investments	7	—	—	—	—	6	13
Loans	5,263	—	—	—	—	139	5,402
Receivables and other financial assets	7,350	56	26	18	22	4	7,476

1 Restated for the adoption of amendments to IAS32 'Financial Instruments – Presentation' – see note B2 for details. In addition, restated to exclude reinsurance assets measured at fair value through profit or loss.

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 to mitigate the risk. There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

(c) Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly from fluctuations in interest rates, foreign currency exchange rates, equity and property prices. 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. We actively seek some market risks as part of our investment and product strategy. However, we have limited appetite for interest rate risk as we do not believe it is adequately rewarded.

The management of market risk is undertaken at business unit and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group ALM is responsible for monitoring and managing market risk at Group level and has established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

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. 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.

The most material types of market risk that the Group is exposed to are described below.

(i) Equity price risk

The Group is subject to equity price risk arising from changes in the market values of its equity securities portfolio.

We continue to limit our direct equity exposure in line with our risk preferences. At a business unit level, investment limits and 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 risk models, in particular to understand the impact of equity performance on guarantees, options and bonus rates. At 31 December 2014 the Group's shareholder funds held £2 billion notional of equity hedge put spreads, with up to 9 months to maturity with an average strike of 81-61% of the prevailing market levels on 31 December 2014.

Sensitivity to changes in equity prices is given in section '(j) risk and capital management' below.

B19 – Risk management continued

(ii) Property price risk

The Group is subject to property price risk directly due to holdings of investment properties in a variety of locations worldwide and indirectly through investments in mortgages and mortgage backed securities. Investment in property is managed at business unit level, and is subject to local regulations on asset admissibility, liquidity requirements and the expectations of policyholders.

As at 31 December 2014, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

Sensitivity to changes in property prices is given in section '(j) risk and capital management' below.

(iii) Interest rate risk

Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities and their movement relative to the value placed on the insurance liabilities. A number of policyholder product 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.

Exposure to interest rate risk is monitored through several measures that include duration, economic capital modelling, sensitivity testing and stress and scenario testing. The impact of exposure to sustained low interest rates is considered within our scenario testing.

The Group typically manages interest rate risk by investing in fixed interest securities which closely match the interest rate sensitivity of the liabilities where this is available. Interest rate risk is also managed in some business units using a variety of derivative instruments, including futures, options, swaps, caps and floors.

Sensitivity to changes in interest rates is given in section '(j) risk and capital management' below.

(iv) Inflation risk

Inflation risk arises primarily from the Group's exposure to general insurance claims inflation, to inflation linked benefits within the defined benefit staff pension schemes and within the UK annuity portfolio and to expense inflation. Increases in long-term inflation expectations are closely linked to long-term interest rates and so are frequently considered with interest rate risk. Exposure to inflation risk is monitored through economic capital modelling, sensitivity testing and stress and scenario testing. The Group typically manages inflation risk through its investment strategy and, in particular, by investing in inflation linked securities and through a variety of derivative instruments, including inflation linked swaps.

(v) 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 by unit-linked or with-profit contract liabilities or hedging.

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 Canadian 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.

Businesses aim to maintain sufficient assets in local currency to meet local currency liabilities, however 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. These exposures are managed by aligning the deployment of regulatory capital by currency with the Group's regulatory capital requirements by currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

At 31 December 2014 and 2013, the Group's total equity deployment by currency including assets 'held for sale' was:

	Sterling £m	Euro £m	CAD$ £m	Other £m	Total £m
Capital 31 December 2014	**8,050**	**2,392**	**1,016**	**818**	**12,276**
Capital 31 December 2013	4,942	4,178	987	910	11,017

A 10% change in sterling to euro/Canada$ (CAD) period-end 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 / CAD$ rate £m	10% decrease in sterling / CAD$ rate £m
Net assets at 31 December 2014	**(78)**	**210**	**(96)**	**91**
Net assets at 31 December 2013	(260)	360	(81)	99

A 10% change in sterling to euro/ Canada$ (CAD) average foreign exchange rates applied to translate foreign currency profits would have had the following impact on profit before tax, excluding 'discontinued operations'.

	10% increase in sterling/ euro rate £m	10% decrease in sterling/ euro rate £m	10% increase in sterling/ CAD$ rate £m	10% decrease in sterling/ CAD$ rate £m
Impact on profit before tax 31 December 2014	**(44)**	**(25)**	**(15)**	**20**
Impact on profit before tax 31 December 2013 (restated)[1]	(3)	(1)	(8)	2

1 Restated to disclose the impact of a 10% change in the average exchange rate applied to translate foreign currency profits into sterling. In previous years, the sensitivity of profit before tax to changes in foreign exchange rates was calculated on the basis of a 10% change in the period-end exchange rate which was used to calculate the average exchange rate applied to translate foreign currency profits. We consider the change in basis of calculation better reflects the sensitivity of profit before tax to foreign currency risk.

B19 – Risk management continued

The balance sheet 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 balance sheet movements in exchange rates therefore have no impact on profit. Net asset and profit before tax figures are stated after taking account of the effect of currency hedging activities.

(vi) Derivatives risk

Derivatives are used by a number of the businesses. Activity is overseen by the Group ALM and Group Risk teams, which monitor exposure levels and approves large or complex transactions. Derivatives are primarily used for efficient investment management, risk hedging purposes, or to structure specific retail savings products.

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.

(vii) Correlation risk

The Group recognises that 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 internal economic capital model and in scenario analysis.

(d) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form. The relatively illiquid nature of insurance liabilities is a potential source of additional investment return by allowing us to invest in higher yielding, but less liquid assets such as commercial mortgages. The Group seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a Group liquidity risk policy and business standard and through the development of its liquidity risk management plan. At Group and business unit level, there is a liquidity risk appetite which requires that sufficient liquid resources be maintained to cover net outflows in a stress scenario. In addition to the existing liquid resources and expected inflows, the Group maintains significant undrawn committed borrowing facilities (£1,550 million) from a range of leading international banks to further mitigate this risk.

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 2014 and 2013 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 linked business and non-linked 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 these contracts. However, contractually, the total liability for linked business and non-linked investment contracts would be shown in the 'within 1 year' column below, and previously the total liability for linked business was shown in the 'within 1 year' column. Changes in durations between 2013 and 2014 reflect evolution of the portfolio, and changes to the models for projecting cash-flows. This table includes assets held for sale.

At 31 December 2014	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	**85,723**	**7,980**	**25,318**	**32,534**	**19,891**
Investment contracts – non-linked	**55,634**	**3,311**	**10,852**	**23,919**	**17,552**
Linked business	**75,341**	**8,141**	**21,444**	**27,673**	**18,083**
General insurance and health	**13,993**	**6,014**	**5,400**	**2,115**	**464**
Total contract liabilities	**230,691**	**25,446**	**63,014**	**86,241**	**55,990**

At 31 December 2013	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	81,458	7,900	25,223	29,620	18,715
Investment contracts – non-linked	60,111	2,098	10,422	17,594	29,997
Linked business	73,458	6,244	16,403	23,483	27,328
General insurance and health	14,534	6,350	5,591	2,197	396
Total contract liabilities	229,561	22,592	57,639	72,894	76,436

B19 – Risk management continued

(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. This table excludes assets held for sale.

At 31 December 2014	Total £m	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	No fixed term (perpetual) £m
Debt securities	**131,661**	**19,097**	**37,404**	**75,006**	**154**
Equity securities	**35,619**	**—**	**—**	**—**	**35,619**
Other investments	**35,358**	**29,011**	**940**	**3,553**	**1,854**
Loans	**25,260**	**1,489**	**2,517**	**21,249**	**5**
Cash and cash equivalents	**23,105**	**23,105**	**—**	**—**	**—**
	251,003	**72,702**	**40,861**	**99,808**	**37,632**

At 31 December 2013 Restated[1]	Total £m	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	No fixed term (perpetual) £m
Debt securities	124,385	15,146	35,624	73,613	2
Equity securities	37,326	—	—	—	37,326
Other investments	32,316	28,227	812	1,382	1,895
Loans	23,879	2,029	3,909	17,920	21
Cash and cash equivalents	26,131	26,131	—	—	—
	244,037	71,533	40,345	92,915	39,244

1 Restated for the adoption of amendments to IAS 32 'Financial Instruments: Presentation' – see note B2 for details.

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Group. Where an instrument is transferable back to the issuer on demand, such as most unit trusts or similar types of investment vehicle, it is included in the 'On demand or within 1 year' column. Debt securities with no fixed contractual maturity date are generally callable at the option of the issuer at the date the coupon rate is reset under the contractual terms of the instrument. The terms for resetting the coupon are such that we expect the securities to be redeemed at this date, as it would be uneconomic for the issuer not to do so, and for liquidity management purposes we manage these securities on this basis. The first repricing and call date is normally 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.

(e) Life insurance risk

Life insurance risk in the Group arises through its exposure to mortality and morbidity risks and exposure to worse than anticipated operating experience on factors such as persistency levels, exercising of policyholder options and management and administration expenses. The Group chooses to take measured amounts of life insurance risk provided that the relevant business has the appropriate core skills to assess and price the risk and adequate returns are available.

The underlying risk profile of our life insurance risks, primarily persistency, longevity, mortality and expense risk, has remained stable during 2014, although the current continued relatively low levels of interest rates have increased our sensitivity to longevity shocks compared to historical norms. Our economic exposure to longevity risk was reduced as a result of the Aviva Staff Pension Scheme entering into a longevity swap covering £5 billion of pensioner in payment scheme liabilities on 5 March 2014, while any significant reduction in individual annuity new business volumes as a result of the UK budget changes to compulsory annuitisation will also reduce our longevity risks exposure over the longer term to the extent not offset by increased bulk purchase annuity volumes. Despite this longevity risk remains the Group's most significant life insurance risk due to the Group's existing annuity portfolio. Persistency risk remains significant and continues to have a volatile outlook with underlying performance linked to some degree to economic conditions. However, businesses across the Group have continued to make progress with a range of customer retention activities. The Group has continued to write considerable volumes of life protection business, and to utilise reinsurance to reduce exposure to potential losses. More generally, life insurance risks are believed to provide a significant diversification against other risks in the portfolio. Life insurance risks are modelled within the internal economic capital model and subject to sensitivity and stress and scenario testing. The assumption and management of life insurance risks is governed by the group-wide business standards covering underwriting, pricing, product design and management, in-force management, claims handling, and reinsurance. The individual life insurance risks are managed as follows:

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group allows businesses to select reinsurers, from those approved by the Group, based on local factors, but retains oversight of the overall exposures and monitor that the aggregation of risk ceded is within credit risk appetite.
- Longevity risk and internal experience analysis are 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 any associated capital implications. The Group has used reinsurance solutions to reduce the risks from longevity 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, and 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 the retention of policies which may otherwise lapse. The Group has developed guidelines on persistency management.
- Expense risk is primarily managed by the business units through the assessment of business unit profitability and frequent monitoring of expense levels.

B19 – Risk management continued

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 and exposes Aviva to changes in policyholder behaviour in the exercise of options as well as market risk.

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 the economic capital model and MCEV reporting and managed as part of the asset liability framework.

(f) 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 or cause;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

Aviva has a preference for general insurance risk in measured amounts for explicit reward, in line with our core skills in underwriting and pricing. The majority of the general insurance business underwritten by the Group continues to be short tail in nature such as motor, household and commercial property insurances. The Group's underwriting strategy and appetite is communicated via specific policy statements, related business standards and guidelines. General insurance risk is managed primarily at business unit level with oversight at the Group level. Claims reserving is undertaken by local actuaries in the various general insurance businesses and is also subject to periodic external reviews. Reserving processes are further detailed in note B10 'insurance liabilities'.

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 under the risk management framework. Additionally, the economic capital model 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.

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 business units are assisted by the General Insurance Council which provides technical input for major decisions which fall outside individual delegated limits or escalations outside group risk preferences, group risk accumulation, concentration and profitability limits.

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. The basis of these purchases is underpinned by analysis of economic capital, earnings and capital volatility, cash flow and liquidity and the Group's franchise value.

Detailed actuarial analysis is used to calculate the Group's extreme risk profile and then design cost and capital efficient reinsurance programmes to mitigate these risks to within agreed appetites. For businesses writing general insurance we analyse the natural catastrophe exposure using external probabilistic catastrophe models widely used by the rest of the (re)insurance industry.

The Group cedes much of its worldwide catastrophe risk to third-party reinsurers. The total Group potential loss from its most concentrated catastrophe exposure peril (Northern Europe Windstorm) is approximately £150 million, for a one in ten year annual loss scenario, compared to approximately £260 million when measured on a one in a hundred year annual loss scenario.

(g) Asset management risk

Aviva is directly exposed to the risks associated with operating an asset management business through its ownership of Aviva Investors. The underlying risk profile of our asset management risk is derived from investment performance, specialist investment professionals and leadership, product development capabilities, fund liquidity, margin, client retention, regulatory developments, fiduciary and contractual responsibilities. The risk profile is regularly monitored. Investment performance has remained strong over 2014 despite some positions being impacted by the volatility of global markets.

A client relationship team is in place to manage client retention risk, while all new asset management products undergo a review and approval process at each stage of the product development process, including approvals from legal, compliance and risk functions. Investment performance against client objectives relative to agreed benchmarks is monitored as part of our investment performance and risk management process, and subject to further independent oversight and challenge by a specialist risk team, reporting directly to the Aviva Investors' CRO.

B19 – Risk management continued

(h) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. We have limited appetite for operational risk and aim to reduce these risks as far as is commercially sensible.

Our business units are primarily responsible for identifying and managing operational risks within their businesses, within the group-wide operational risk framework including the risk and control self-assessment process. Businesses must be satisfied that all material risks falling outside our risk tolerances are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact 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.

(i) Brand and reputation risk

We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, media speculation and negative publicity, disclosure of confidential client information, inadequate services, 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 customers' expectations for the product change. We seek to reduce this risk to as low a level as commercially sensible.

The FCA regularly considers whether 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 the perception of our brands and reputation successfully, it could cause existing customers or agents to withdraw from our business and potential customers or agents to choose not to do business with us.

(j) Risk and capital management

(i) Sensitivity test analysis

The Group uses a number of sensitivity tests to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on the Group's key financial performance metrics to inform the Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which each of its business units, and the Group as a whole, are exposed.

For long-term business in particular, sensitivities of market consistent 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.

(ii) Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions are made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality rates and persistency in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business. A number of the key assumptions for the Group's central scenario are disclosed elsewhere in these statements for both IFRS reporting and reporting under MCEV methodology.

(iii) 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.

(iv) Sensitivity test results

Illustrative results of sensitivity testing for long-term business, general insurance and health business and the fund management and non-insurance business are set out below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged.

B19 – Risk management continued

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.
Credit spreads	The impact of a 0.5% increase in credit spreads over risk-free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations
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 (long-term insurance only)	The impact of a reduction in mortality rates for annuity contracts by 5%.
Gross loss ratios (non-long-term insurance only)	The impact of an increase in gross loss ratios for general insurance and health business by 5%.

Long-term business
Sensitivities as at 31 December 2014

2014 Impact on profit before tax (£m)	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**	**Expenses +10%**	**Assurance mortality +5%**	**Annuitant mortality -5%**
Insurance participating	**(10)**	**(60)**	**(20)**	**(175)**	**70**	**(25)**	**(5)**	**(45)**
Insurance non-participating	**(155)**	**130**	**(425)**	**40**	**(40)**	**(80)**	**(50)**	**(590)**
Investment participating	**(15)**	**—**	**(10)**	**—**	**—**	**(5)**	**—**	**—**
Investment non-participating	**(40)**	**30**	**(10)**	**55**	**(60)**	**(35)**	**—**	**—**
Assets backing life shareholders' funds	**(75)**	**45**	**(60)**	**20**	**(20)**	**—**	**—**	**—**
Total	**(295)**	**145**	**(525)**	**(60)**	**(50)**	**(145)**	**(55)**	**(635)**

2014 Impact on shareholders' equity before tax (£m)	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**	**Expenses +10%**	**Assurance mortality +5%**	**Annuitant mortality -5%**
Insurance participating	**(10)**	**(60)**	**(20)**	**(175)**	**70**	**(25)**	**(5)**	**(45)**
Insurance non-participating	**(155)**	**130**	**(425)**	**40**	**(40)**	**(80)**	**(50)**	**(590)**
Investment participating	**(15)**	**—**	**(10)**	**—**	**—**	**(5)**	**—**	**—**
Investment non-participating	**(40)**	**30**	**(10)**	**55**	**(60)**	**(35)**	**—**	**—**
Assets backing life shareholders' funds	**(115)**	**80**	**(65)**	**20**	**(20)**	**—**	**—**	**—**
Total	**(335)**	**180**	**(530)**	**(60)**	**(50)**	**(145)**	**(55)**	**(635)**

Sensitivities as at 31 December 2013

2013 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(45)	—	(60)	(10)	(20)	(30)	(5)	(40)
Insurance non-participating	(145)	140	(415)	(5)	10	(80)	(60)	(450)
Investment participating	(10)	5	(5)	5	(5)	(10)	—	—
Investment non-participating	(20)	20	(5)	5	(5)	(15)	—	—
Assets backing life shareholders' funds	(35)	55	(25)	40	(45)	—	—	—
Total	(255)	220	(510)	35	(65)	(135)	(65)	(490)

2013 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance participating	(45)	—	(60)	(10)	(20)	(30)	(5)	(40)
Insurance non-participating	(145)	140	(415)	(5)	10	(80)	(60)	(450)
Investment participating	(10)	5	(5)	5	(5)	(10)	—	—
Investment non-participating	(20)	20	(5)	5	(5)	(15)	—	—
Assets backing life shareholders' funds	(75)	100	(35)	45	(45)	—	—	—
Total	(295)	265	(520)	40	(65)	(135)	(65)	(490)

B19 – Risk management continued

Changes in sensitivities between 2014 and 2013 reflect movements in market interest rates, portfolio growth, changes to asset mix and the relative durations of assets and liabilities and asset liability management actions. The sensitivities to economic movements relate mainly to business in the UK. In general, a fall in market interest rates has a beneficial impact on non-participating business due to the increase in market value of fixed interest securities and the relative durations of assets and liabilities. Similarly a rise in interest rates has a negative impact. Mortality and expense sensitivities also relate primarily to the UK.

General insurance and health business sensitivities as at 31 December 2014

2014 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	**(260)**	**250**	**(130)**	**55**	**(55)**	**(105)**	**(280)**
Net of reinsurance	**(305)**	**295**	**(130)**	**55**	**(55)**	**(105)**	**(270)**

2014 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	**(260)**	**250**	**(130)**	**60**	**(60)**	**(20)**	**(280)**
Net of reinsurance	**(305)**	**295**	**(130)**	**60**	**(60)**	**(20)**	**(270)**

Sensitivities as at 31 December 2013

2013 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(245)	235	(125)	50	(50)	(110)	(300)
Net of reinsurance	(295)	295	(125)	50	(50)	(110)	(285)

2013 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest Rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(245)	235	(125)	50	(50)	(25)	(300)
Net of reinsurance	(295)	295	(125)	50	(50)	(25)	(285)

For general insurance and health, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

Fund management and non-insurance business sensitivities as at 31 December 2014

2014 Impact on profit before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	**—**	**—**	**5**	**(15)**	**25**

2014 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	**—**	**—**	**5**	**(15)**	**25**

Sensitivities as at 31 December 2013

2013 Impact on profit before tax (£m)	Interest rates +1%	Interest Rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	—	—	20	(5)	15

2013 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	—	—	20	(5)	15

B19 – Risk management 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 a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action.

A number of the business units use passive assumptions to calculate their long-term business liabilities. Consequently, a change in the underlying assumptions may not have any impact on the liabilities, whereas assets held at market value in the statement of financial position will be affected. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity. Similarly, for general insurance liabilities, the interest rate sensitivities only affect profit and equity where explicit assumptions are made regarding interest (discount) rates or future inflation.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

B20 – Direct capital instruments and fixed rate tier 1 notes

Notional amount	**2014 £m**	2013 £m
Issued November 2004		
5.9021% £500 million direct capital instrument	**500**	500
4.7291% €700 million direct capital instrument	**—**	490
	500	990
Issued May 2012		
8.25% US $650 million fixed rate tier 1 notes	**392**	392
	892	1,382

The euro and sterling direct capital instruments (the DCIs) were issued on 25 November 2004 and qualify as Innovative Tier 1 capital, as defined by the PRA in GENPRU Annex 1 'Capital Resources'. On 28 November 2014 the Company exercised its option to redeem the euro DCI on its first redemption date. The remaining sterling DCI has no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the principal amount on 27 July 2020, at which date the interest rate changes to a variable rate, or on any respective coupon payment date thereafter. The sterling DCI variable rate will be the six month sterling deposit rate plus margin.

The fixed rate tier 1 notes (the FxdRNs) were issued on 3 May 2012 and also qualify as Innovative Tier 1 capital. The FxdRNs are perpetual but are subject to a mandatory exchange into non-cumulative preference shares in the Company after 99 years. The Company may, at its sole option, redeem all (but not part) of the FxdRNs at their principal amounts on 3 November 2017, or on any respective coupon payment date thereafter.

On the occurrence of a Capital Disqualification Event as defined in the terms and conditions of the issue for both the DCI and FxdRNs, the Company may at its sole option substitute at any time not less than all of the DCI or FxdRNs for, or vary the terms of the DCI so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities.

In addition, on the occurrence of a Substitution Event as defined in the terms and conditions of the issue for the DCI, the Company may at its sole option substitute not less than all of the DCI for fully paid non-cumulative preference shares in the Company. These preference shares can only be redeemed on 27 July 2020, or on any dividend payment date thereafter. For the FxdRNs, having given the required notice, the Company has the right to substitute not less than all of the notes for fully paid non-cumulative preference shares at any time. These preference shares can only be redeemed on 3 November 2017, or on any dividend payment date thereafter. The Company has the right to choose whether or not to pay any dividend on the new shares, and any such dividend payment will be non-cumulative.

B20 – Direct capital instruments and fixed rate tier 1 notes continued

The Company has the option to defer coupon payments on the DCI or FxdRNs on any relevant payment date.

In relation to the DCI, deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

- Redemption; or
- Substitution by, or variation so they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities; or
- Substitution by preference shares.

In relation to the FxdRNs, deferred coupons may be satisfied at any time, at the sole option of the Company. The Company is required to satisfy deferred coupons on the FxdRNs only in the following circumstances:

- Redemption; or
- Substitution by preference shares.

No interest will accrue on any deferred coupon. Deferred coupons will be satisfied by the issue and sale of ordinary shares in the Company at their prevailing market value, to a sum as near as practicable to (and at least equal to) the relevant deferred coupons. In the event of any coupon deferral, the Company will not declare or pay any dividend on its ordinary or preference share capital.

These instruments have been treated as equity.

B21 – Contingent liabilities and other risk factors

This note sets out the main areas of uncertainty over the calculation of our liabilities.

(a) Uncertainty over claims provisions

Note B10 gives details of the estimation techniques used by the Group to determine the general insurance business outstanding claims provisions and of the methodology and assumptions used in determining the long-term business provisions. These approaches are designed to allow for the appropriate cost of policy-related liabilities, with a degree of prudence, to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

(b) Asbestos, pollution and social environmental hazards

In the course of conducting insurance business, various companies within the Group receive general insurance liability claims, and become involved in actual or threatened related litigation arising there from, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in various jurisdictions, including Europe, Canada and Australia. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, on the basis of current information having regard to the level of provisions made for general insurance claims, the directors consider that any additional costs arising are not likely to have a material impact on the financial position of the Group.

(c) Guarantees on long-term savings products

As a normal part of their operating activities, various Group companies have given guarantees and options, including interest rate guarantees, in respect of certain long-term insurance and investment products. In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, property values and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made. The directors continue to believe that the existing provisions for such guarantees and options are sufficient.

(d) Regulatory compliance

The Group's insurance and investment business is subject to local regulation in each of the countries in which it operates. A number of the Group's UK subsidiaries are "dual regulated" (directly authorised by both the PRA (for prudential regulation) and the FCA (for conduct regulation) whilst others are solo regulated (regulated solely by the FCA for both prudential and conduct regulation). Between them, the PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources. The Group's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The Group's regulated businesses have compliance resources to respond to regulatory enquiries in a constructive way, and take corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding (whether in the UK or overseas) could have a negative impact on the Group's reported results or on its relations with current and potential customers. Regulatory action against a member of the Group could result in adverse publicity for, or negative perceptions regarding, the Group, or could have a material adverse effect on the business of the Group, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

B21 – Contingent liabilities and other risk factors

(e) Structured settlements

The Company has purchased annuities from licensed Canadian life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, the Company is exposed to credit risk to the extent that any of the life insurers fail to fulfill their obligations. The Company's maximum exposure to credit risk for these types of arrangements is approximately $1,224 million as at 31 December 2014 *(2013: $1,119 million)*. Credit risk is managed by acquiring annuities from a diverse portfolio of life insurers with proven financial stability. This risk is reduced to the extent of coverage provided by Assuris, the life insurance industry compensation plan. As at 31 December 2014, no information has come to the Company's attention that would suggest any weakness or failure in life insurers from which it has purchased annuities and consequently no provision for credit risk is required.

(f) Other

In the course of conducting insurance and investment business, various Group companies receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

In addition, in line with standard business practice, various Group companies have given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries and associates to parties outside the Aviva Group. In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties.

There are a number of charges registered over the assets of Group companies in favour of other Group companies or third parties. In addition, certain of the Company’s assets are charged in favour of certain of its subsidiaries as security for intra-Group loans.

The Group’s insurance subsidiaries pay contributions to levy schemes in several countries in which we operate. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

B22 – Subsequent events

In February 2015, Aviva Investors reached a settlement with the FCA for certain systems and controls failings that happened between August 2005 to June 2013 and agreed to pay a fine of £17.6 million. The impact of this has been fully provided for within the FY14 result.

On 25 February 2015, Crédit du Nord, the Group's partner in Antarius S.A. (“Antarius”), exercised its call option to purchase Aviva France’s 50% share of Antarius. In accordance with the shareholders agreement, the exercise of the call option starts a period of approximately two years to complete the disposal. In accordance with IFRS 5, the subsidiary will be classified as Held for Sale from the date when the transaction is expected to complete within 12 months.

Capital & Assets

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C1 – Capital performance

(a) Capital required to write life new business, internal rate of return and payback period

The Group generates a significant amount of capital each year which supports both shareholder distribution and reinvestment in new business. The new business written requires up front capital investment, due to set-up costs and capital requirements.

The internal rate of return (IRR) is a measure of the shareholder return expected on this capital investment. It is equivalent to the discount rate at which the present value of the post-tax cash flows expected to be earned over the life time of the business written, including allowance for the time value of options and guarantees, is equal to the total invested capital to support the writing of the business. The capital included in the calculation of the IRR is the initial capital required to pay acquisition costs and set up statutory reserves in excess of premiums received ('initial capital'), plus required capital at the same level as for the calculation of the value of new business.

The payback period shows how quickly shareholders can expect the total capital to be repaid. The payback period has been calculated based on undiscounted cash flows and allows for the initial and required capital.

The projected investment returns in both the IRR and payback period calculations assume that equities, properties and bonds earn a return in excess of risk-free, consistent with the long-term rate of return assumed in operating earnings.

The internal rates of return on new business written during the period are set out below:

			2014			2013
	Internal rate of return[1] %	**New business impact on free surplus[2] £m**	**Payback period years[1]**	Internal rate of return[1] %	New business impact on free surplus[2] £m	Payback period years[1]
United Kingdom	**44%**	**(20)**	**3**	19%	(17)	6
Ireland	**5%**	**35**	**13**	5%	30	13
United Kingdom & Ireland	**33%**	**15**	**6**	17%	13	7
France	**12%**	**144**	**8**	11%	148	9
Poland	**23%**	**30**	**4**	22%	25	4
Italy	**13%**	**52**	**6**	14%	46	6
Spain	**16%**	**30**	**4**	17%	33	4
Other Europe	**44%**	**16**	**2**	32%	20	3
Europe	**16%**	**272**	**6**	15%	272	7
Asia & Other[3]	**20%**	**63**	**9**	16%	68	10
Total	**19.9%**	**350**	**6**	15.6%	353	7

1 Gross of non-controlling interests
2 Net of non-controlling interests
3 Other includes Aviva Investors. The UK Retail Fund Management business was transferred from UK Life to Aviva Investors in May 2014.

C1 – Capital performance continued

(b) Analysis of return of equity – IFRS basis

	Operating return[1]			
2014	**Before tax £m**	**After tax £m**	**Opening shareholders' funds including non-controlling interests £m**	**Return on equity %**
United Kingdom & Ireland Life	**1,039**	**915**	**5,832**	**15.7%**
United Kingdom & Ireland General Insurance and Health[2]	**468**	**371**	**4,146**	**8.9%**
Europe	**965**	**654**	**5,598**	**11.7%**
Canada	**189**	**139**	**925**	**15.0%**
Asia	**85**	**71**	**709**	**10.0%**
Fund management	**86**	**58**	**237**	**24.5%**
Corporate and Other Business[3]	**(349)**	**(353)**	**(1,305)**	**n/a**
Return on total capital employed	**2,483**	**1,855**	**16,142**	**11.5%**
Subordinated debt	**(289)**	**(227)**	**(4,370)**	**5.2%**
Senior debt	**(21)**	**(16)**	**(755)**	**2.1%**
Return on total equity	**2,173**	**1,612**	**11,017**	**14.6%**
Less: Non-controlling interests		**(143)**	**(1,471)**	**9.7%**
Direct capital instruments and fixed rate tier 1 notes		**(69)**	**(1,382)**	**5.0%**
Preference capital		**(17)**	**(200)**	**8.5%**
Return on equity shareholders' funds		**1,383**	**7,964**	**17.4%**

1 The operating return is based upon Group adjusted operating profit, which is stated before integration and restructuring costs, impairment of goodwill, amortisation of intangibles, exceptional items and investment variances.
2 The operating return for United Kingdom & Ireland general insurance and health is presented net of £31 million of investment return, which is allocated to Corporate and Other Business. The £31 million represents the return on capital supporting Pillar II ICA risks deemed not to be supporting the ongoing general insurance operation.
3 The 'Corporate' and 'Other Business' loss before tax of £349 million comprises corporate costs of £132 million, interest on internal lending arrangements of £186 million, other business operating loss (net of investment return) of £64 million, partly offset by finance income on the main UK pension scheme of £33 million.

	Operating return[1]			
2013	Before tax £m	After tax £m	Opening shareholders' funds including non-controlling interests £m	Return on equity %
United Kingdom & Ireland Life	952	904	5,646	16.0%
United Kingdom & Ireland General Insurance and Health[2]	410	319	4,008	8.0%
Europe	963	636	5,860	10.9%
Canada	246	180	1,039	17.4%
Asia	97	84	825	10.1%
Fund management	93	72	225	32.1%
Corporate and Other Business[3]	(384)	(428)	(1,471)	n/a
Return on total capital employed (excluding United States)	2,377	1,767	16,132	11.0%
United States	290	207	367	56.5%
Return on total capital employed (including United States)	2,667	1,974	16,499	12.0%
Subordinated debt	(305)	(234)	(4,337)	5.4%
Senior debt	(23)	(18)	(802)	2.2%
Return on total equity	2,339	1,722	11,360	15.2%
Less:Non-controlling interests		(174)	(1,574)	11.1%
Direct capital instruments and fixed rate tier 1 notes		(70)	(1,382)	5.1%
Preference capital		(17)	(200)	8.5%
Return on equity shareholders' funds		1,461	8,204	17.8%
Return on equity shareholders' funds (excluding United States operating return)		1,254	8,204	15.3%

1 The operating return is based upon Group adjusted operating profit, which is stated before integration and restructuring costs, impairment of goodwill, amortisation of intangibles, exceptional items and investment variances.
2 The operating return for United Kingdom & Ireland general insurance and health is presented net of £79 million of investment return, which is allocated to Corporate and Other Business. The £79 million represents the return on capital supporting Pillar II ICA risks deemed not to be supporting the ongoing general insurance operation.
3 The 'Corporate' and 'Other Business' loss before tax of £384 million comprises corporate costs of £150 million, interest on internal lending arrangements of £231 million, other business operating loss (net of investment return) of £60 million, partly offset by finance income on the main UK pension scheme of £57 million.

C1 – Capital performance continued

(c) Group capital structure

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

	2014 Capital employed			2013 Capital employed		
	IFRS basis £m	**Internally generated AVIF £m**	**MCEV[4] basis £m**	IFRS basis £m	Internally generated AVIF £m	MCEV[4] basis £m
Life business						
United Kingdom	**5,135**	**2,582**	**7,717**	5,237	2,742	7,979
Ireland	**533**	**99**	**632**	595	81	676
United Kingdom & Ireland	**5,668**	**2,681**	**8,349**	5,832	2,823	8,655
France	**2,234**	**1,393**	**3,627**	2,366	1,677	4,043
Poland	**318**	**1,059**	**1,377**	380	1,075	1,455
Italy	**929**	**351**	**1,280**	1,108	471	1,579
Spain	**557**	**210**	**767**	769	232	1,001
Other Europe	**82**	**77**	**159**	93	84	177
Europe	**4,120**	**3,090**	**7,210**	4,716	3,539	8,255
Asia	**791**	**358**	**1,149**	676	270	946
	10,579	**6,129**	**16,708**	11,224	6,632	17,856
General insurance & health						
United Kingdom	**3,775**	**(115)**	**3,660**	3,725	(184)	3,541
Ireland	**370**	**—**	**370**	421	—	421
United Kingdom & Ireland	**4,145**	**(115)**	**4,030**	4,146	(184)	3,962
France	**556**	**—**	**556**	570	—	570
Italy	**276**	**—**	**276**	269	—	269
Other Europe	**32**	**—**	**32**	43	—	43
Europe	**864**	**—**	**864**	882	—	882
Canada	**969**	**—**	**969**	925	—	925
Asia	**29**	**—**	**29**	33	(2)	31
	6,007	**(115)**	**5,892**	5,986	(186)	5,800
Fund Management	**298**	**(31)**	**267**	237	(37)	200
Corporate & Other Business[1]	**702**	**137**	**839**	(1,305)	2	(1,303)
Total capital employed	**17,586**	**6,120**	**23,706**	16,142	6,411	22,553
Financed by						
Equity shareholders' funds	**10,018**	**5,529**	**15,547**	7,964	5,679	13,643
Non-controlling interests	**1,166**	**591**	**1,757**	1,471	732	2,203
Direct capital instruments & fixed rate tier 1 notes	**892**	**—**	**892**	1,382	—	1,382
Preference shares	**200**	**—**	**200**	200	—	200
Subordinated debt	**4,594**	**—**	**4,594**	4,370	—	4,370
Senior debt	**716**	**—**	**716**	755	—	755
Total capital employed	**17,586**	**6,120**	**23,706**	16,142	6,411	22,553
Less: Goodwill	**(1,327)**		**(1,228)**	(1,510)		(1,405)
Total tangible capital employed[2]	**16,259**		**22,478**	14,632		21,148
Total debt[3]	**6,652**		**6,652**	6,957		6,957
Tangible debt leverage	**41%**		**30%**	48%		33%

1 'Corporate' and 'other Business' includes centrally held tangible net assets, the main UK staff pension scheme surplus and also reflects internal lending arrangements. These internal lending arrangements, which net out on consolidation, include the formal loan arrangement between Aviva Group Holdings Limited and Aviva Insurance Limited (AIL). Internal capital management in place allocated a majority of the total capital of AIL to the UK general insurance operations with the remaining capital deemed to be supporting residual (non-operational) Pillar II ICA risks.

2 The definition of tangible capital employed has been adjusted in 2014 to deduct only goodwill from "tangible capital". Goodwill includes £1,302 million *(FY13: £1,480 million including £4 million within assets held for sale)* of goodwill in subsidiaries and £25 million *(FY13: £30 million)* of goodwill in joint ventures. AVIF and other intangibles are maintained within the capital base. As at FY14, AVIF and other intangibles comprise £1,028 million *(FY13: £1,068 million)* of intangibles in subsidiaries and £62 million *(FY13: £30 million)* of intangibles in joint ventures, net of deferred tax liabilities of £(180) million *(FY13: £(189) million)* and the non-controlling interest share of intangibles of £(198) million (*FY13: £(215) million*). Under MCEV, Goodwill has been further impaired by £99 million (*FY13: £105 million*) which has been reflected in the additional value of in-force long-term business in the MCEV balance sheet.

3 Total debt comprises direct capital instruments and fixed rate tier 1 notes, Aviva Plc preference share capital and core structural borrowings. In addition preference share capital of GA plc of £250 million within non-controlling interests has been included.

4 In preparing the MCEV information, the directors have done so in accordance with the European Insurance CFO Forum MCEV Principles with the exception of stating held for sale operation at their expected fair value, as represented by expected sale proceeds, less cost to sell.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings. At FY14 the Group had £17.6 billion (*FY13: £16.1 billion*) of total capital employed in our trading operations measured on an IFRS basis and £23.7 billion (*FY13: £22.6 billion*) of total capital employed on an MCEV basis.

In April 2014 the Group redeemed £200 million and €50 million of Lower Tier 2 subordinated debt at their first call dates. In July 2014 the Group issued €700 million of Lower Tier 2 subordinated debt callable in 2024. This was used to repay a €700 million direct capital instrument at its first call date, in November 2014. On a net basis, these transactions did not impact on Group IGD solvency and Economic Capital measures. Tangible debt leverage, the ratio of external senior and subordinated debt to tangible capital employed, is 41% *(FY13: 48%)* under IFRS basis, and 30% under MCEV basis (*FY13: 33%*).

At FY14 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 non-controlling interest, of £250 million), and direct capital instruments and fixed rate tier 1 notes was £7,511 million (*FY13: £7,573 million*).

C1 – Capital performance continued

(d) Equity sensitivity analysis

The sensitivity of the group's total equity, for continuing operations, on an IFRS basis and MCEV basis at 31 December 2014 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:

31 December 2013 £bn	IFRS basis	31 December 2014 £bn	Equities down 10% £bn	Interest rates up 1% £bn	0.5% increased credit spread £bn
11.2	Long-term savings	**10.6**	**—**	**(0.4)**	**(0.2)**
4.9	General insurance and other	**7.0**	**—**	**(0.5)**	**0.5**
(5.1)	Borrowings	**(5.3)**	**—**	**—**	**—**
11.0	**Total equity**	**12.3**	**—**	**(0.9)**	**0.3**

Restated[1] 31 December 2013 £bn	MCEV basis	31 December 2014 £bn	Equities down 10% Direct £bn	Equities down 10% Indirect £bn	Interest rates up 1% £bn	0.5% increased credit spread £bn
17.9	Long-term savings	**16.7**	**(0.1)**	**(0.3)**	**(0.4)**	**(1.1)**
4.7	General insurance and other	**7.0**	**—**	**—**	**(0.5)**	**0.5**
(5.1)	Borrowings	**(5.3)**	**—**	**—**	**—**	**—**
17.5	**Total equity**	**18.4**	**(0.1)**	**(0.3)**	**(0.9)**	**(0.6)**

1 The comparative periods have been restated as set out in note F1 – Basis of preparation for further details.

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 in the main UK pension scheme by £1.8 billion (before any associated tax impact).

The 0.5% increased credit spread sensitivities for IFRS and MCEV 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 IFRS and MCEV 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.

C2 – Regulatory capital

Individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the Prudential Regulatory Authority (PRA). These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an aggregate Group level, where Aviva has 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 businesses in Canada a risk charge on assets and liabilities approach is used.

Based on individual guidance from the PRA we recognise surpluses of the non-profit funds of our UK life and pensions businesses which are available for transfer to shareholders. These have decreased to £nil as at 31 December 2014 *(FY13: £0.1 billion)*.

C2 – Regulatory capital continued

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

	UK life funds £bn	Other business £bn	31 December 2014 £bn	31 December 2013 £bn
Insurance Groups Directive (IGD) capital resources	**6.0**	**8.4**	**14.4**	14.4
Less: capital resources requirement	**(6.0)**	**(5.2)**	**(11.2)**	(10.8)
Insurance Group Directive (IGD) excess solvency	**—**	**3.2**	**3.2**	3.6
Cover over EU minimum (calculated excluding UK life funds)			**1.6 times**	1.7 times

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has decreased by £0.4 billion since FY13 to £3.2 billion. This total includes an adverse impact of £0.4 billion from recognising the proposed final dividend for 2014 that was announced on 2 December 2014 as part of the announcement of the Group's offer to acquire Friends Life Group Limited. The dividend is subject to approval by shareholders at the AGM, but is considered foreseeable and is therefore deducted from the 31 December 2014 IGD surplus. In contrast, the 2013 final dividend of £0.3 billion was not foreseeable as at 31 December 2013, and was not deducted from the 2013 year-end IGD surplus.

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

	£bn
IGD solvency surplus at 31 December 2013	**3.6**
Operating profits net of other income and expenses	**1.2**
Dividends and appropriations	**(0.6)**
Market movements including foreign exchange[1]	**0.2**
Hybrid debt redemption	**(0.2)**
Internal reinsurance	**(0.3)**
Pension scheme funding	**(0.2)**
Acquisitions and disposals	**0.2**
Increase in capital resources requirement	**(0.3)**
Estimated IGD solvency surplus at 31 December 2014 (excluding foreseeable dividend)	**3.6**
Foreseeable dividend	**(0.4)**
Estimated IGD solvency surplus at 31 December 2014	**3.2**

1 Market movements include the impact of equity, credit spread, interest rate and foreign exchange movements net of the effect of hedging instruments. In the period market movements also include positive variances in the UK due to the recent revaluation of the equity release business, offset by the higher cost of replacing mortgages after a fall in the risk free interest rate.

(b) Reconciliation of Group IGD capital resources to FRS 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 PRA valuation rules and brings in capital in respect of UK life funds valued in accordance with PRA regulatory rules excluding surpluses in with-profit funds. The FRS 27 disclosure brings in the realistic value of UK life capital resources. As the two bases can differ greatly, the reconciliation below is presented by removing the restricted regulatory assets and then replacing them with the unrestricted realistic assets.

	2014 £bn
Total capital and reserves (IFRS basis)	**12.3**
Plus: Other qualifying capital	**4.6**
Plus: UK unallocated divisible surplus	**1.7**
Less: Goodwill, acquired AVIF and intangible assets[1]	**(2.4)**
Less: Adjustments onto a regulatory basis	**(1.8)**
Group Capital Resources on regulatory basis	**14.4**
The Group Capital Resources can be analysed as follows:	
Core Tier 1 Capital	**9.2**
Innovative Tier 1 Capital	**0.9**
Total Tier 1 Capital	**10.1**
Upper Tier 2 Capital	**1.6**
Lower Tier 2 Capital	**3.4**
Group Capital Resources Deductions	**(0.7)**
Group Capital Resources on regulatory basis (Tier 1 & Tier 2 Capital)	**14.4**
Less: UK life restricted regulatory assets	**(6.5)**
Add: UK life unrestricted realistic assets	**6.6**
Add: Overseas UDS[2] and Shareholders' share of accrued bonus	**7.7**
Total FRS 27 capital	**22.2**

1 Includes goodwill and other intangibles of £87 million in joint ventures and associates.
2 Unallocated divisible surplus for overseas life operations is included gross of minority interest.

C2 – Regulatory capital continued

(c) 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; New With-Profit Sub-Fund (NWPSF), Old With-Profit Sub-Fund (OWPSF) and With-Profit Sub-Fund (WPSF). These realistic liabilities have been included within the long-term business provision and the liability for insurance and investment contracts on the Group's IFRS balance sheet at 31 December 2014 and 31 December 2013.

						31 December 2014	31 December 2013
	Estimated realistic assets £bn	**Estimated realistic liabilities[1] £bn**	**Estimated realistic inherited estate[2] £bn**	**Capital support arrangement[3] £bn**	**Estimated risk capital margin £bn**	**Estimated excess available capital £bn**	Estimated excess available capital £bn
NWPSF	**14.8**	**(14.8)**	**—**	**2.1**	**(0.2)**	**1.9**	0.9
OWPSF	**2.8**	**(2.5)**	**0.3**	**—**	**(0.1)**	**0.2**	0.3
WPSF[4]	**17.1**	**(15.5)**	**1.6**	**—**	**(0.3)**	**1.3**	1.2
Aggregate	**34.7**	**(32.8)**	**1.9**	**2.1**	**(0.6)**	**3.4**	2.4

1 These realistic liabilities include the shareholders' share of accrued bonuses of £(0.2) billion *(FY13: £0.1 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of accrued bonuses are £33.0 billion *(FY13: £33.4 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 £1.4 billion, £0.3 billion and £3.0 billion for NWPSF, OWPSF and WPSF respectively *(FY13: £1.4 billion, £0.2 billion and £2.5 billion for NWPSF, OWPSF and WPSF respectively)*.
2 Estimated realistic inherited estate at FY13 was £nil, £0.4 billion and £1.5 billion for NWPSF, OWPSF and WPSF respectively.
3 The support arrangement represents the reattributed estate (RIEESA) of £2.1 billion at 31 December 2014 *(FY13: £1.1 billion)*. The increase arises mainly from the transfer of non-profit business from RIEESA to NWPSF and recognition of the value of this business in RIEESA.
4 The WPSF fund includes the Provident Mutual (PM) fund which has realistic assets and liabilities of £1.7 billion and therefore does not contribute to the realistic inherited estate.

(d) Investment mix

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

	31 December 2014 %	31 December 2013 %
Equity	**24%**	29%
Property	**10%**	12%
Fixed interest	**59%**	49%
Other	**7%**	10%

The equity backing ratios, including property, supporting with-profit asset shares are 66% in NWPSF and OWPSF, and 66% in WPSF.

C3 – IFRS 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, ICA, and scenario analysis are used. Sensitivities to economic and operating experience are regularly produced on all of the Group's financial performance measurements to inform the Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks that each of its business units, and the Group as a whole are exposed to.

For long-term business in particular, sensitivities of MCEV performance indicators to changes in both economic and non-economic experience are continually used to manage the business and to inform the decision making process. More information on MCEV sensitivities can be found in the presentation of results on an MCEV basis in section F (note F20) of this report.

(a) Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions are made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality rates, and persistency in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business. A number of the key assumptions for the Group's central scenario are disclosed elsewhere in these statements for both IFRS reporting and reporting under the MCEV methodology.

(b) 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.

C3 – IFRS Sensitivity analysis continued

(c) Sensitivity test results

Illustrative results of sensitivity testing for long-term business, general insurance and health and fund management business and other operations are set out below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by a 1% increase or decrease. The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.
Credit Spreads	The impact of a 0.5% increase in credit spreads over risk-free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations.
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%.

(d) Long-term businesses

31 December 2014 **Impact on profit before tax** **£m**	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**	**Expenses +10%**	**Assurance mortality +5%**	**Annuitant mortality -5%**
Insurance participating	**(10)**	**(60)**	**(20)**	**(175)**	**70**	**(25)**	**(5)**	**(45)**
Insurance non-participating	**(155)**	**130**	**(425)**	**40**	**(40)**	**(80)**	**(50)**	**(590)**
Investment participating	**(15)**	**—**	**(10)**	**—**	**—**	**(5)**	**—**	**—**
Investment non-participating	**(40)**	**30**	**(10)**	**55**	**(60)**	**(35)**	**—**	**—**
Assets backing life shareholders' funds	**(75)**	**45**	**(60)**	**20**	**(20)**	**—**	**—**	**—**
Total	**(295)**	**145**	**(525)**	**(60)**	**(50)**	**(145)**	**(55)**	**(635)**

31 December 2014 **Impact on shareholders' equity before tax** **£m**	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**	**Expenses +10%**	**Assurance mortality +5%**	**Annuitant mortality -5%**
Insurance participating	**(10)**	**(60)**	**(20)**	**(175)**	**70**	**(25)**	**(5)**	**(45)**
Insurance non-participating	**(155)**	**130**	**(425)**	**40**	**(40)**	**(80)**	**(50)**	**(590)**
Investment participating	**(15)**	**—**	**(10)**	**—**	**—**	**(5)**	**—**	**—**
Investment non-participating	**(40)**	**30**	**(10)**	**55**	**(60)**	**(35)**	**—**	**—**
Assets backing life shareholders' funds	**(115)**	**80**	**(65)**	**20**	**(20)**	**—**	**—**	**—**
Total	**(335)**	**180**	**(530)**	**(60)**	**(50)**	**(145)**	**(55)**	**(635)**

31 December 2013 Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance Participating	(45)	—	(60)	(10)	(20)	(30)	(5)	(40)
Insurance non-participating	(145)	140	(415)	(5)	10	(80)	(60)	(450)
Investment participating	(10)	5	(5)	5	(5)	(10)	—	—
Investment non-participating	(20)	20	(5)	5	(5)	(15)	—	—
Assets backing life shareholders' funds	(35)	55	(25)	40	(45)	—	—	—
Total	(255)	220	(510)	35	(65)	(135)	(65)	(490)

31 December 2013 Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Assurance mortality +5%	Annuitant mortality -5%
Insurance Participating	(45)	—	(60)	(10)	(20)	(30)	(5)	(40)
Insurance non-participating	(145)	140	(415)	(5)	10	(80)	(60)	(450)
Investment participating	(10)	5	(5)	5	(5)	(10)	—	—
Investment non-participating	(20)	20	(5)	5	(5)	(15)	—	—
Assets backing life shareholders' funds	(75)	100	(35)	45	(45)	—	—	—
Total	(295)	265	(520)	40	(65)	(135)	(65)	(490)

Changes in sensitivities between 2014 and 2013 reflect movements in market interest rates, portfolio growth, changes to asset mix and the relative durations of assets and liabilities and asset liability management actions. The sensitivities to economic movements relate mainly to business in the UK. In general, a fall in market interest rates has a beneficial impact on non-participating business, due to the increase in market value of fixed interest securities and the relative durations of assets and liabilities; similarly a rise in interest rates has a negative impact. Mortality and expense sensitivities also relate primarily to the UK.

C3 – IFRS Sensitivity analysis continued

(e) General insurance and health businesses

31 December 2014 Impact on profit before tax £m	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**	**Expenses +10%**	**Gross loss ratios +5%**
Gross of reinsurance	**(260)**	**250**	**(130)**	**55**	**(55)**	**(105)**	**(280)**
Net of reinsurance	**(305)**	**295**	**(130)**	**55**	**(55)**	**(105)**	**(270)**

31 December 2014 Impact on shareholders' equity before tax £m	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**	**Expenses +10%**	**Gross loss ratios +5%**
Gross of reinsurance	**(260)**	**250**	**(130)**	**60**	**(60)**	**(20)**	**(280)**
Net of reinsurance	**(305)**	**295**	**(130)**	**60**	**(60)**	**(20)**	**(270)**

31 December 2013 Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(245)	235	(125)	50	(50)	(110)	(300)
Net of reinsurance	(295)	295	(125)	50	(50)	(110)	(285)

31 December 2013 Impact on shareholders' equity before tax £m	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	(245)	235	(125)	50	(50)	(25)	(300)
Net of reinsurance	(295)	295	(125)	50	(50)	(25)	(285)

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.

(f) Fund management and other operations businesses

31 December 2014 Impact on profit before tax £m	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**
Total	**—**	**—**	**5**	**(15)**	**25**

31 December 2014 Impact on shareholders' equity before tax £m	**Interest rates +1%**	**Interest rates -1%**	**Credit spreads +0.5%**	**Equity/ property +10%**	**Equity/ property -10%**
Total	**—**	**—**	**5**	**(15)**	**25**

31 December 2013 Impact on profit before tax £m	Interest rates +1%	Interest rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	—	—	20	(5)	15

31 December 2013 Impact on shareholders' equity before tax £m	Interest rates +1%	Interest Rates -1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property -10%
Total	—	—	20	(5)	15

C3 – IFRS Sensitivity analysis continued

(g) Limitations of sensitivity analysis

The previous tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action.

A number of the business units use passive assumptions to calculate their long-term business liabilities. Consequently, a change in the underlying assumptions may not have any impact on the liabilities, whereas assets held at market value in the statement of financial position will be affected. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholders' 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

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Analysis of assets

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D1 – Total assets

As an insurance business, Aviva Group holds a variety of assets to match the characteristics and duration of its insurance liabilities. Appropriate and effective asset liability matching (on an economic basis) is the principal way in which Aviva manages its investments. In addition, to support this, Aviva also uses a variety of hedging and other risk management strategies to diversify away any residual mis-match risk that is outside of the Group's risk appetite.

2014	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	—	—	2,330	2,330	—	2,330
Interests in joint ventures and associates	100	1,020	424	1,544	—	1,544
Property and equipment	—	128	229	357	—	357
Investment property	4,019	4,610	296	8,925	—	8,925
Loans	302	4,288	20,670	25,260	—	25,260
Financial investments						
Debt securities	13,628	82,230	35,803	131,661	—	131,661
Equity securities	26,324	8,813	482	35,619	—	35,619
Other investments	27,181	6,145	2,032	35,358	—	35,358
Reinsurance assets	2,536	1,618	3,804	7,958	—	7,958
Deferred tax assets	—	—	76	76	—	76
Current tax assets	—	—	27	27	—	27
Receivables and other financial assets	240	1,236	4,457	5,933	—	5,933
Deferred acquisition costs and other assets	60	499	4,532	5,091	—	5,091
Prepayments and accrued income	177	1,046	1,243	2,466	—	2,466
Cash and cash equivalents	3,514	12,941	6,659	23,114	(9)	23,105
Assets of operations classified as held for sale	—	—	—	—	9	9
Total	**78,081**	**124,574**	**83,064**	**285,719**	**—**	**285,719**
Total %	**27.3%**	**43.6%**	**29.1%**	**100.0%**	**—**	**100.0%**
FY13 Restated	76,639	125,990	78,998	281,627	—	281,627
FY13 Total % Restated	27.2%	44.7%	28.1%	100.0%	—	100.0%

As at 31 December 2014, 29.1% of Aviva's total asset base was shareholder assets, 43.6% participating fund assets where Aviva shareholders have partial exposure, and 27.3% policyholder assets where Aviva shareholders have no exposure. Of the total assets (excluding assets held for sale), investment property, loans and financial investments comprise £236.8 billion, compared to £227.4 billion at 31 December 2013.

The statement of financial position as at 31 December 2013 has been restated following the adoption of amendments to IAS 32 *'Financial Instruments: Presentation'*. Refer to note B2 for further information.

D2 – Total assets – Valuation bases/fair value hierarchy

Total assets – 2014	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	—	2,330	—	2,330
Interests in joint ventures and associates	—	—	1,544	1,544
Property and equipment	316	41	—	357
Investment property	8,925	—	—	8,925
Loans	20,895	4,365	—	25,260
Financial investments				
Debt securities	131,661	—	—	131,661
Equity securities	35,619	—	—	35,619
Other investments	35,358	—	—	35,358
Reinsurance assets	2,533	5,425	—	7,958
Deferred tax assets	—	—	76	76
Current tax assets	—	—	27	27
Receivables and other financial assets	—	5,933	—	5,933
Deferred acquisition costs and other assets	—	5,091	—	5,091
Prepayments and accrued income	—	2,466	—	2,466
Cash and cash equivalents	23,114	—	—	23,114
Total	**258,421**	**25,651**	**1,647**	**285,719**
Total %	**90.4%**	**9.0%**	**0.6%**	**100.0%**
Assets of operations classified as held for sale	9	—	—	9
Total (excluding assets held for sale)	**258,412**	**25,651**	**1,647**	**285,710**
Total % (excluding assets held for sale)	**90.4%**	**9.0%**	**0.6%**	**100.0%**
FY13 Total Restated	253,970	25,823	1,834	281,627
FY13 Total % Restated	90.2%	9.2%	0.6%	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 items within the analysis of the Group's assets.

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

Total assets – Policyholder assets 2014	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	—	—	100	100
Property and equipment	—	—	—	—
Investment property	4,019	—	—	4,019
Loans	—	302	—	302
Financial investments				
Debt securities	13,628	—	—	13,628
Equity securities	26,324	—	—	26,324
Other investments	27,181	—	—	27,181
Reinsurance assets	2,530	6	—	2,536
Deferred tax assets	—	—	—	—
Current tax assets	—	—	—	—
Receivables and other financial assets	—	240	—	240
Deferred acquisition costs and other assets	—	60	—	60
Prepayments and accrued income	—	177	—	177
Cash and cash equivalents	3,514	—	—	3,514
Total	**77,196**	**785**	**100**	**78,081**
Total %	**98.9%**	**1.0%**	**0.1%**	**100.0%**
FY13 Total Restated	75,588	832	219	76,639
FY13 Total % Restated	98.6%	1.1%	0.3%	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 items within the analysis of the Group's assets.

Total assets – Participating fund assets 2014	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	—	—	1,020	1,020
Property and equipment	126	2	—	128
Investment property	4,610	—	—	4,610
Loans	455	3,833	—	4,288
Financial investments				
Debt securities	82,230	—	—	82,230
Equity securities	8,813	—	—	8,813
Other investments	6,145	—	—	6,145
Reinsurance assets	—	1,618	—	1,618
Deferred tax assets	—	—	—	—
Current tax assets	—	—	—	—
Receivables and other financial assets	—	1,236	—	1,236
Deferred acquisition costs and other assets	—	499	—	499
Prepayments and accrued income	—	1,046	—	1,046
Cash and cash equivalents	12,941	—	—	12,941
Total	**115,320**	**8,234**	**1,020**	**124,574**
Total %	**92.6%**	**6.6%**	**0.8%**	**100.0%**
FY13 Total Restated	116,176	8,914	900	125,990
FY13 Total % Restated	92.2%	7.1%	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 items within the analysis of the Group's assets.

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

Total assets – Shareholders assets 2014	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	—	2,330	—	2,330
Interests in joint ventures and associates	—	—	424	424
Property and equipment	190	39	—	229
Investment property	296	—	—	296
Loans	20,440	230	—	20,670
Financial investments				
Debt securities	35,803	—	—	35,803
Equity securities	482	—	—	482
Other investments	2,032	—	—	2,032
Reinsurance assets	3	3,801	—	3,804
Deferred tax assets	—	—	76	76
Current tax assets	—	—	27	27
Receivables and other financial assets	—	4,457	—	4,457
Deferred acquisition costs and other assets	—	4,532	—	4,532
Prepayments and accrued income	—	1,243	—	1,243
Cash and cash equivalents	6,659	—	—	6,659
Total	**65,905**	**16,632**	**527**	**83,064**
Total %	**79.4%**	**20.0%**	**0.6%**	**100.0%**
Assets of operations classified as held for sale	9	—	—	9
Total (excluding assets held for sale)	**65,896**	**16,632**	**527**	**83,055**
Total % (excluding assets held for sale)	**79.3%**	**20.1%**	**0.6%**	**100.0%**
FY13 Total Restated	62,206	16,077	715	78,998
FY13 Total % Restated	78.7%	20.4%	0.9%	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 items within the analysis of the Group's assets.

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' described as follows, based on the lowest level input that is significant to the valuation as a whole:

- 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 assumption the business unit considers that market participants would use in pricing the asset. Examples are investment property, certain private equity investment and private placements.

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

Investment property and financial assets – total 2014	Fair value hierarchy 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 property	—	—	**8,925**	**8,925**	—	—	**8,925**
Loans	—	**3,895**	**17,000**	**20,895**	**4,365**	—	**25,260**
Debt securities	**75,078**	**45,274**	**11,309**	**131,661**	—	—	**131,661**
Equity securities	**35,460**	—	**159**	**35,619**	—	—	**35,619**
Other investments (including derivatives)	**25,139**	**7,153**	**3,066**	**35,358**	—	—	**35,358**
Total	**135,677**	**56,322**	**40,459**	**232,458**	**4,365**	—	**236,823**
Total %	**57.3%**	**23.8%**	**17.1%**	**98.2%**	**1.8%**	—	**100.0%**
FY13 Total Restated	138,061	49,271	37,298	224,630	5,402	—	230,032
FY13 Total % Restated	60.1%	21.4%	16.2%	97.7%	2.3%	—	100.0%

At 31 December 2014, the proportion of total investment property and financial assets classified as Level 1 in the fair value hierarchy was 57.3% *(FY13: 60.1%)*. The proportion of Level 2 investment property and financial assets has increased to 23.8% *(FY13: 21.4%)* and those classified as Level 3 were 17.1% *(FY13: 16.2%)*. Movements in the proportion of assets held in each fair value hierarchy level reflects an increase in debt securities held within Level 2, driven by the reclassification of certain debt securities from Level 1 to Level 2.

D3 – Analysis of asset quality

The analysis of assets that follows provides a breakdown of information about the assets held by the Group.

D3.1 – Investment property

	2014				2013			
	Fair value hierarchy				Fair value hierarchy			
Investment property – Total	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Lease to third parties under operating leases	—	—	**8,917**	**8,917**	—	—	9,447	9,447
Vacant investment property/held for capital appreciation	—	—	**8**	**8**	—	—	4	4
Total	—	—	**8,925**	**8,925**	—	—	9,451	9,451
Total %	—	—	**100.0%**	**100.0%**	—	—	100.0%	100.0%

	2014				2013			
	Fair value hierarchy				Fair value hierarchy			
Investment property – Policyholder assets	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Lease to third parties under operating leases	—	—	**4,011**	**4,011**	—	—	3,562	3,562
Vacant investment property/held for capital appreciation	—	—	**8**	**8**	—	—	2	2
Total	—	—	**4,019**	**4,019**	—	—	3,564	3,564
Total %	—	—	**100.0%**	**100.0%**	—	—	100.0%	100.0%

D3 – Analysis of asset quality continued

	2014				2013			
	Fair value hierarchy				Fair value hierarchy			
Investment property – 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
Lease to third parties under operating leases	—	—	**4,610**	**4,610**	—	—	5,646	5,646
Vacant investment property/held for capital appreciation	—	—	—	—	—	—	2	2
Total	—	—	**4,610**	**4,610**	—	—	5,648	5,648
Total %	—	—	**100.0%**	**100.0%**	—	—	100.0%	100.0%

	2014				2013			
	Fair value hierarchy				Fair value hierarchy			
Investment property – Shareholder assets	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Lease to third parties under operating leases	—	—	**296**	**296**	—	—	239	239
Vacant investment property/held for capital appreciation	—	—	—	—	—	—	—	—
Total	—	—	**296**	**296**	—	—	239	239
Total %	—	—	**100.0%**	**100.0%**	—	—	100.0%	100.0%

96.7% *(FY13: 97.5%)* of total investment properties by value are held in policyholder or participating fund assets. Shareholder exposure to investment properties is principally through investments in French commercial property.

Investment properties are stated at their market values as assessed by qualified external independent valuers or by local qualified staff of the Group, all with recent relevant experience. The investment properties are valued on an income basis that is based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking in to consideration lease incentives and assuming no further growth in the estimated rental value of the property. This uplift and the discount rate are derived from rates implied by recent market transactions on similar property. These inputs are deemed unobservable.

99.9% *(FY13: 100%)* of total investment properties by value are leased to third parties under operating leases, with the remainder either being vacant or held for capital appreciation.

D3 – Analysis of asset quality continued

D3.2 – 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 to brokers and intermediaries.

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 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. The mortgage loans are not traded in active markets. These investments are classified as level 3 as the assumptions used to derive the credit risk, liquidity premium and property risk are not deemed to be market observable.

Loans – Total 2014	United Kingdom & Ireland £m	Europe £m	Canada £m	Asia £m	Total £m
Policy loans	**20**	**786**	**—**	**30**	**836**
Loans and advances to banks	**3,714**	**49**	**—**	**—**	**3,763**
Mortgage loans	**20,371**	**1**	**—**	**—**	**20,372**
Other loans	**157**	**10**	**122**	**—**	**289**
Total	**24,262**	**846**	**122**	**30**	**25,260**
Total %	**96.0%**	**3.4%**	**0.5%**	**0.1%**	**100.0%**
FY13 Total	22,899	875	76	29	23,879
FY13 Total %	95.9%	3.7%	0.3%	0.1%	100.0%

Loans – Policyholders assets 2014	United Kingdom & Ireland £m	Europe £m	Canada £m	Asia £m	Total £m
Policy loans	**—**	**—**	**—**	**7**	**7**
Loans and advances to banks	**295**	**—**	**—**	**—**	**295**
Mortgage loans	**—**	**—**	**—**	**—**	**—**
Other loans	**—**	**—**	**—**	**—**	**—**
Total	**295**	**—**	**—**	**7**	**302**
Total %	**97.7%**	**—**	**—**	**2.3%**	**100.0%**
FY13 Total	464	—	—	7	471
FY13 Total %	98.5%	—	—	1.5%	100.0%

Loans – Participating fund assets 2014	United Kingdom & Ireland £m	Europe £m	Canada £m	Asia £m	Total £m
Policy loans	**15**	**779**	**—**	**21**	**815**
Loans and advances to banks	**2,869**	**—**	**—**	**—**	**2,869**
Mortgage loans	**453**	**1**	**—**	**—**	**454**
Other loans	**149**	**1**	**—**	**—**	**150**
Total	**3,486**	**781**	**—**	**21**	**4,288**
Total %	**81.3%**	**18.2%**	**—**	**0.5%**	**100.0%**
FY13 Total	4,672	844	—	19	5,535
FY13 Total %	84.5%	15.2%	—	0.3%	100.0%

D3 – Analysis of asset quality continued

D3.2 – Loans continued

Loans – Shareholder assets 2014	United Kingdom & Ireland £m	Europe £m	Canada £m	Asia £m	Total £m
Policy loans	**5**	**7**	**—**	**2**	**14**
Loans and advances to banks	**550**	**49**	**—**	**—**	**599**
Mortgage loans	**19,918**	**—**	**—**	**—**	**19,918**
Other loans	**8**	**9**	**122**	**—**	**139**
Total	**20,481**	**65**	**122**	**2**	**20,670**
Total %	**99.1%**	**0.3%**	**0.6%**	**0.0%**	**100.0%**
FY13 Total	17,763	31	76	3	17,873
FY13 Total %	99.4%	0.2%	0.4%	0.0%	100.0%

The value of the Group's loan portfolio (including Policyholder, Participating Fund and Shareholder assets), at 31 December 2014 stood at £25.3 billion (*FY13: £23.9 billion*), an increase of £1.4 billion.

The total shareholder exposure to loans increased to £20.7 billion *(FY13: £17.9 billion*) and represented 82% of the total loan portfolio, with the remaining 18% split between participating funds (£4.3 billion) and policyholder assets (£0.3 billion).

Of the Group's total loan portfolio (including Policyholder, Participating Fund and Shareholder assets), 81% (*FY13: 75%*) is invested in mortgage loans.

Mortgage loans – Shareholder assets

2014	Total £m
Non-securitised mortgage loans	
– Residential (Equity release)	**4,089**
– Commercial	**8,799**
– Healthcare	**4,624**
	17,512
Securitised mortgage loans	**2,406**
Total	**19,918**
FY13 Total	17,125

The Group's mortgage loan portfolio is mainly focused in the UK, across various sectors, including residential loans, commercial loans and government supported healthcare loans. Aviva's shareholder exposure to mortgage loans accounts for 96% of total shareholder asset loans. This section focuses on explaining the shareholder risk within these exposures.

United Kingdom & Ireland
(Non-securitised mortgage loans)

Residential

The UK non-securitised residential mortgage portfolio has a total current value of £4.1 billion *(FY13: £3.1 billion)*. The movement from the prior year is due to £0.7 billion of net new loans and accrued interest (net of redemptions), and £0.3 billion of fair value gains (which includes a £0.3 billion adverse impact relating to a change to the model used to value these assets – for further details please see note B10(b)(iii) (Insurance liabilities)). These mortgages are all in the form of equity release, whereby homeowners mortgage their property to release cash equity. Due to the structure of equity release mortgages, whereby interest amounts due are not paid in cash but instead rolled into the amount outstanding, they predominantly have a current Loan to Value ("LTV") of below 70%. The average LTV across the portfolio is 27.2% *(FY13:29.3%)*.

Healthcare

Primary Healthcare and PFI businesses loans included within shareholder assets are £4.6 billion *(FY13: £4.1 billion)* and are secured against primary health care premises (including General Practitioner surgeries), education, social housing and emergency services related premises. For all such loans, government support is provided through either direct funding or 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 92%, although as explained above, we do not consider this to be a key risk indicator. Income support from the Government bodies and the social need for these premises provide sustained income stability. Aviva therefore considers these loans to be lower risk.

D3 – Analysis of asset quality continued

D3.2 – Loans continued

Commercial

Gross exposure by loan to value and arrears is shown in the table below.

Shareholder assets

2014	>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
Not in arrears	34	47	177	1,276	402	689	262	1,147	1,125	2,148	7,307
0 – 3 months	—	—	—	—	—	265	—	—	—	—	265
3 – 6 months	—	—	—	—	—	411	—	—	—	—	411
6 – 12 months	—	—	—	—	—	709	—	—	—	—	709
> 12 months	—	—	—	—	—	107	—	—	—	—	107
Total	34	47	177	1,276	402	2,181	262	1,147	1,125	2,148	8,799

Of the total £8.8 billion of UK non-securitised commercial mortgage loans in the shareholder fund, £8.7 billion are held by our UK Life business, of which £7.6 billion back annuity liabilities, and are stated on a fair value basis. Aviva UK General Insurance hold the remaining £0.1 billion of loans which are stated on an amortised cost basis and are subject to impairment review, using a fair value methodology calibrated to the UK Life approach, adjusted for specific portfolio characteristics. The loan exposures for our 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.

For the commercial mortgages held by the UK Life and UK General Insurance businesses, loan service collection ratios, a key indicator of mortgage portfolio performance, improved to 1.31x *(FY13: 1.20x)*. 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, also improved to 1.47x *(FY13: 1.40x)*. Average mortgage LTV increased by 2pp compared to FY13 from 83% to 85% (CRAV basis) driven by lower interest rates, largely offset by an increase in property values of c9.4% during the year.

All loans in arrears have been assessed for impairment. Of the £1,492 million *(FY13: £1,583 million)* value of loans in arrears included within our shareholder assets, the interest and capital amount in arrears is only £79 million.

Commercial mortgages are held at fair value on the asset side of the balance sheet. Insurance liabilities are valued using a discount rate derived from the gross yield on assets, with adjustments to allow for risk. At FY14 this allowance within the liabilities amounted to £0.9 billion *(FY13: £1.3 billion)*. Since FY13, £0.5 billion of the allowance within liabilities has been utilised to take action on certain riskier mortgages, partly offset by a £0.1 billion increase in the cost of replacing lost cash flows on future defaults, caused by lower interest rates and lower spreads on new commercial mortgages.

Of the £7.6 billion mortgages backing annuity liabilities, £0.5 billion of non-performing loans have been treated as property on a look-though basis in arriving at an appropriate valuation discount rate. For the remainder, and the £4.4 billion of Healthcare and PFI mortgages held by Aviva Annuity UK Limited, the valuation allowance (including supplementary allowances) of £0.9 billion equates to 87 bps at 31 December 2014 *(FY13: 124 bps)*. The total valuation allowance held by Aviva Annuity UK Limited in respect of corporate bonds and mortgages, including Healthcare and PFI mortgages is £1.9 billion *(FY13: £2.0 billion)* over the remaining term of the UK Life corporate bond and mortgage portfolio. In addition, we hold £56 million *(FY13: £148 million)* of impairment provisions in our UK General Insurance mortgage portfolio, which is carried at amortised cost.

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 (or pooling) such that any single loan is also supported by rents received within other pool loans. Additionally, there may be support provided by the borrower of the loan itself and further loss mitigation from any general floating charge held over 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. Over 2014, we have sold a number of property portfolios after taking ownership of the collateral on certain non-performing commercial mortgages.

Securitised mortgage loans

Funding for the securitised residential mortgage assets of £2.4 billion *(FY13: £2.2 billion)* was obtained by issuing loan note securities. Of these loan notes approximately £210 million *(FY13: £180 million)* are held by group companies. The remainder is held by third parties external to Aviva. As any cash shortfall arising once all mortgages have redeemed is borne by the loan note holders, the majority of the credit risk of these mortgages is borne by third parties. Securitised residential mortgages held are predominantly issued through vehicles in the UK.

D3 – Analysis of asset quality continued

D3.3 – Financial investments

Financial Investments – Total	2014 Cost/ amortised cost £m	2014 Unrealised gains £m	2014 Impairment and unrealised losses £m	2014 Fair value £m	Restated 2013 Cost/ amortised Cost £m	Restated 2013 Unrealised gains £m	Restated 2013 Impairment and unrealised losses £m	Restated 2013 Fair value £m
Debt securities	**118,245**	**14,130**	**(714)**	**131,661**	120,316	8,164	(1,675)	126,805
Equity securities	**29,701**	**7,114**	**(1,196)**	**35,619**	31,164	7,775	(1,559)	37,380
Other investments	**29,845**	**5,954**	**(441)**	**35,358**	29,573	3,653	(709)	32,517
Total	**177,791**	**27,198**	**(2,351)**	**202,638**	181,053	19,592	(3,943)	196,702
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	2,705	92	(122)	2,675
Total (excluding assets held for sale)	**177,791**	**27,198**	**(2,351)**	**202,638**	178,348	19,500	(3,821)	194,027

Aviva holds large quantities of debt securities in the form of high quality bonds, primarily to match our liability to make guaranteed payments to policyholders. Some credit risk is taken, partly to increase 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 equities, the majority of which are held in participating funds and policyholder 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. The vast majority of equity investments are valued at quoted market prices and therefore classified as Level 1.

D3.3.1 – Debt securities

Debt securities – Total 2014	Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	Total £m
UK Government	**18,419**	**2,080**	**109**	**20,608**
Non-UK Government	**30,743**	**12,057**	**2,155**	**44,955**
Europe	**28,853**	**7,547**	**2,151**	**38,551**
North America	**207**	**2,838**	**—**	**3,045**
Asia Pacific & Other	**1,683**	**1,672**	**4**	**3,359**
Corporate bonds – Public utilities	**3,768**	**4,462**	**213**	**8,443**
Corporate convertible bonds	**170**	**—**	**—**	**170**
Other corporate bonds	**19,028**	**20,316**	**7,841**	**47,185**
Other	**2,950**	**6,359**	**991**	**10,300**
Total	**75,078**	**45,274**	**11,309**	**131,661**
Total %	**57.0%**	**34.4%**	**8.6%**	**100.0%**
FY13	77,042	40,884	8,879	126,805
FY13 %	60.8%	32.2%	7.0%	100.0%

Debt securities – Policyholders assets 2014	Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	Total £m
UK Government	**3,793**	**16**	**1**	**3,810**
Non-UK Government	**1,214**	**932**	**5**	**2,151**
Europe	**1,011**	**525**	**1**	**1,537**
North America	**8**	**102**	**—**	**110**
Asia Pacific & Other	**195**	**305**	**4**	**504**
Corporate bonds – Public utilities	**19**	**187**	**2**	**208**
Corporate convertible bonds	**—**	**—**	**—**	**—**
Other corporate bonds	**683**	**3,937**	**407**	**5,027**
Other	**965**	**1,464**	**3**	**2,432**
Total	**6,674**	**6,536**	**418**	**13,628**
Total %	**49.0%**	**47.9%**	**3.1%**	**100.0%**
FY13	6,642	5,842	351	12,835
FY13 %	51.8%	45.5%	2.7%	100.0%

D3 – Analysis of asset quality continued

D3.3 – Financial investments continued

D3.3.1 – Debt securities continued

Debt securities – Participating fund assets 2014	Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	Total £m
UK Government	**9,624**	**1,226**	**—**	**10,850**
Non-UK Government	**26,329**	**4,528**	**1,581**	**32,438**
Europe	**24,682**	**3,448**	**1,581**	**29,711**
North America	**173**	**39**	**—**	**212**
Asia Pacific & Other	**1,474**	**1,041**	**—**	**2,515**
Corporate bonds – Public utilities	**3,541**	**616**	**50**	**4,207**
Corporate convertible bonds	**170**	**—**	**—**	**170**
Other corporate bonds	**16,921**	**6,025**	**5,605**	**28,551**
Other	**1,729**	**3,478**	**807**	**6,014**
Total	**58,314**	**15,873**	**8,043**	**82,230**
Total %	**70.9%**	**19.3%**	**9.8%**	**100.0%**
FY13	57,647	15,046	7,917	80,610
FY13 %	71.5%	18.7%	9.8%	100.0%

Debt securities – Shareholder assets 2014	Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	Total £m
UK Government	**5,002**	**838**	**108**	**5,948**
Non-UK Government	**3,200**	**6,597**	**569**	**10,366**
Europe	**3,160**	**3,574**	**569**	**7,303**
North America	**26**	**2,697**	**—**	**2,723**
Asia Pacific & Other	**14**	**326**	**—**	**340**
Corporate bonds – Public utilities	**208**	**3,659**	**161**	**4,028**
Corporate convertible bonds	**—**	**—**	**—**	**—**
Other corporate bonds	**1,424**	**10,354**	**1,829**	**13,607**
Other	**256**	**1,417**	**181**	**1,854**
Total	**10,090**	**22,865**	**2,848**	**35,803**
Total %	**28.2%**	**63.8%**	**8.0%**	**100.0%**
FY13	12,753	19,996	611	33,360
FY13 %	38.2%	59.9%	1.9%	100.0%

8.0% *(FY13: 1.9%)* of total shareholder exposure to debt securities is fair valued using models with significant unobservable market parameters (classified as fair value Level 3). Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. Fair value Level 3 has increased due to the transfer of privately placed notes where inputs have been deemed unobservable following the refinement of the discounted cash flow model used during the year.

28.2% *(FY13: 38.2%)* of shareholder exposure to debt securities is based on quoted prices in an active market and are therefore classified as fair value Level 1. This has decreased due to the reclassification of certain debt securities to Level 2 as a result of the enhanced understanding of price vendor methodologies for the fair value classification.

D3 – Analysis of asset quality continued

D3.3 – Financial investments continued

D3.3.1 – Debt securities continued

Debt securities – Total 2014	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
	External ratings						
Government							
UK Government	—	20,411	52	—	—	127	20,590
UK local authorities	—	—	—	—	—	18	18
Non-UK Government	11,732	17,943	3,417	11,366	375	122	44,955
	11,732	38,354	3,469	11,366	375	267	65,563
Corporate							
Public utilities	—	124	4,282	3,383	157	497	8,443
Convertibles and bonds with warrants	—	—	—	160	—	10	170
Other corporate bonds	4,395	6,646	16,949	12,161	1,517	5,517	47,185
	4,395	6,770	21,231	15,704	1,674	6,024	55,798
Certificates of deposits	—	845	760	42	147	329	2,123
Structured							
RMBS[1] non-agency ALT A	—	—	—	—	—	—	—
RMBS[1] non-agency prime	217	35	89	—	—	—	341
RMBS[1] agency	—	—	—	—	—	—	—
	217	35	89	—	—	—	341
CMBS[2]	153	84	45	15	—	2	299
ABS[3]	239	347	192	78	72	10	938
CDO (including CLO)[4]	429	—	—	—	—	—	429
ABCP[5]	3	—	—	—	—	—	3
	824	431	237	93	72	12	1,669
Wrapped credit	—	18	346	90	38	47	539
Other	698	378	1,986	1,553	443	570	5,628
Total	17,866	46,831	28,118	28,848	2,749	7,249	131,661
Total %	13.6%	35.6%	21.3%	21.9%	2.1%	5.5%	100.0%
FY13	16,432	41,928	26,377	31,595	3,608	6,865	126,805
FY13 %	13.0%	33.1%	20.8%	24.9%	2.8%	5.4%	100.0%

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D3 – Analysis of asset quality continued
D3.3 – Financial investments continued
D3.3.1 – Debt securities continued

Debt securities – Policyholders assets 2014	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
	External ratings						
Government							
UK Government	—	3,809	1	—	—	—	3,810
UK local authorities	—	—	—	—	—	—	—
Non-UK Government	429	191	766	675	34	56	2,151
	429	4,000	767	675	34	56	5,961
Corporate							
Public utilities	—	17	107	71	6	7	208
Convertibles and bonds with warrants	—	—	—	—	—	—	—
Other corporate bonds	105	472	1,947	1,359	210	934	5,027
	105	489	2,054	1,430	216	941	5,235
Certificates of deposits	—	441	576	40	86	155	1,298
Structured							
RMBS[1] non-agency ALT A	—	—	—	—	—	—	—
RMBS[1] non-agency prime	—	—	—	—	—	—	—
RMBS[1] agency	—	—	—	—	—	—	—
	—	—	—	—	—	—	—
CMBS[2]	2	—	—	1	—	—	3
ABS[3]	—	1	3	3	—	—	7
CDO (including CLO)[4]	—	—	—	—	—	—	—
ABCP[5]	—	—	—	—	—	—	—
	2	1	3	4	—	—	10
Wrapped credit	—	—	6	1	—	—	7
Other	139	75	380	306	86	131	1,117
Total	**675**	**5,006**	**3,786**	**2,456**	**422**	**1,283**	**13,628**
Total %	**5.0%**	**36.7%**	**27.8%**	**18.0%**	**3.1%**	**9.4%**	**100.0%**
FY13	645	4,499	3,802	2,232	715	942	12,835
FY13 %	5.0%	35.1%	29.6%	17.4%	5.6%	7.3%	100.0%

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D3 – Analysis of asset quality continued

D3.3 – Financial investments continued

D3.3.1 – Debt securities continued

	External ratings						
Debt securities – Participating fund assets 2014	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**Less than BBB £m**	**Non-rated £m**	**Total £m**
Government							
UK Government	—	10,842	—	—	—	8	10,850
UK local authorities	—	—	—	—	—	—	—
Non-UK Government	6,758	14,121	1,655	9,502	339	63	32,438
	6,758	24,963	1,655	9,502	339	71	43,288
Corporate							
Public utilities	—	48	1,575	2,252	140	192	4,207
Convertibles and bonds with warrants	—	—	—	160	—	10	170
Other corporate bonds	3,144	4,714	9,457	7,674	1,153	2,409	28,551
	3,144	4,762	11,032	10,086	1,293	2,611	32,928
Certificates of deposits	—	396	175	2	61	49	683
Structured							
RMBS[1] non-agency ALT A	—	—	—	—	—	—	—
RMBS[1] non-agency prime	153	—	89	—	—	—	242
RMBS[1] agency	—	—	—	—	—	—	—
	153	—	89	—	—	—	242
CMBS[2]	46	28	21	14	—	1	110
ABS[3]	102	37	77	67	16	—	299
CDO (including CLO)[4]	429	—	—	—	—	—	429
ABCP[5]	1	—	—	—	—	—	1
	578	65	98	81	16	1	839
Wrapped credit	—	13	45	21	—	—	79
Other	527	285	1,446	1,163	327	423	4,171
Total	**11,160**	**30,484**	**14,540**	**20,855**	**2,036**	**3,155**	**82,230**
Total %	**13.6%**	**37.1%**	**17.7%**	**25.3%**	**2.5%**	**3.8%**	**100.0%**
FY13	10,236	27,796	13,733	23,289	2,421	3,135	80,610
FY13 %	12.7%	34.5%	17.0%	28.9%	3.0%	3.9%	100.0%

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D3 – Analysis of asset quality continued

D3.3 – Financial investments continued

D3.3.1 – Debt securities continued

Debt securities – Shareholder assets 2014	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
	External ratings						
Government							
UK Government	—	5,760	51	—	—	119	5,930
UK local authorities	—	—	—	—	—	18	18
Non-UK Government	4,545	3,631	996	1,189	2	3	10,366
	4,545	9,391	1,047	1,189	2	140	16,314
Corporate							
Public utilities	—	59	2,600	1,060	11	298	4,028
Convertibles and bonds with warrants	—	—	—	—	—	—	—
Other corporate bonds	1,146	1,460	5,545	3,128	154	2,174	13,607
	1,146	1,519	8,145	4,188	165	2,472	17,635
Certificates of deposits	—	8	9	—	—	125	142
Structured							
RMBS[1] non-agency ALT A	—	—	—	—	—	—	—
RMBS[1] non-agency prime	64	35	—	—	—	—	99
RMBS[1] agency	—	—	—	—	—	—	—
	64	35	—	—	—	—	99
CMBS[2]	105	56	24	—	—	1	186
ABS[3]	137	309	112	8	56	10	632
CDO (including CLO)[4]	—	—	—	—	—	—	—
ABCP[5]	2	—	—	—	—	—	2
	244	365	136	8	56	11	820
Wrapped credit	—	5	295	68	38	47	453
Other	32	18	160	84	30	16	340
Total	**6,031**	**11,341**	**9,792**	**5,537**	**291**	**2,811**	**35,803**
Total %	**16.8%**	**31.7%**	**27.3%**	**15.5%**	**0.8%**	**7.9%**	**100.0%**
FY13	5,551	9,633	8,842	6,074	472	2,788	33,360
FY13 %	16.6%	28.9%	26.5%	18.2%	1.4%	8.4%	100.0%

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The overall quality of the book remains strong. 46% of shareholder exposure to debt securities is in government holdings *(FY13: 44%)*. Our corporate debt securities portfolio represents 49% of total shareholder debt securities *(FY13: 51%)*.

The majority of non-rated corporate bonds are held by our businesses in the UK.

At 31 December 2014, the proportion of our shareholder debt securities that are investment grade increased to 91.3% *(FY13: 90.2%)*. The remaining 8.7% of shareholder debt securities that do not have an external rating of BBB or higher can be split as follows:

- 0.8% are debt securities that are rated as below investment grade;
- 7.9% are not rated by the major rating agencies.

Of the securities not rated by an external agency most are allocated an internal rating using a methodology largely consistent with that adopted by an external rating agency, and are considered to be of investment grade credit quality; these include £2.5 billion (*FY13: £2.4 billion*) of debt securities held in our UK Life business, predominantly made up of private placements and other corporate bonds, which have been internally rated as investment grade.

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

Out of the total asset backed securities (ABS), £611 million (*FY13: £496 million*) are held by the UK Life business. 89.6% of the Group's shareholder holdings in ABS are investment grade (*FY13: 86.1%*). ABS that either have a rating below BBB or are not rated represent approximately 0.2% of shareholder exposure to debt securities (*FY13: 0.2%)*.

D3 – Analysis of asset quality continued

D3.3.2 – Equity securities

	2014				2013			
	Fair value hierarchy				Fair value hierarchy			
Equity securities – Total 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	**2,929**	**—**	**—**	**2,929**	3,716	—	—	3,716
Banks, trusts and insurance companies	**7,142**	**—**	**133**	**7,275**	7,536	88	383	8,007
Industrial miscellaneous and all other	**25,104**	**—**	**25**	**25,129**	25,186	14	60	25,260
Non-redeemable preferred shares	**285**	**—**	**1**	**286**	397	—	—	397
Total	**35,460**	**—**	**159**	**35,619**	36,835	102	443	37,380
Total %	**99.6%**	**—**	**0.4%**	**100.0%**	98.5%	0.3%	1.2%	100.0%
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	52	—	2	54
Total (excluding assets held for sale)	**35,460**	**—**	**159**	**35,619**	36,783	102	441	37,326
Total % (excluding assets held for sale)	**99.6%**	**—**	**0.4%**	**100.0%**	98.5%	0.3%	1.2%	100.0%

	2014				2013			
	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	**2,324**	**—**	**—**	**2,324**	2,727	—	—	2,727
Banks, trusts and insurance companies	**4,821**	**—**	**—**	**4,821**	4,982	57	1	5,040
Industrial miscellaneous and all other	**19,099**	**—**	**2**	**19,101**	17,967	—	2	17,969
Non-redeemable preferred shares	**77**	**—**	**1**	**78**	100	—	—	100
Total	**26,321**	**—**	**3**	**26,324**	25,776	57	3	25,836
Total %	**100.0%**	**—**	**0.0%**	**100.0%**	99.8%	0.2%	0.0%	100.0%
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	2	—	—	2
Total (excluding assets held for sale)	**26,321**	**—**	**3**	**26,324**	25,774	57	3	25,834
Total % (excluding assets held for sale)	**100.0%**	**—**	**0.0%**	**100.0%**	99.8%	0.2%	0.0%	100.0%

	2014				2013			
	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	**602**	**—**	**—**	**602**	985	—	—	985
Banks, trusts and insurance companies	**2,226**	**—**	**95**	**2,321**	2,392	30	88	2,510
Industrial miscellaneous and all other	**5,870**	**—**	**11**	**5,881**	6,977	14	44	7,035
Non-redeemable preferred shares	**9**	**—**	**—**	**9**	14	—	—	14
Total	**8,707**	**—**	**106**	**8,813**	10,368	44	132	10,544
Total %	**98.8%**	**—**	**1.2%**	**100.0%**	98.3%	0.4%	1.3%	100.0%
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	49	—	—	49
Total (excluding assets held for sale)	**8,707**	**—**	**106**	**8,813**	10,319	44	132	10,495
Total % (excluding assets held for sale)	**98.8%**	**—**	**1.2%**	**100.0%**	98.3%	0.4%	1.3%	100.0%

	2014				2013			
	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	**3**	**—**	**—**	**3**	4	—	—	4
Banks, trusts and insurance companies	**95**	**—**	**38**	**133**	162	1	294	457
Industrial miscellaneous and all other	**135**	**—**	**12**	**147**	242	—	14	256
Non-redeemable preferred shares	**199**	**—**	**—**	**199**	283	—	—	283
Total	**432**	**—**	**50**	**482**	691	1	308	1,000
Total %	**89.6%**	**—**	**10.4%**	**100.0%**	69.1%	0.1%	30.8%	100.0%
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	1	—	2	3
Total (excluding assets held for sale)	**432**	**—**	**50**	**482**	690	1	306	997
Total % (excluding assets held for sale)	**89.6%**	**—**	**10.4%**	**100.0%**	69.2%	0.1%	30.7%	100.0%

89.6% of our total shareholder exposure to equity securities is based on quoted prices in an active market and as such is classified as Level 1 *(FY13: 69.1%)*. The decrease in Level 3 shareholder equity securities reflects the disposal of a strategic holding in Italian banks during 2014.

D3 – Analysis of asset quality continued

D3.3.3 – Other investments

Other investments – Total	2014 Fair value hierarchy Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total £m	Restated 2013 Fair value hierarchy Level 1 £m	Restated 2013 Level 2 £m	Restated 2013 Level 3 £m	Restated 2013 Total £m
Unit trusts and other investment vehicles	**24,079**	**3,079**	**2,482**	**29,640**	22,939	3,288	2,379	28,606
Derivative financial instruments	**199**	**3,748**	**141**	**4,088**	274	1,616	234	2,124
Deposits with credit institutions	**536**	**3**	**—**	**539**	590	11	—	601
Minority holdings in property management undertakings	**1**	**323**	**430**	**754**	—	255	541	796
Other	**324**	**—**	**13**	**337**	381	—	9	390
Total	**25,139**	**7,153**	**3,066**	**35,358**	24,184	5,170	3,163	32,517
Total %	**71.1%**	**20.2%**	**8.7%**	**100.0%**	74.4%	15.9%	9.7%	100.0%
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	55	—	146	201
Total (excluding assets held for sale)	**25,139**	**7,153**	**3,066**	**35,358**	24,129	5,170	3,017	32,316
Total % (excluding assets held for sale)	**71.1%**	**20.2%**	**8.7%**	**100.0%**	74.7%	16.0%	9.3%	100.0%

Other investments – Policyholder assets	2014 Fair value hierarchy Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total £m	Restated 2013 Fair value hierarchy Level 1 £m	Restated 2013 Level 2 £m	Restated 2013 Level 3 £m	Restated 2013 Total £m
Unit trusts and other investment vehicles	**23,464**	**2,966**	**13**	**26,443**	22,713	3,108	3	25,824
Derivative financial instruments	**17**	**29**	**—**	**46**	45	5	—	50
Deposits with credit institutions	**373**	**—**	**—**	**373**	401	—	—	401
Minority holdings in property management undertakings	**—**	**—**	**—**	**—**	—	—	—	—
Other	**319**	**—**	**—**	**319**	313	—	—	313
Total	**24,173**	**2,995**	**13**	**27,181**	23,472	3,113	3	26,588
Total %	**88.9%**	**11.0%**	**0.1%**	**100.0%**	88.3%	11.7%	0.0%	100.0%
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	12	—	—	12
Total (excluding assets held for sale)	**24,173**	**2,995**	**13**	**27,181**	23,460	3,113	3	26,576
Total % (excluding assets held for sale)	**88.9%**	**11.0%**	**0.1%**	**100.0%**	88.3%	11.7%	0.0%	100.0%

Other investments – Participating fund assets	2014 Fair value hierarchy Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total £m	Restated 2013 Fair value hierarchy Level 1 £m	Restated 2013 Level 2 £m	Restated 2013 Level 3 £m	Restated 2013 Total £m
Unit trusts and other investment vehicles	**321**	**109**	**2,268**	**2,698**	1	167	2,243	2,411
Derivative financial instruments	**180**	**2,486**	**103**	**2,769**	207	849	211	1,267
Deposits with credit institutions	**56**	**—**	**—**	**56**	40	—	—	40
Minority holdings in property management undertakings	**—**	**294**	**315**	**609**	—	241	438	679
Other	**—**	**—**	**13**	**13**	58	—	6	64
Total	**557**	**2,889**	**2,699**	**6,145**	306	1,257	2,898	4,461
Total %	**9.1%**	**47.0%**	**43.9%**	**100.0%**	6.8%	28.2%	65.0%	100.0%
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	6	—	124	130
Total (excluding assets held for sale)	**557**	**2,889**	**2,699**	**6,145**	300	1,257	2,774	4,331
Total % (excluding assets held for sale)	**9.1%**	**47.0%**	**43.9%**	**100.0%**	6.9%	29.0%	64.1%	100.0%

Other investments – Shareholders assets	2014 Fair value hierarchy Level 1 £m	2014 Level 2 £m	2014 Level 3 £m	2014 Total £m	Restated 2013 Fair value hierarchy Level 1 £m	Restated 2013 Level 2 £m	Restated 2013 Level 3 £m	Restated 2013 Total £m
Unit trusts and other investment vehicles	**294**	**4**	**201**	**499**	225	13	133	371
Derivative financial instruments	**2**	**1,233**	**38**	**1,273**	22	762	23	807
Deposits with credit institutions	**107**	**3**	**—**	**110**	149	11	—	160
Minority holdings in property management undertakings	**1**	**29**	**115**	**145**	—	14	103	117
Other	**5**	**—**	**—**	**5**	10	—	3	13
Total	**409**	**1,269**	**354**	**2,032**	406	800	262	1,468
Total %	**20.1%**	**62.5%**	**17.4%**	**100.0%**	27.7%	54.5%	17.8%	100.0%
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	37	—	22	59
Total (excluding assets held for sale)	**409**	**1,269**	**354**	**2,032**	369	800	240	1,409
Total % (excluding assets held for sale)	**20.1%**	**62.5%**	**17.4%**	**100.0%**	26.2%	56.8%	17.0%	100.0%

In total 82.6% *(FY13: 82.2%)* of total shareholder other investments are classified as Level 1 or 2 in the fair value hierarchy. The unit trusts and other investment vehicles invest in a variety of assets, which can include cash equivalents, debt, equity and property securities. The increase in total shareholder other investments classified as Level 2 reflects the increase in derivative financial instruments held during the year.

D3 – Analysis of asset quality continued

D3.3.4 – Available for sale investments – Impairments and duration and amount of unrealised losses

The impairment expense during FY14 relating to AFS debt securities and other investments was £nil (*FY13: £12 million*) and £2 million (*FY13: £1 million*) respectively. The AFS impairment expense in FY13 related to corporate bonds that were not yet in default but showed continued deterioration in market value from the previous impairment value.

Total unrealised losses on AFS debt securities, equity securities and other investments at 31 December 2014 was £3 million *(FY13: £8 million),* £nil *(FY13: £nil)* and £nil *(FY13: £nil)* respectively.

	0 – 6 months		7 – 12 months		more than 12 months		Total	
2014	**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	**9**	**—**	**11**	**—**	**17**	**(1)**	**37**	**(1)**
Equity securities	**—**	**—**	**—**	**—**	**3**	**—**	**3**	**—**
Other investments	**—**	**—**	**—**	**—**	**1**	**—**	**1**	**—**
	9	**—**	**11**	**—**	**21**	**(1)**	**41**	**(1)**
20%-50% loss position:								
Debt securities	**—**	**—**	**—**	**—**	**3**	**(2)**	**3**	**(2)**
Equity securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other investments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	—	**—**	**—**	**—**	**3**	**(2)**	**3**	**(2)**
Greater than 50% loss position:								
Debt securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Equity securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other investments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
	—	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total								
Debt securities	**9**	**—**	**11**	**—**	**20**	**(3)**	**40**	**(3)**
Equity securities	**—**	**—**	**—**	**—**	**3**	**—**	**3**	**—**
Other investments	**—**	**—**	**—**	**—**	**1**	**—**	**1**	**—**
	9	**—**	**11**	**—**	**24**	**(3)**	**44**	**(3)**
Assets of operations classified as held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total (excluding assets held for sale)	**9**	**—**	**11**	**—**	**24**	**(3)**	**44**	**(3)**

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

	0 – 6 months		7 – 12 months		more than 12 months		Total	
2013	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	25	—	9	—	279	(6)	313	(6)
Equity securities	—	—	—	—	—	—	—	—
Other investments	—	—	—	—	3	—	3	—
	25	—	9	—	282	(6)	316	(6)
20%-50% loss position:								
Debt securities	—	—	—	—	3	(2)	3	(2)
Equity securities	—	—	—	—	—	—	—	—
Other investments	—	—	—	—	—	—	—	—
	—	—	—	—	3	(2)	3	(2)
Greater than 50% loss position:								
Debt securities	—	—	—	—	—	—	—	—
Equity securities	—	—	—	—	—	—	—	—
Other investments	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
Total								
Debt securities	25	—	9	—	282	(8)	316	(8)
Equity securities	—	—	—	—	—	—	—	—
Other investments	—	—	—	—	3	—	3	—
	25	—	9	—	285	(8)	319	(8)
Assets of operations classified as held for sale	—	—	—	—	—	—	—	—
Total (excluding assets held for sale)	25	—	9	—	285	(8)	319	(8)

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

D3 – Analysis of asset quality continued

D3.3 – Financial investments continued

D3.3.5 – Exposures to peripheral European countries

Included in our debt securities and other financial assets are exposures to peripheral European countries. All of these assets are valued on a mark to market basis under IAS 39, and therefore our statement of financial position and income statement already reflect any reduction in value between the date of purchase and the balance sheet date. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Net of non-controlling interests, our direct shareholder and participating fund asset exposure to the government (and local authorities and agencies) of Italy is £4.9 billion *(FY13: £4.9 billion)*. Gross of non-controlling interests, 98% of our shareholder asset exposure to Italy arises from the investment exposure of our Italian business.

Direct sovereign exposures to Greece, Ireland, Portugal, Italy and Spain (net of non-controlling interests, excluding policyholder assets)

	Participating		Shareholder		Total	
	2014 £bn	2013 £bn	**2014 £bn**	2013 £bn	**2014 £bn**	2013 £bn
Greece	**—**	—	**—**	—	**—**	—
Ireland	**0.6**	0.4	**0.2**	—	**0.8**	0.4
Portugal	**0.2**	0.2	**—**	—	**0.2**	0.2
Italy	**4.8**	4.5	**0.1**	0.4	**4.9**	4.9
Spain	**0.9**	0.9	**0.4**	0.5	**1.3**	1.4
Total Greece, Ireland, Portugal, Italy and Spain	**6.5**	6.0	**0.7**	0.9	**7.2**	6.9

Direct sovereign exposures to Greece, Ireland, Portugal, Italy and Spain (gross of non-controlling interests, excluding policyholder assets)

	Participating		Shareholder		Total	
	2014 £bn	2013 £bn	**2014 £bn**	2013 £bn	**2014 £bn**	2013 £bn
Greece	**—**	—	**—**	—	**—**	—
Ireland	**0.6**	0.4	**0.2**	—	**0.8**	0.4
Portugal	**0.2**	0.2	**—**	—	**0.2**	0.2
Italy	**6.7**	8.5	**0.5**	0.6	**7.2**	9.1
Spain	**1.2**	1.4	**0.6**	0.9	**1.8**	2.3
Total Greece, Ireland, Portugal, Italy and Spain	**8.7**	10.5	**1.3**	1.5	**10.0**	12.0

D3.3.6 – Non UK Government debt securities (gross of non-controlling interests)

	Policyholder		Participating		Shareholder		Total	
Non UK Government Debt Securities	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Austria	**11**	9	**705**	636	**107**	133	**823**	778
Belgium	**28**	29	**1,368**	1,475	**165**	154	**1,561**	1,658
France	**103**	108	**11,182**	9,714	**1,950**	1,909	**13,235**	11,731
Germany	**142**	146	**1,590**	1,922	**591**	763	**2,323**	2,831
Greece	**—**	—	**—**	1	**—**	—	**—**	1
Ireland	**5**	21	**613**	364	**155**	28	**773**	413
Italy	**330**	255	**6,666**	8,458	**485**	628	**7,481**	9,341
Netherlands	**43**	43	**1,336**	1,222	**414**	399	**1,793**	1,664
Poland	**571**	649	**823**	885	**443**	490	**1,837**	2,024
Portugal	**6**	—	**173**	187	**—**	—	**179**	187
Spain	**104**	101	**1,263**	1,355	**694**	930	**2,061**	2,386
European Supranational debt	**61**	89	**2,952**	2,612	**1,826**	1,583	**4,839**	4,284
Other European countries	**133**	91	**1,040**	587	**473**	359	**1,646**	1,037
Europe	**1,537**	1,541	**29,711**	29,418	**7,303**	7,376	**38,551**	38,335
Canada	**16**	7	**164**	171	**2,376**	2,198	**2,556**	2,376
United States	**94**	112	**48**	32	**347**	280	**489**	424
North America	**110**	119	**212**	203	**2,723**	2,478	**3,045**	2,800
Singapore	**11**	8	**598**	450	**277**	288	**886**	746
Other	**493**	330	**1,917**	1,623	**63**	60	**2,473**	2,013
Asia Pacific and other	**504**	338	**2,515**	2,073	**340**	348	**3,359**	2,759
Total	**2,151**	1,998	**32,438**	31,694	**10,366**	10,202	**44,955**	43,894
Less: assets of operations classified as held for sale	**—**	13	**—**	1,649	**—**	201	**—**	1,863
Total (excluding assets held for sale)	**2,151**	1,985	**32,438**	30,045	**10,366**	10,001	**44,955**	42,031

At 31 December 2014, the Group's total government (non-UK) debt securities stood at £45.0 billion *(FY13: £43.9 billion)*, an increase of £1.1 billion. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Our direct shareholder asset exposure to government (non-UK) debt securities amounts to £10.4 billion *(FY13: £10.2 billion)*. The primary exposures, relative to total shareholder (non-UK) government debt exposure, are to Canadian (23%), French (19%), Spanish (7%), German (6%) and Italian (5%) government debt securities.

The participating funds exposure to (non-UK) government debt amounts to £32.4 billion *(FY13: £31.7 billion)*, an increase of £0.7 billion. The primary exposures, relative to total (non-UK) government debt exposures included within our participating funds, are to the (non-UK) government debt securities of France (34%), Italy (21%), Germany (5%), Belgium (4%), Netherlands (4%) and Spain (4%).

D3 – Analysis of asset quality continued

D3.3 – Financial investments continued

D3.3.7 – Exposure to worldwide bank debt securities

Direct shareholder and participating fund assets exposures to worldwide bank debt securities (net of non-controlling interests, excluding policyholder assets)

	Shareholder assets			Participating fund assets		
2014	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
Austria	—	—	—	**0.1**	—	**0.1**
France	**0.2**	—	**0.2**	**3.1**	**0.8**	**3.9**
Germany	—	—	—	**0.6**	**0.5**	**1.1**
Ireland	—	—	—	—	—	—
Italy	**0.1**	—	**0.1**	**0.4**	—	**0.4**
Netherlands	**0.2**	**0.2**	**0.4**	**1.4**	**0.2**	**1.6**
Spain	**0.7**	—	**0.7**	**0.7**	**0.1**	**0.8**
United Kingdom	**0.7**	**0.3**	**1.0**	**1.0**	**0.7**	**1.7**
United States	**0.6**	**0.1**	**0.7**	**1.2**	**0.1**	**1.3**
Other	**0.4**	**0.2**	**0.6**	**1.9**	**0.5**	**2.4**
Total	**2.9**	**0.8**	**3.7**	**10.4**	**2.9**	**13.3**
FY13 Total	2.8	1.1	3.9	10.5	3.2	13.7

Net of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £3.7 billion. The majority of our holding (78%) is in senior debt. The primary exposures are to UK (27%), Spanish (19%), and US (19%) banks.

Net of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £13.3 billion. The majority of the exposure (78%) is in senior debt. Participating funds are the most exposed to French (29%), UK (13%) and Dutch (12%) banks.

Direct shareholder and participating fund assets exposures to worldwide bank debt securities (gross of non-controlling interests, excluding policyholder assets)

	Shareholder assets			Participating fund assets		
2014	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
Austria	—	—	—	**0.1**	—	**0.1**
France	**0.2**	—	**0.2**	**3.5**	**0.8**	**4.3**
Germany	—	—	—	**0.6**	**0.5**	**1.1**
Ireland	—	—	—	—	—	—
Italy	**0.1**	—	**0.1**	**0.5**	—	**0.5**
Netherlands	**0.2**	**0.2**	**0.4**	**1.4**	**0.2**	**1.6**
Spain	**0.8**	—	**0.8**	**0.9**	**0.1**	**1.0**
United Kingdom	**0.7**	**0.3**	**1.0**	**1.1**	**0.8**	**1.9**
United States	**0.6**	**0.1**	**0.7**	**1.3**	**0.1**	**1.4**
Other	**0.5**	**0.2**	**0.7**	**2.4**	**0.6**	**3.0**
Total	**3.1**	**0.8**	**3.9**	**11.8**	**3.1**	**14.9**
FY13 Total	3.3	1.2	4.5	12.1	3.5	15.6

Gross of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £3.9 billion. The majority of our holding (79%) is in senior debt. The primary exposures are to UK (26%), Spanish (21%), and US (18%) banks.

Gross of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £14.9 billion. The majority of the exposure (79%) is in senior debt. Participating funds are the most exposed to French (29%), UK (13%) and Dutch (11%) banks.

D3 – Analysis of asset quality continued

D3.4 – 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.

For the table below, reinsurance asset credit ratings are stated in accordance with information from leading rating agencies.

	Ratings						
Ratings 2014	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
Policyholders assets	**—**	**2,057**	**44**	**—**	**—**	**435**	**2,536**
Participating fund assets	**—**	**956**	**656**	**6**	**—**	**—**	**1,618**
Shareholder assets	**27**	**2,660**	**1,042**	**2**	**—**	**73**	**3,804**
Total	**27**	**5,673**	**1,742**	**8**	**—**	**508**	**7,958**
Total %	**0.3%**	**71.3%**	**21.9%**	**0.1%**	**—**	**6.4%**	**100.0%**
FY 2013	25	3,888	2,691	78	6	569	7,257
FY 2013 %	0.3%	53.6%	37.1%	1.1%	0.1%	7.8%	100.0%

D3.5 – Receivables and other financial assets

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. At FY14, 99% (*FY13: 98%)* of the receivables and other financial assets were neither past due nor impaired.

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 limit framework, and in line with the Group Credit Policy.

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.

D3.6 – 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 three months at date of issue.

D4 – Pension fund assets

In addition to the assets recognised directly on the Group's statement of financial position outlined in the disclosures above, the Group is also exposed to the "Scheme assets" that are shown net of the present value of scheme liabilities within the IAS 19 net pension surplus. Pension surpluses are included within other assets and pension deficits are recognised within provisions in the Group's consolidated statement of financial position. Refer to Note B16 for details on the movements in the main schemes' surpluses and deficits.

Scheme assets are stated at their fair values. Total scheme assets are comprised in the UK, Ireland and Canada as follows:

	2014				2013			
	UK £m	Ireland £m	Canada £m	Total £m	UK £m	Ireland £m	Canada £m	Total £m
Bonds								
Fixed interest[1]	**5,519**	**213**	**130**	**5,862**	4,022	149	106	4,277
Index-linked	**5,568**	**122**	**—**	**5,690**	4,502	112	—	4,614
Equities[1]	**98**	**—**	**—**	**98**	291	63	81	435
Property[1]	**328**	**9**	**—**	**337**	305	7	—	312
Pooled investment vehicles[1]	**2,010**	**137**	**110**	**2,257**	1,632	42	23	1,697
Derivatives	**584**	**1**	**—**	**585**	225	55	—	280
Cash and other[2]	**626**	**1**	**18**	**645**	757	3	23	783
Total fair value of assets	**14,733**	**483**	**258**	**15,474**	11,734	431	233	12,398

1 A total of £1,697 million, which was previously in 2013 disclosed as £277 million of fixed interest bonds, £645 million of equities, and £775 million of property, has been reclassified to pooled investment vehicles.
2 Cash and other assets comprise cash at bank, insurance policies, receivables and payables.

D4 – Pension fund assets continued

Total scheme assets are analysed by those that have a quoted price in an active market and those that do not as follows:

	2014			2013		
	Total Quoted £m	**Total Unquoted £m**	**Total £m**	Total Quoted £m	Total Unquoted £m	Total £m
Bonds						
Fixed interest[1]	**2,907**	**2,955**	**5,862**	818	3,459	4,277
Index-linked	**5,240**	**450**	**5,690**	3,864	750	4,614
Equities[1]	**74**	**24**	**98**	378	57	435
Property[1]	**—**	**337**	**337**	—	312	312
Pooled investment vehicles[1]	**130**	**2,127**	**2,257**	31	1,666	1,697
Derivatives	**(22)**	**607**	**585**	88	192	280
Cash and other[2]	**432**	**213**	**645**	540	243	783
Total fair value of assets	**8,761**	**6,713**	**15,474**	5,719	6,679	12,398

1 A total of £1,697 million, which was previously in 2013 disclosed as £277 million of fixed interest bonds, £645 million of equities, and £775 million of property, has been reclassified to pooled investment vehicles.
2 Cash and other assets comprise cash at bank, insurance policies, receivables and payables.

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, the schemes' assets are invested in a portfolio consisting primarily (approximately 75%) of debt securities. The investment strategy will continue to evolve over time and is expected to match the liability profile increasingly closely with swap overlays to improve interest rate and inflation matching. The schemes are generally matched to interest rates on the funding basis.

Main UK Scheme

The Company works closely with the trustee, who is required to consult it on the investment strategy.

Interest rate and inflation risk are managed using a combination of liability-matching assets and swaps. Exposure to equity risk has been reducing over time and credit risk is managed within appetite. Currency risk is relatively small and is largely hedged. The other principal risk is longevity risk. On 5 March 2014, the Aviva Staff Pension Scheme entered into a longevity swap covering approximately £5 billion of pensioner in payment scheme liabilities.

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 £1.6 billion of undrawn committed central borrowing facilities with various highly rated banks, £0.75 billion of which is allocated to support the credit ratings of Aviva plc's commercial paper programmes. The expiry profile of the undrawn committed central borrowing facilities is as follows:

	2014 £m	2013 £m
Expiring within one year	**350**	400
Expiring beyond one year	**1,200**	1,100
Total	**1,550**	1,500

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% decrease in interest rates and 10% decline in equity markets).

VNB & Sales analysis

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E1 – Trend analysis of VNB (continuing operations[1]) – cumulative

Gross of tax and non-controlling interests	1Q13 YTD £m	2Q13 YTD £m	3Q13 YTD £m	4Q13 YTD £m	1Q14 YTD £m	2Q14 YTD £m	3Q14 YTD £m	**4Q14 YTD £m**	Growth[2] on 4Q13 Sterling %	Growth[2] on 4Q13 Constant currency %
United Kingdom	114	224	326	469	89	177	297	**473**	**1%**	**1%**
Ireland	—	2	4	8	3	6	6	**9**	**24%**	**30%**
United Kingdom & Ireland	114	226	330	477	92	183	303	**482**	**1%**	**1%**
France	41	90	118	172	54	110	156	**205**	**19%**	**25%**
Poland[3]	10	21	34	51	21	34	46	**64**	**25%**	**31%**
Italy – excluding Eurovita	10	18	25	43	15	26	41	**63**	**47%**	**55%**
Spain – excluding Aseval & CxG	1	7	12	25	6	14	19	**30**	**21%**	**27%**
Turkey	10	20	28	37	6	14	23	**30**	**(20)%**	**(3)%**
Other Europe	1	1	1	1	—	—	—	**—**	**—**	**—**
Europe	73	157	218	329	102	198	285	**392**	**19%**	**27%**
Asia – excluding Malaysia	19	41	71	103	32	66	97	**127**	**23%**	**30%**
Aviva Investors[4]	—	—	—	—	—	2	5	**9**	**—**	**—**
Value of new business – excluding Eurovita, Aseval, CxG & Malaysia	206	424	619	909	226	449	690	**1,010**	**11%**	**15%**
Eurovita, Aseval, CxG & Malaysia	3	2	—	(5)	(2)	(5)	(4)	**(1)**	**—**	**—**
Total value of new business	**209**	**426**	**619**	**904**	**224**	**444**	**686**	**1,009**	**12%**	**15%**

1 Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
3. Poland includes Lithuania.
4. The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

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E2 – Trend analysis of VNB (continuing operations[1]) – discrete

Gross of tax and non-controlling interests	1Q13 Discrete £m	2Q13 Discrete £m	3Q13 Discrete £m	4Q13 Discrete £m	1Q14 Discrete £m	2Q14 Discrete £m	3Q14 Discrete £m	**4Q14 Discrete £m**	Growth[2] on 4Q13 Sterling %	Growth[2] on 4Q13 Constant currency %
United Kingdom	114	110	102	143	89	88	120	**176**	**23%**	**23%**
Ireland	—	2	2	4	3	3	—	**3**	**(6)%**	**(1)%**
United Kingdom & Ireland	114	112	104	147	92	91	120	**179**	**23%**	**23%**
France	41	49	28	54	54	56	46	**49**	**(10)%**	**(5)%**
Poland[3]	10	11	13	17	21	13	12	**18**	**7%**	**12%**
Italy – excluding Eurovita	10	8	7	18	15	11	15	**22**	**26%**	**33%**
Spain – excluding Aseval & CxG	1	6	5	13	6	8	5	**11**	**(19)%**	**(14)%**
Turkey	10	10	8	9	6	8	9	**7**	**(26)%**	**(18)%**
Other Europe	1	—	—	—	—	—	—	**—**	**—**	**—**
Europe	73	84	61	111	102	96	87	**107**	**(4)%**	**1%**
Asia – excluding Malaysia	19	22	30	32	32	34	31	**30**	**(6)%**	**(3)%**
Aviva Investors[4]	—	—	—	—	—	2	3	**4**	**—**	**—**
Value of new business – excluding Eurovita, Aseval, CxG & Malaysia	206	218	195	290	226	223	241	**320**	**10%**	**13%**
Eurovita, Aseval, CxG & Malaysia	3	(1)	(2)	(5)	(2)	(3)	1	**3**	**—**	**—**
Total value of new business	209	217	193	285	224	220	242	**323**	**13%**	**16%**

1. Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
3. Poland includes Lithuania.
4. The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

E3 – Trend analysis of PVNBP (continuing operations[1]) – cumulative

Present value of new business premiums[2]	1Q13 YTD £m	2Q13 YTD £m	3Q13 YTD £m	4Q13 YTD £m	1Q14 YTD £m	2Q14 YTD £m	3Q14 YTD £m	**4Q14 YTD £m**	Growth[3] on 4Q13 Sterling %	Growth[3] on 4Q13 Constant currency %
United Kingdom	2,779	5,560	8,556	11,924	2,931	6,052	9,098	**12,009**	**1%**	**1%**
Ireland	117	225	338	469	105	196	291	**435**	**(7)%**	**(2)%**
United Kingdom & Ireland	2,896	5,785	8,894	12,393	3,036	6,248	9,389	**12,444**	**—**	**1%**
France	1,243	2,363	3,367	4,498	1,310	2,427	3,538	**4,633**	**3%**	**8%**
Poland[4]	123	227	358	486	234	332	429	**573**	**18%**	**24%**
Italy – excluding Eurovita	563	1,198	1,591	1,975	698	1,440	2,060	**2,473**	**25%**	**32%**
Spain – excluding Aseval & CxG	284	516	671	1,055	270	536	743	**1,054**	**—**	**5%**
Turkey	135	253	341	524	110	231	348	**495**	**(6)%**	**14%**
Other Europe	20	20	20	20	—	—	—	**—**	**—**	**—**
Europe	2,368	4,577	6,348	8,558	2,622	4,966	7,118	**9,228**	**8%**	**14%**
Asia – excluding Malaysia	472	845	1,290	1,724	471	964	1,454	**1,951**	**13%**	**19%**
Aviva Investors[5]	4	7	28	58	5	257	562	**881**	**—**	**—**
Total – excluding Eurovita, Aseval, CxG & Malaysia	5,740	11,214	16,560	22,733	6,134	12,435	18,523	**24,504**	**8%**	**11%**
Eurovita, Aseval, CxG & Malaysia	158	248	317	444	86	195	210	**224**	**—**	**—**
Total	5,898	11,462	16,877	23,177	6,220	12,630	18,733	**24,728**	**7%**	**10%**

1. Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2. Present value of new business premiums (PVNBP) is the 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.
3. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4. Poland includes Lithuania.
5. The UK Fund Retail Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

E4 – Trend analysis of PVNBP (continuing operations[1]) – discrete

Present value of new business premiums[2]	1Q13 Discrete £m	2Q13 Discrete £m	3Q13 Discrete £m	4Q13 Discrete £m	1Q14 Discrete £m	2Q14 Discrete £m	3Q14 Discrete £m	**4Q14 Discrete £m**	Growth[3] on 4Q13 Sterling %	Growth[3] on 4Q13 Constant currency %
United Kingdom	2,779	2,781	2,996	3,368	2,931	3,121	3,046	**2,911**	**(14)%**	**(14)%**
Ireland	117	108	113	131	105	91	95	**144**	**10%**	**16%**
United Kingdom & Ireland	2,896	2,889	3,109	3,499	3,036	3,212	3,141	**3,055**	**(13)%**	**(13)%**
France	1,243	1,120	1,004	1,131	1,310	1,117	1,111	**1,095**	**(3)%**	**2%**
Poland[4]	123	104	131	128	234	98	97	**144**	**13%**	**17%**
Italy – excluding Eurovita	563	635	393	384	698	742	620	**413**	**8%**	**13%**
Spain – excluding Aseval & CxG	284	232	155	384	270	266	207	**311**	**(19)%**	**(15)%**
Turkey	135	118	88	183	110	121	117	**147**	**(20)%**	**(9)%**
Other Europe	20	—	—	—	—	—	—	**—**	**—**	**—**
Europe	2,368	2,209	1,771	2,210	2,622	2,344	2,152	**2,110**	**(5)%**	**1%**
Asia – excluding Malaysia	472	373	445	434	471	493	490	**497**	**15%**	**17%**
Aviva Investors[5]	4	3	21	30	5	252	305	**319**	**—**	**—**
Total – excluding Eurovita, Aseval, CxG & Malaysia	5,740	5,474	5,346	6,173	6,134	6,301	6,088	**5,981**	**(3)%**	**(1)%**
Eurovita, Aseval, CxG & Malaysia	158	90	69	127	86	109	15	**14**	**—**	**—**
Total	5,898	5,564	5,415	6,300	6,220	6,410	6,103	**5,995**	**(5)%**	**(3)%**

1 Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2 Present value of new business premiums (PVNBP) is the 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.
3 Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4. Poland includes Lithuania.
5. The UK Fund Retail Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

Analysis of assets continued

E5 – Trend analysis of PVNBP by product (continuing operations[1]) – cumulative

Present value of new business premiums[2]	1Q13 YTD £m	2Q13 YTD £m	3Q13 YTD £m	4Q13 YTD £m	1Q14 YTD £m	2Q14 YTD £m	3Q14 YTD £m	**4Q14 YTD £m**	Growth[3] on 4Q13 Sterling %	Growth[3] on 4Q13 Constant currency %
Pensions	1,322	2,479	3,818	5,476	1,328	2,794	4,081	**5,803**	**6%**	**6%**
Annuities	630	1,217	1,664	2,327	500	935	1,656	**1,948**	**(16)%**	**(16)%**
Bonds	33	59	97	183	45	87	135	**174**	**(5)%**	**(5)%**
Protection	253	504	781	992	297	568	862	**1,103**	**11%**	**11%**
Equity release	98	182	297	401	117	257	462	**696**	**74%**	**74%**
Other[4]	443	1,119	1,899	2,545	644	1,411	1,902	**2,285**	**(10)%**	**(10)%**
United Kingdom	2,779	5,560	8,556	11,924	2,931	6,052	9,098	**12,009**	**1%**	**1%**
Ireland	117	225	338	469	105	196	291	**435**	**(7)%**	**(2)%**
United Kingdom & Ireland	2,896	5,785	8,894	12,393	3,036	6,248	9,389	**12,444**	**—**	**1%**
Savings	1,173	2,229	3,197	4,278	1,232	2,278	3,347	**4,368**	**2%**	**7%**
Protection	70	134	170	220	78	149	191	**265**	**21%**	**27%**
France	1,243	2,363	3,367	4,498	1,310	2,427	3,538	**4,633**	**3%**	**8%**
Pensions	217	374	527	846	302	465	631	**904**	**7%**	**21%**
Savings	765	1,552	2,058	2,687	890	1,819	2,583	**3,182**	**18%**	**24%**
Annuities	6	10	13	13	2	2	3	**5**	**(67)%**	**(66)%**
Protection[5]	137	278	383	514	118	253	363	**504**	**(2)%**	**5%**
Poland[6], Italy[6], Spain[6] and Other	1,125	2,214	2,981	4,060	1,312	2,539	3,580	**4,595**	**13%**	**21%**
Europe	2,368	4,577	6,348	8,558	2,622	4,966	7,118	**9,228**	**8%**	**14%**
Asia – excluding Malaysia	472	845	1,290	1,724	471	964	1,454	**1,951**	**13%**	**19%**
Aviva Investors[7]	4	7	28	58	5	257	562	**881**	**—**	**—**
Total – excluding Eurovita, Aseval, CxG & Malaysia	5,740	11,214	16,560	22,733	6,134	12,435	18,523	**24,504**	**8%**	**11%**
Eurovita, Aseval, CxG & Malaysia	158	248	317	444	86	195	210	**224**	**—**	**—**
Total	5,898	11,462	16,877	23,177	6,220	12,630	18,733	**24,728**	**7%**	**10%**

1. Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2. Present value of new business premiums (PVNBP) is the 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.
3. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4. Other UK business includes UK Retail Fund Management and UK long term health business. UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.
5. Subsequent to FY13 a whole of life unit-linked protection product in Poland was reclassified from savings to protection business. As a result, protection PVNBP has increased £25 million in 1Q13, £52 million in 2Q13, £77 million in 3Q13 and £114 million in 4Q13. There is no change in total PVNBP.
6. Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and CxG.
7. The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

E6 – Trend analysis of PVNBP by product (continuing operations[1]) – discrete

Present value of new business premiums[2]	1Q13 Discrete £m	2Q13 Discrete £m	3Q13 Discrete £m	4Q13 Discrete £m	1Q14 Discrete £m	2Q14 Discrete £m	3Q14 Discrete £m	**4Q14 Discrete £m**	Growth[3] on 4Q13 Sterling %	Growth[3] on 4Q13 Constant currency %
Pensions	1,322	1,157	1,339	1,658	1,328	1,466	1,287	**1,722**	**4%**	**4%**
Annuities	630	587	447	663	500	435	721	**292**	**(56)%**	**(56)%**
Bonds	33	26	38	86	45	42	48	**39**	**(55)%**	**(55)%**
Protection	253	251	277	211	297	271	294	**241**	**14%**	**14%**
Equity release	98	84	115	104	117	140	205	**234**	**128%**	**128%**
Other[4]	443	676	780	646	644	767	491	**383**	**(41)%**	**(41)%**
United Kingdom	2,779	2,781	2,996	3,368	2,931	3,121	3,046	**2,911**	**(14)%**	**(14)%**
Ireland	117	108	113	131	105	91	95	**144**	**10%**	**16%**
United Kingdom & Ireland	2,896	2,889	3,109	3,499	3,036	3,212	3,141	**3,055**	**(13)%**	**(13)%**
Savings	1,173	1,056	968	1,081	1,232	1,046	1,069	**1,021**	**(6)%**	**(1)%**
Protection	70	64	36	50	78	71	42	**74**	**48%**	**55%**
France	1,243	1,120	1,004	1,131	1,310	1,117	1,111	**1,095**	**(3)%**	**2%**
Pensions	217	157	153	319	302	163	166	**273**	**(14)%**	**(6)%**
Savings	765	787	506	629	890	929	764	**599**	**(5)%**	**—**
Annuities	6	4	3	—	2	—	1	**2**	**—**	**—**
Protection[5]	137	141	105	131	118	135	110	**141**	**8%**	**13%**
Poland[6], Italy[6], Spain[6] and Other	1,125	1,089	767	1,079	1,312	1,227	1,041	**1,015**	**(6)%**	**—**
Europe	2,368	2,209	1,771	2,210	2,622	2,344	2,152	**2,110**	**(5)%**	**1%**
Asia – excluding Malaysia	472	373	445	434	471	493	490	**497**	**15%**	**17%**
Aviva Investors[7]	4	3	21	30	5	252	305	**319**	**—**	**—**
Total – excluding Eurovita, Aseval, CxG & Malaysia	5,740	5,474	5,346	6,173	6,134	6,301	6,088	**5,981**	**(3)%**	**(1)%**
Eurovita, Aseval, CxG & Malaysia	158	90	69	127	86	109	15	**14**	**—**	**—**
Total	5,898	5,564	5,415	6,300	6,220	6,410	6,103	**5,995**	**(5)%**	**(3)%**

1. Following the announced disposal of US Life in Q4 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2. Present value of new business premiums (PVNBP) is the 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.
3. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4. Other UK business includes UK Retail Fund Management and UK long term health business. UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.
5. Subsequent to FY13 a whole of life unit-linked protection product in Poland was reclassified from savings to protection business. As a result, protection PVNBP has increased £25 million in 1Q13, £27 million in 2Q13, £25 million in 3Q13 and £37 million in 4Q13. There is no change in total PVNBP.
6. Poland includes Lithuania, Italy excludes Eurovita, Spain excludes Aseval and CxG.
7. The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

E7 – Geographical analysis of regular and single premiums – continuing operations[1]

	Regular premiums							Single premiums		
	2014 £m	**Constant currency growth[2]**	**WACF**	**Present value £m**	2013 £m	WACF	Present value £m	**2014 £m**	2013 £m	**Constant currency growth[2]**
United Kingdom	**946**	**8%**	**5.4**	**5,108**	878	5.1	4,443	**6,901**	7,481	**(8)%**
Ireland	**26**	**9%**	**5.7**	**149**	26	4.4	114	**286**	355	**(15)%**
United Kingdom & Ireland	**972**	**8%**	**5.4**	**5,257**	904	5.0	4,557	**7,187**	7,836	**(8)%**
France	**87**	**3%**	**8.1**	**709**	89	8.0	712	**3,924**	3,786	**9%**
Poland[3]	**50**	**37%**	**8.7**	**435**	38	9.0	341	**138**	145	**—**
Italy – excluding Eurovita	**38**	**(13)%**	**5.7**	**215**	46	5.4	249	**2,258**	1,726	**37%**
Spain – excluding Aseval & CxG	**37**	**(3)%**	**6.0**	**221**	40	5.9	235	**833**	820	**7%**
Turkey	**111**	**35%**	**3.8**	**421**	99	4.7	467	**74**	57	**56%**
Other Europe	**—**	**—**	**—**	**—**	4	1.5	6	**—**	14	**—**
Europe	**323**	**12%**	**6.2**	**2,001**	316	6.4	2,010	**7,227**	6,548	**16%**
Asia – excluding Malaysia	**248**	**(10)%**	**6.4**	**1,584**	289	5.6	1,624	**367**	100	**292%**
Aviva Investors[4]	**—**	**—**	**—**	**—**	—	—	—	**881**	58	**—**
Total – excluding Eurovita, Aseval, CxG & Malaysia	**1,543**	**5%**	**5.7**	**8,842**	1,509	5.4	8,191	**15,662**	14,542	**10%**
Eurovita, Aseval, CxG & Malaysia	**6**	**—**	**6.8**	**41**	18	5.2	93	**183**	351	**—**
Total	**1,549**	**4%**	**5.7**	**8,883**	1,527	5.4	8,284	**15,845**	14,893	**9%**

1. Following the announced disposal of US Life in Q3 2012, it was no longer managed on a MCEV basis and it was no longer included in covered business. The sale of US Life was completed on 2 October 2013.
2. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
3. Poland includes Lithuania.
4. The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014.

E8 – Trend analysis of Investment sales – cumulative

									Growth[3] on 4Q13	
Investment sales[1]	1Q13 YTD £m	2Q13 YTD £m	3Q13 YTD £m	4Q13 YTD £m	1Q14 YTD £m	2Q14 YTD £m	3Q14 YTD £m	**4Q14 YTD £m**	**Sterling %**	**Constant currency %**
United Kingdom & Ireland[2]	305	841	1,494	2,040	486	1,043	1,405	**1,742**	**(15)%**	**(15)%**
Aviva Investors[4]	787	1,563	2,100	2,683	730	1,616	2,195	**3,089**	**15%**	**21%**
Asia	42	94	124	152	36	75	110	**146**	**(4)%**	**3%**
Total investment sales	1,134	2,498	3,718	4,875	1,252	2,734	3,710	**4,977**	**2%**	**5%**

1. Investment sales are calculated as new single premiums plus the annualised value of new regular premiums.
2. UK & Ireland investment sales of £1,742 million (*FY13: £2,040 million*) are also reported in UK Life PVNBP following the extension of MCEV covered business. See note F1 for details.
3. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4. The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014. 2Q14 Investment sales of £250 million, 3Q14 investment sales of £549 million and 4Q14 investment sales of £864 million are also included in Aviva Investors' PVNBP at the same level following the extension of MCEV covered business. See note F1 for details.

E9 – Trend analysis of Investment sales – discrete

									Growth[3] on 4Q13	
Investment sales[1]	1Q13 Discrete £m	2Q13 Discrete £m	3Q13 Discrete £m	4Q13 Discrete £m	1Q14 Discrete £m	2Q14 Discrete £m	3Q14 Discrete £m	**4Q14 Discrete £m**	**Sterling %**	**Constant currency %**
United Kingdom & Ireland[2]	305	536	653	546	486	557	362	**337**	**(38)%**	**(38)%**
Aviva Investors[4]	787	776	537	583	730	886	579	**894**	**53%**	**60%**
Asia	42	52	30	28	36	39	35	**36**	**33%**	**35%**
Total investment sales	1,134	1,364	1,220	1,157	1,252	1,482	976	**1,267**	**10%**	**12%**

1. Investment sales are calculated as new single premiums plus the annualised value of new regular premiums.
2. UK & Ireland investment sales are also reported in UK Life PVNBP following the extension of MCEV covered business. See note F1 for details.
3. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4. The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014. 2Q14 Investment sales of £250 million, 3Q14 investment sales of £299 million and 4Q14 investment sales of £315 million are also included in Aviva Investors' PVNBP at the same level following the extension of MCEV covered business. See note F1 for details.

E10 – Geographical analysis of regular and single premiums – investment sales

	Regular			Single			PVNBP
Investment sales[1]	**2014 £m**	2013 £m	**Constant currency growth[3]**	**2014 £m**	2013 £m	**Constant currency growth[3]**	**Constant currency growth[3]**
United Kingdom & Ireland[2]	**24**	18	**36%**	**1,718**	2,022	**(15)%**	**(15)%**
Aviva Investors[4]	**5**	5	**—**	**3,084**	2,678	**21%**	**21%**
Asia	**—**	—	**—**	**146**	152	**3%**	**3%**
Total investment sales	**29**	23	**27%**	**4,948**	4,852	**5%**	**5%**

1. Investment sales are calculated as new single premiums plus the annualised value of new regular premiums.
2. UK & Ireland investment sales are also reported in UK Life PVNBP following the extension of MCEV covered business. See note F1 for details.
3. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.
4. The UK Retail Fund Management business was transferred from UK Life to Aviva Investors on 9 May 2014. 2Q14 Investment sales of £250 million, 3Q14 investment sales of £549 million and 4Q14 investment sales of £864 million are also included in Aviva Investors' PVNBP at the same level following the extension of MCEV covered business. See note F1 for details.

E11 – Trend analysis of general insurance and health net written premiums – cumulative

	1Q13 YTD £m	2Q13 YTD £m	3Q13 YTD £m	4Q13 YTD £m	1Q14 YTD £m	2Q14 YTD £m	3Q14 YTD £m	**4Q14 YTD £m**	Growth[3] on 4Q13 Sterling %	Growth[3] on 4Q13 Constant currency %
General insurance										
United Kingdom	923	1,963	2,904	3,823	845	1,836	2,742	**3,663**	**(4)%**	**(4)%**
Ireland	71	146	215	278	65	136	205	**272**	**(2)%**	**3%**
United Kingdom & Ireland	994	2,109	3,119	4,101	910	1,972	2,947	**3,935**	**(4)%**	**(4)%**
Europe	435	764	1,033	1,360	440	747	999	**1,313**	**(3)%**	**2%**
Canada	470	1,126	1,718	2,250	426	1,026	1,584	**2,104**	**(6)%**	**6%**
Asia	3	7	11	14	3	7	10	**13**	**(7)%**	**(1)%**
Other	20	20	21	33	4	5	5	**7**	**(77)%**	**(77)%**
	1,922	4,026	5,902	7,758	1,783	3,757	5,545	**7,372**	**(5)%**	**(1)%**
Health insurance										
United Kingdom[1]	138	289	383	536	144	302	394	**518**	**(3)%**	**(3)%**
Ireland	36	52	71	99	33	47	65	**93**	**(6)%**	**(1)%**
United Kingdom & Ireland	174	341	454	635	177	349	459	**611**	**(4)%**	**(3)%**
Europe	89	135	179	241	94	138	182	**243**	**1%**	**6%**
Asia[2]	35	47	69	86	29	45	61	**74**	**(13)%**	**(5)%**
	298	523	702	962	300	532	702	**928**	**(3)%**	**(1)%**
Total	2,220	4,549	6,604	8,720	2,083	4,289	6,247	**8,300**	**(5)%**	**(1)%**

1. These premiums are also reported in UK Life PVNBP following the extension of MCEV covered business (see note F1 – MCEV basis of preparation for further details). 1Q13 NWP of £138 million, 2Q13 YTD NWP of £289 million, 3Q13 YTD NWP of £383 million, 4Q13 YTD NWP of £536 million, 1Q14 NWP of £144 million, 2Q14 YTD NWP of £302 million, 3Q14 YTD NWP of £394 million and 4Q14 YTD NWP of £518 million are respectively equivalent to £138 million, £278 million, £405 million, £505 million, £158 million, £368 million, £497 million and £542 million on a PVNBP basis.
2. Singapore long term health business is also reported in Asia PVNBP following the extension of MCEV covered business (see note F1 – MCEV basis of preparation for further details). For Singapore long term health business, 3Q13 YTD NWP of £5 million, 4Q13 YTD NWP of £11 million, 1Q14 NWP of £5 million, 2Q14 YTD NWP of £9 million, 3Q14 YTD NWP of £15 million and 4Q14 YTD NWP of £22 million are respectively equivalent to £47 million, £97 million, £37 million, £87 million, £130 million and £183 million on a PVNBP basis.
3. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.

E12 – Trend analysis of general insurance and health net written premiums – discrete

	1Q13 Discrete £m	2Q13 Discrete £m	3Q13 Discrete £m	4Q13 Discrete £m	1Q14 Discrete £m	2Q14 Discrete £m	3Q14 Discrete £m	**4Q14 Discrete £m**	Growth[3] on 4Q13 Sterling %	Growth[3] on 4Q13 Constant currency %
General insurance										
United Kingdom	923	1,040	941	919	845	991	906	**921**	**—**	**—**
Ireland	71	75	69	63	65	71	69	**67**	**6%**	**11%**
United Kingdom & Ireland	994	1,115	1,010	982	910	1,062	975	**988**	**—**	**1%**
Europe	435	329	269	327	440	307	252	**314**	**(4)%**	**1%**
Canada	470	656	592	532	426	600	558	**520**	**(2)%**	**4%**
Asia	3	4	4	3	3	4	3	**3**	**(6)%**	**(3)%**
Other	20	—	1	12	4	1	—	**2**	**(83)%**	**(83)%**
	1,922	2,104	1,876	1,856	1,783	1,974	1,788	**1,827**	**(2)%**	**1%**
Health insurance										
United Kingdom[1]	138	151	94	153	144	158	92	**124**	**(18)%**	**(18)%**
Ireland	36	16	19	28	33	14	18	**28**	**4%**	**10%**
United Kingdom & Ireland	174	167	113	181	177	172	110	**152**	**(15)%**	**(14)%**
Europe	89	46	44	62	94	44	44	**61**	**(2)%**	**3%**
Asia[2]	35	12	22	17	29	16	16	**13**	**(15)%**	**(17)%**
	298	225	179	260	300	232	170	**226**	**(12)%**	**(10)%**
Total	2,220	2,329	2,055	2,116	2,083	2,206	1,958	**2,053**	**(3)%**	**—**

1. These premiums are also reported in UK Life PVNBP following the extension of MCEV covered business (see note F1 – MCEV basis of preparation for further details). 1Q13 NWP of £138 million, 2Q13 NWP of £151 million, 3Q13 NWP of £94 million, 4Q13 NWP of £153 million, 1Q14 NWP of £144 million, 2Q14 NWP of £ £158 million, 3Q14 NWP of £92 million and 4Q14 NWP of £124 million are respectively equivalent to £138 million, £140 million, £127 million, £100 million, £158 million, £210 million, £129 million and £45 million on a PVNBP basis.
2. Singapore long term health business is also reported in Asia PVNBP following the extension of MCEV covered business (see note F1 – MCEV basis of preparation for further details). For Singapore long term health business, 3Q13 NWP of £5 million, 4Q13 NWP of £6 million, 1Q14 NWP of £5 million, 2Q14 NWP of £4 million, 3Q14 NWP of £6 million and 4Q14 NWP of £7 million are respectively equivalent to £47 million, £50 million, £37 million, £50 million, £43 million and £53 million on a PVNBP basis.
3. Currency movements are calculated using unrounded numbers so minor rounding differences may exist.

MCEV financial statements

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Consolidated income statement – MCEV basis

For the year ended 31 December 2014

	2014 £m	Restated[1] 2013 £m Continuing Operations	Restated[1] 2013 £m Discontinued Operations[2]
Operating profit/(loss) before tax attributable to shareholders' profits			
United Kingdom & Ireland	**1,277**	921	—
Europe	**1,142**	1,088	—
Asia	**241**	252	—
Other[3]	**87**	(2)	—
Long-term business for continuing operations (note F4)	**2,747**	2,259	—
United States[2]	**—**	—	272
General insurance and health (note F6)[4]	**801**	777	—
Fund management (note F7)[5]	**23**	29	31
Other operations (note F8)[6]	**(91)**	(76)	(4)
Market operating profit/(loss)	**3,480**	2,989	299
Corporate centre	**(132)**	(150)	—
Group debt costs and other interest	**(463)**	(502)	(9)
Operating profit/(loss) before tax attributable to shareholders' profits	**2,885**	2,337	290
Integration and restructuring costs (note F9)	**(159)**	(354)	(3)
Operating profit/(loss) before tax attributable to shareholders' profits after integration and restructuring costs	**2,726**	1,983	287
Adjusted for the following:			
Economic variances on long-term business	**(152)**	1,627	452
Short-term fluctuation in return on investments on non-long-term business	**261**	(336)	—
Economic assumption changes on general insurance and health business	**(145)**	33	—
Impairment of goodwill	**(24)**	(86)	—
Amortisation and impairment of intangibles	**(106)**	(99)	(9)
Profit on disposal and remeasurement of subsidiaries, joint ventures and associates[7]	**120**	155	808
Exceptional items (note F10)	**(198)**	(242)	—
Non-operating items before tax	**(244)**	1,052	1,251
Profit/(loss) before tax attributable to shareholders' profits	**2,482**	3,035	1,538
Tax on operating profit	**(811)**	(778)	(83)
Tax on other activities	**137**	(297)	(182)
	(674)	(1,075)	(265)
Profit/(loss) after Tax	**1,808**	1,960	1,273
Profit/(loss) from Discontinued operations[2]	**58**	1,273	
Profit/(loss) for the period	**1,866**	3,233	
Attributable to:			
Equity shareholders' of Aviva plc	**1,658**	2,745	
Non-controlling Interest	**208**	488	
	1,866	3,233	
Earnings/(loss) per share[8]			
Basic (pence per share)	**53.4p**	90.4p	
Diluted (pence per share)	**52.6p**	89.3p	
Continuing operations – Basic (pence per share)	**51.4p**	47.1p	
Continuing operations – Diluted (pence per share)	**50.7p**	46.6p	

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 – Basis of Preparation.
2 Discontinued operations represent the results of the US Life and related internal asset management business (US Life) until the date of disposal (2 October 2013) and settlement in 2014. From 1 January 2013, the US Life operations were reported within non-covered business on an IFRS basis. For further details, see note F1 – Basis of preparation.
3 Includes UK retail fund management business, which transferred from UK Life to Aviva Investors on 9 May 2014. In the comparative period this was included within 'United Kingdom & Ireland'.
4 Excludes the results of the UK and Singapore health businesses now included in covered business. These results are included within the long-term MCEV operating earnings consistent with the MCEV methodology.
5 Excludes the proportion of the results of Aviva Investors fund management business and other fund management operations within the Group that arise from the provision of fund management services to our life businesses. These results, in the current period and for continuing operations in the comparative period, are included within the long-term business MCEV operating earnings consistent with the MCEV methodology. Operating earnings for US fund management, in the comparative period as part of discontinued operations, are included in this line item.
6 Excludes the proportion of the results of subsidiaries providing services to the long-term business. These results are included within the long-term MCEV operating earnings consistent with the MCEV methodology.
7 Includes profit or loss in respect of remeasurement of held for sale operations to expected fair value less cost to sell; completion of the disposal of held for sale operations; and restructuring activity. The current period primarily includes profit or loss on completion of the sale of Eurovita, Korea, Caixa Galicia, Indonesia, River Road and Turkey's general insurance business. The comparative period included the profit or loss on completion of the sale of the US business, Aseval, Ark Life, Russia, Romanian pensions and Malaysia; and the held for sale re-measurement of Eurovita and Korea.
8 Number of shares as at 31 December 2014 2,950 million (*31 December 2013: 2,947 million)*

Consolidated statement of comprehensive income – MCEV basis

For the year ended 31 December 2014

	2014 £m	Restated[1] 2013 £m
Profit for the year from continuing operations	**1,808**	1,960
Profit for the year from discontinued operations[2]	**58**	1,273
Profit for the period	**1,866**	3,233
Other comprehensive income from continuing operations:		
Items that may be reclassified subsequently to income statement		
Foreign exchange rate movements	**(658)**	(4)
Aggregate tax effect – shareholder tax on items that may be reclassified into profit or loss	**12**	(6)
Items that will not be reclassified to income statement		
Remeasurements of pension schemes	**1,662**	(674)
Aggregate tax effect – shareholder tax on items that will not be reclassified into profit or loss	**(347)**	125
Other comprehensive income, net of tax from continuing operations	**669**	(559)
Other comprehensive income, net of tax from discontinued operations	**—**	(319)
Other comprehensive income, net of tax	**669**	(878)
Total comprehensive income, net of tax from continuing operations	**2,477**	1,401
Total comprehensive income, net of tax from discontinued operations	**58**	954
Total recognised income and expense for the year	**2,535**	2,355
Attributable to:		
Equity shareholders' of Aviva plc	**2,449**	1,819
Non-controlling interests	**86**	536
	2,535	2,355

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 – Basis of Preparation.
2 Discontinued operations represent the results of the US Life and related internal asset management business (US Life) until the date of disposal (2 October 2013). From 1 January 2013, the US Life operations were reported within non-covered business on an IFRS basis. For further details, see note F1 – Basis of preparation.

Consolidated statement of changes in equity – MCEV basis

For the year ended 31 December 2014

	2014 £m	Restated[1] 2013 £m
Balance at 1 January	**17,428**	16,999
Total comprehensive income for the year	**2,535**	2,355
Dividends and appropriations	**(551)**	(538)
Capital contributions from non-controlling interests	**—**	1
Non-controlling interests share of dividends declared in the year	**(189)**	(134)
Redemption of direct capital instrument	**(547)**	—
Transfer to profit on disposal of subsidiaries, joint ventures and associates	**(21)**	(820)
Non-controlling interests in (disposed)/acquired subsidiaries	**(326)**	(497)
Shares acquired for employee trusts	**—**	(32)
Shares distributed by employee trusts	**5**	5
Reserves credit for equity compensation plans	**39**	37
Shares issued under equity compensation plans	**4**	—
Aggregate tax effect – shareholder tax	**19**	52
Total equity	**18,396**	17,428
Non-controlling interests	**(1,757)**	(2,203)
Balance at 31 December	**16,639**	15,225

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 – Basis of Preparation.

Consolidated statement of financial position – MCEV basis

As at 31 December 2014

	2014 £m	Restated[1] 2013 £m
Assets		
Goodwill	**1,302**	1,476
Acquired value of in-force business and other intangible assets	**1,028**	1,068
Additional value of in-force long-term business[2]	**6,120**	6,411
Interest in, and loans to, joint ventures	**1,140**	1,200
Interest in, and loans to, associates	**404**	267
Property and equipment	**357**	313
Investment property	**8,925**	9,451
Loans	**25,260**	23,879
Financial investments	**202,638**	194,027
Reinsurance assets	**7,958**	7,220
Deferred tax assets	**76**	244
Current tax assets	**27**	76
Receivables	**5,933**	7,476
Deferred acquisition costs and other assets	**5,091**	3,051
Prepayments and accrued income	**2,466**	2,635
Cash and cash equivalents	**23,105**	26,131
Assets of operations classified as held for sale	**9**	3,113
Total assets	**291,839**	288,038
Equity		
Capital		
Ordinary share capital	**737**	736
Preference share capital	**200**	200
	937	936
Capital reserves		
Share premium	**1,172**	1,165
Merger reserve	**3,271**	3,271
	4,443	4,436
Shares held by employee trusts	**(8)**	(31)
Other reserves[2]	**64**	371
Retained earnings	**4,617**	2,348
Additional retained earnings on an MCEV basis[2]	**5,694**	5,783
Equity attributable to shareholders of Aviva plc	**15,747**	13,843
Direct capital instruments and fixed rate tier 1 notes	**892**	1,382
Non-controlling interests[2]	**1,757**	2,203
Total equity	**18,396**	17,428
Liabilities		
Gross insurance liabilities	**113,445**	110,555
Gross liabilities for investment contracts	**117,245**	116,058
Unallocated divisible surplus	**9,467**	6,713
Net asset value attributable to unitholders	**9,482**	10,362
Provisions	**879**	984
Deferred tax liabilities	**1,091**	563
Current tax liabilities	**169**	116
Borrowings	**7,378**	7,819
Payables and other financial liabilities	**12,012**	11,945
Other liabilities	**2,273**	2,472
Liabilities of operations classified as held for sale	**2**	3,023
Total liabilities	**273,443**	270,610
Total equity and liabilities	**291,839**	288,038

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 – Basis of Preparation. The statement of financial position has been restated following the adoption of amendments to 'IAS32: *Financial Instruments: Presentation*'. Refer to Note 1 of the Group's Annual Report and Accounts 2014, and F1 for further information. There is no impact on the total equity for any period presented herein as a result of the IAS32 restatement.

2 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: the excess of the Life MCEV, including non-controlling interests, over the corresponding Life IFRS net assets is represented as the additional value of in-force long-term business; the corresponding items within equity are represented by the additional retained earnings on an MCEV basis and other reserves, with corresponding adjustments to non-controlling interest.

Reconciliation of shareholders' equity on IFRS and MCEV bases

As at 31 December 2014

	2014 £m IFRS	2014 £m Adjustment	2014 £m MCEV	Restated[1] 2013 £m IFRS	Restated[1] 2013 £m Adjustment	Restated[1] 2013 £m MCEV
Share capital	**937**	**—**	**937**	936	—	936
Capital reserves	**4,443**	**—**	**4,443**	4,436	—	4,436
Shares held by employee trusts	**(8)**	**—**	**(8)**	(31)	—	(31)
Other reserves[2]	**229**	**(165)**	**64**	475	(104)	371
Retained earnings	**4,617**	**—**	**4,617**	2,348	—	2,348
Additional retained earnings on an MCEV basis	**—**	**5,694**	**5,694**	—	5,783	5,783
Equity attributable to shareholders of Aviva plc	**10,218**	**5,529**	**15,747**	8,164	5,679	13,843
Direct capital instruments and fixed rate tier 1 notes	**892**	**—**	**892**	1,382	—	1,382
Non-controlling Interests	**1,166**	**591**	**1,757**	1,471	732	2,203
Total equity	**12,276**	**6,120**	**18,396**	11,017	6,411	17,428

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 – Basis of Preparation.
2 The adjustment to "Other reserves" relates to the movement in AFS securities

Reconciliation of IFRS total equity to Life MCEV

As at 31 December 2014

	2014 £m Life and related businesses	2014 £m General business and other	2014 £m Group	Restated[1] 2013 £m Life and related businesses	Restated[1] 2013 £m General business and other	Restated[1] 2013 £m Group
Total assets included in the IFRS statement of financial position	**255,478**	**30,241**	**285,719**	251,547	30,080	281,627
Liabilities of the long-term business	**(244,186)**	**—**	**(244,186)**	(240,145)	—	(240,145)
Liabilities of the general insurance and other businesses	**—**	**(29,257)**	**(29,257)**	—	(30,465)	(30,465)
Total equity on an IFRS basis	**11,292**	**984**	**12,276**	11,402	(385)	11,017
Equity of general insurance and other businesses included in Life MCEV[2]	**160**	**(160)**	**—**	232	(232)	—
Additional value of in-force long-term business	**6,120**	**—**	**6,120**	6,411	—	6,411
Total equity on a MCEV basis	**17,572**	**824**	**18,396**	18,045	(617)	17,428
Notional allocation of IAS 19 pension fund surplus to long-term business[3]	**(703)**			(170)		
Life net assets on IFRS basis	**—**			—		
Goodwill and intangible assets allocated to long-term business[4]	**(476)**			(581)		
Life MCEV (gross of non-controlling interests)	**16,393**			17,294		
Non-controlling interests	**(1,119)**			(1,538)		
Life MCEV (net of non-controlling interests)	**15,274**			15,756		

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 – Basis of Preparation.
2 Refers to the IFRS equity of the UK and Singapore health businesses and of the UK retail fund management business now included in covered business.
3 The value of the Aviva Staff Pension Scheme surplus has been notionally allocated between segments, based on current funding. Within the long-term business net assets on an MCEV basis, the Life proportion has been included. The pension fund surplus notionally allocated to long-term business is net of the agreed funding borne by the UK with-profit funds.
4 Goodwill and intangible assets includes amounts related to associated undertakings and joint ventures and are after adjustments reflected in the additional value of in-force long-term business in the consolidated statement of financial position. In 2014, there is an adjustment to impair goodwill by a further £14 million *(2013: £28 million)*, compared to IFRS. In aggregate, the goodwill and intangibles on an MCEV basis is £130 million *(2013: £125 million)* lower than on an IFRS basis, allowing for exchange rate movements. Refer to next table for goodwill allocated to long-term business on an IFRS basis.

Reconciliation of IFRS total equity to Life MCEV net worth

As at 31 December 2014

	2014 £m	Restated[1] 2013 £m
Net assets on a statutory IFRS net basis	**12,276**	11,017
Adjusting for general business and other net assets on a statutory IFRS net basis	**(984)**	385
Life and related businesses net assets on a statutory IFRS net basis	**11,292**	11,402
Equity of general insurance and other businesses included in Life MCEV	**160**	232
Goodwill and other intangibles	**(606)**	(706)
Acquired value of in-force business	**(92)**	(132)
Adjustment for share of joint ventures and associates	**(9)**	(7)
Adjustment for assets to regulatory value net of tax	**(566)**	(52)
Adjustment for DAC and DIR net of tax	**(1,159)**	(1,069)
Adjustment for differences in technical provisions	**(47)**	(335)
Other accounting and tax differences	**990**	825
MCEV net worth (gross of non-controlling interests)	**9,963**	10,158
MCEV value of in-force (gross of non-controlling interests)[2]	**6,430**	7,136
MCEV (gross of non-controlling interests)	**16,393**	17,294
Non-controlling interests	**(1,119)**	(1,538)
MCEV (net of non-controlling interests)	**15,274**	15,756

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1- Basis of Preparation
2 Comprises PVFP of £9,248 million *(2013:£9,595 million)*, FC of £(389) million *(2013:£(532) million)*, CNHR of £(970) million *(2013:£(1,021 million)* and TVOG of £(1,459) million *(2013:£(906) million)*.

For both 2014 and 2013 figures, the adjustments for DAC and DIR and differences in technical provisions mainly relate to the UK & Ireland.

Group MCEV analysis of earnings

For the year ended 31 December 2014

Net of tax & non-controlling interests 2014	Covered business[1,4] £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[4] £m B+C	Total £m A+B+C
Opening Group MCEV	**14,990**	**599**	**15,589**	**(898)**	**(299)**	**14,691**
Opening Adjustments[5]	**766**	**—**	**766**	**(232)**	**(232)**	**534**
Adjusted opening Group MCEV	**15,756**	**599**	**16,355**	**(1,130)**	**(531)**	**15,225**
Operating MCEV earnings	**1,950**	**—**	**1,950**	**(34)**	**(34)**	**1,916**
Non-operating MCEV earnings	**(331)**	**(34)**	**(365)**	**107**	**73**	**(258)**
Total MCEV earnings	**1,619**	**(34)**	**1,585**	**73**	**39**	**1,658**
Other movements in IFRS net equity	**—**	**533**	**533**	**794**	**1,327**	**1,327**
Capital and dividend flows	**(1,116)**	**—**	**(1,116)**	**64**	**64**	**(1,052)**
Foreign exchange variances	**(468)**	**(20)**	**(488)**	**(48)**	**(68)**	**(536)**
Acquired/divested business	**(517)**	**(38)**	**(555)**	**572**	**534**	**17**
Closing Group MCEV	**15,274**	**1,040**	**16,314**	**325**	**1,365**	**16,639**
Direct capital instruments and fixed rate tier 1 notes						**(892)**
Equity attributable to shareholders of Aviva plc on an MCEV basis						**15,747**

1 Covered business represents the business that the MCEV calculations cover, as detailed in note F1 – Basis of Preparation. The embedded value is presented net of non-controlling 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 non-controlling interests is provided in the table "Reconciliation of IFRS total equity to Life MCEV" above.
3 Net assets for the total life businesses on an MCEV basis presented net of non-controlling interests.
4 A £490 million decrease in the closing Group MCEV of covered business and increase in the closing Group MCEV of non-covered business is due to the sale of Aviva Life and Pensions Ireland Limited (ALPI) to Aviva Life & Pensions UK Limited (UKLAP) from Aviva Insurance Limited (AIL), as detailed in note F1 – Basis of preparation
5 Represents the restatement as explained in note F1 – Basis of Preparation.

Net of tax & non-controlling interests Restated[1] 2013	Covered business[2,5] £m A	Non-covered but related to life business[3] £m B	Total life business[4] £m A+B	Non-covered relating to non-life £m C	Total non-covered business[5] £m B+C	Total £m A+B+C
Opening Group MCEV	14,941	1,175	16,116	(2,100)	(925)	14,016
Opening Adjustments[6]	(162)	1,058	896	(210)	848	686
Adjusted opening Group MCEV	14,779	2,233	17,012	(2,310)	(77)	14,702
Operating MCEV earnings	1,525	195	1,720	(115)	80	1,605
Non-operating MCEV earnings	533	149	682	458	607	1,140
Total MCEV earnings	2,058	344	2,402	343	687	2,745
Other movements in IFRS net equity	—	(585)	(585)	(285)	(870)	(870)
Capital and dividend flows	(614)	16	(598)	(698)	(682)	(1,296)
Foreign exchange variances	90	1	91	(147)	(146)	(56)
Acquired/divested business	(557)	(1,410)	(1,967)	1,967	557	—
Closing Group MCEV	15,756	599	16,355	(1,130)	(531)	15,225
Direct capital instruments and fixed rate tier 1 notes						(1,382)
Equity attributable to shareholders of Aviva plc on an MCEV basis						13,843

1 The income statement and other primary MCEV financial statements have been restated as set out in note F1 – Basis of Preparation.
2 Covered business represents the business that the MCEV calculations cover, as detailed in note F1 – Basis of Preparation. The embedded value is presented net of non-controlling interests and tax.
3 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 non-controlling interests is provided in the table "Reconciliation of IFRS total equity to Life MCEV" above. Note that US Life, disposed in 2013, was part of non-covered but related to life business with effect from 1 January 2013.
4 Net assets for the total life businesses on an MCEV basis presented net of non-controlling interests.
5 Covered business includes an adjustment for held for sale operations through the acquired/divested business line which is reflected as non-operating earnings for non-covered business, consistent with where the profit would arise on completion of the sale.
6 For covered business and non-covered relating to non-life business, this represents the restatement as explained in note F1 – Basis of preparation. For non-covered but related to life business, this represents the transfer of the held for sale US life operations from covered business to non-covered business.

F1 – Basis of preparation

The consolidated income statement and consolidated statement of financial position on pages 128 to 130 present the Group's results and financial position for the covered life and related businesses on the Market Consistent Embedded Value (MCEV) basis and for its non-covered businesses and non-covered but related to 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 with the exception of stating held for sale operations at their expected fair value, as represented by expected sale proceeds, less cost to sell.

The CFO Forum Guidance is not adopted in a number of respects:

- Guidance 2.1 requires that covered business includes contracts regarded as long-term life insurance business. However, for the comparative period the US operations are not included in covered business as, from 1 January 2013 MCEV was not used to manage the business due to the planned sale of the operation, which was completed on 2 October 2013.
- Guidance 17.3.5 indicates that where covered business includes business in several IFRS segments sufficient disclosure should be made to show both the IFRS and MCEV values by IFRS segment. Following the MCEV restatement in 2014, this is no longer the case for UK retail fund management business, UK health business and Singapore guaranteed renewable health business. These product lines are classified as "Fund management" and "General Insurance and health" operating segments respectively under IFRS, but are included within other long-term business for MCEV reporting as part of the "Other", "UK & Ireland" and "Asia" operating segments respectively.
- Guidance 17.3.29 indicates that changes to models to reflect improvements or rectify errors should be included in the 'other operating variances' line in the analysis of earnings. Where possible, such model refinements have been reported in the analysis of earnings on the line where the impact would have occurred in order to provide better information when considering assumption changes/experience variances over multiple reporting periods.
- Guidance 17.3.32 and 17.3.47 indicates that, when a company has more than one geographical area of operation, the business classifications disclosed should be consistent with those used for the IFRS financial statements. MCEV results are aligned with Aviva's management structure although the classifications have been presented at a more aggregated level than those segments presented in the Group's IFRS financial statements.

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 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 our 2014 and 2013 report have been audited by our auditors, PricewaterhouseCoopers LLP, who issued a qualified opinion, reflecting the stating of held for sale operations at their expected fair value less cost to sell, as mentioned above.

(a) MCEV methodology

Overview

Under the MCEV methodology, profit is recognised as it is earned over the life of products defined within covered business. The total profit recognised over the lifetime of a policy is the same as under the IFRS basis of reporting, but the timing of recognition is different.

Calculation of the embedded value

The shareholders' interest in the life and related businesses is represented by the embedded value. The embedded value is the total of the net worth of the life and related businesses and the value of in-force covered business. Calculations are performed separately for each business and are based on the cash flows of that business, after allowing for both external and intra-Group reinsurance. Where one life business has an interest in another, the net worth of that business excludes the interest in the dependent company.

The embedded value is calculated on an after-tax basis applying current legislation and practice together with future known changes. Consistent with CFO Forum guidance issued in 2012, no explicit allowance has been made for the developing European regulation regime (Solvency II) and associated consequences. 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 UK, where a 20% tax rate was used for 2014 for grossing up (*2013: 23%*).

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 covered business, 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 generally set equal to the highest 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;

where "highest of" is assessed as the basis yielding the lowest level of free assets.

F1 – Basis of preparation continued

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 in the current period. In the comparative period the same definition was used except in certain entities in Italy and Spain where new business reflected the targeted capital level which better reflected the capital requirements of the new business. The total required capital for the entities in question was still based on the overall biting constraint. There was a true-up within economic variances for the difference between calculating the new business required capital on a target rather than economic capital basis, where the latter is the biting constraint. The level of required capital across the business units expressed as a percentage of the EU minimum solvency margin (or equivalent) can be found in note F2.

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 surplus in 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 UK and Ireland continues at the current rate of one-ninth of the cost of bonus. During 2014, two capital management actions have been taken in the UK that enable certain shareholder assets to be reflected on the regulatory balance sheet and the economic risk to be hedged more efficiently. The first involved the transfer of certain assets and associated liabilities from the RIEESA to the New With Profits Sub Fund (NWPSF). The second capital management action results in future shareholder transfers (that arise as bonuses are paid to policyholders) emerging in the NWPSF rather than the Non Profit Sub Fund (NPSF) and this reduces the present value of in-force covered business with an offsetting increase in required capital and free surplus. These effects are presented within “Other operating variances” in note F11.

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.

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 F2.

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.

F1 – Basis of preparation continued

Time value of financial options and guarantees (TVOG)

The PVFP calculation is based on a single (base) economic scenario; however, a single scenario cannot appropriately allow for the effect of certain product features. If an option or guarantee affects shareholder cash flows in the base scenario, the impact is included in the PVFP and is referred to as the intrinsic value of the option or guarantee; however, future investment returns are uncertain and the actual impact on shareholder profits may be higher or lower. The value of in-force business needs to be adjusted for the impact of the range of potential future outcomes. Stochastic modelling techniques can be used to assess the impact of potential future outcomes, and the difference between the intrinsic value and the total stochastic value is referred to as the time value of the option or guarantee.

Stochastic modelling typically involves projecting the future cash flows of the business under thousands of economic scenarios that are representative of the possible future outcomes for market variables such as interest rates and equity returns. Under a market consistent approach, the economic scenarios generated reflect the market's tendency towards risk aversion. Allowance is made, where appropriate, for the effect of management and/or policyholder actions in different economic conditions on future assumptions such as asset mix, bonus rates and surrender rates.

Stochastic models are calibrated to market yield curves and volatility levels at the valuation date. Tests are performed to confirm that the scenarios used produce results that replicate the market price of traded instruments.

Where evidence exists that persistency rates are linked to economic scenarios, dynamic lapse assumptions are set that vary depending on the individual scenarios. This cost is included in the TVOG. Dynamic lapses are modelled for parts of the UK, Italian, French and Spanish 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 (FC)

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 in line with drivers of the capital requirement. 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 risk (CNHR)

The cost of residual non-hedgeable risk (CNHR) covers risks not already allowed for in the time value of options and guarantees or the PVFP. The allowance includes the impact of: non-hedgeable financial risks; non-financial risks; and other product level asymmetries. No allowance has been made for symmetrical risks as these are diversifiable by investors.

The most significant category within the CNHR is non-financial risk, which include insurance, expense, persistency and operational risks. It is assumed that there are no non-hedgeable non-financial risks. The allowances for non-hedgeable financial risks and product level asymmetries are not material. This is because they are either modelled explicitly and included in the TVOG or are included in the PVFP through the use of appropriate best-estimate assumptions. The asymmetric risks allowed for in the TVOG or PVFP are described earlier in the Basis of preparation.

(b) Covered business

The MCEV calculations cover the following lines of business unless specifically noted below:
- Life insurance;
- Long-term health and accident insurance;
- Short-term health business in the UK and Singapore managed on a long term basis (introduced 1 January 2014);
- Savings and annuity business;
- Managed pension fund business;
- Equity release business in the UK; and
- UK retail fund management business (introduced 1 January 2014).

From 1 January 2014, health business managed as long term business in the UK and Singapore and some retail fund management business in the UK are classified as long-term covered business under MCEV. In the IFRS financial statements, however, these contracts remain classified as short-term business. Guaranteed renewable health business in Singapore continues to be treated as long term business locally.

Effective 9 May 2014, the UK's retail fund management business was sold to Aviva Investors by UK Life. As this business is now also included within covered business, the MCEV balance sheet-value of this business at 31 December 2014 is disclosed in the "Other" operating segment (where Aviva Investors is presented) while remaining in the "United Kingdom and Ireland" operating segment for the comparative period. In the consolidated income statement, the first 4 months profit or loss is included in the "United Kingdom and Ireland" operating segment with the remaining 8 months in the "Other" operating segment.

Covered business includes that written by the Group's life insurance subsidiaries as well as the Group's share of certain life and related business written in our associated undertakings and joint ventures, including Indonesia, India, China, Turkey, Malaysia (until disposal in April 2013), Taiwan and South Korea (until disposal in June 2014). 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". For Group MCEV reporting, which includes general insurance and other non-covered business, US operations were included on an IFRS basis for the comparative period.

F1 – Basis of preparation continued

(c) MCEV restatement and methodology changes

During 2013 Aviva underwent a review of its interpretation of the MCEV Principles, to ensure its on-going relevance as a key metric in both external reporting and in management decision making, and to ensure that Aviva's MCEV results are reported consistently with the way that the business is managed. Input from a wide variety of different sources, including competitors, our external actuarial consultants and individual business units, were used in this review. This review suggested two areas where it would be appropriate to change Aviva's current practice; the extension of covered business and changes to the derivation and application of the liquidity premium. These changes have been introduced from 1 January 2014 onwards. The effect of these changes has been applied to the prior period and therefore results for the comparative period have been restated accordingly.

Extension of Covered Business

It is appropriate for covered business to include short term life insurance, long term accident and health insurance as well as any mutual fund and short term healthcare, where these contracts are managed on a long term basis. Therefore the definition of covered business has been extended to include the following product lines:

- UK retail fund management business;
- UK health business; and
- Singapore guaranteed renewable health business.

As these product lines remain classified as short-term business under IFRS:

- Investment sales for UK retail fund management are now included in both investment sales (see the Financial and operating performance subsection of the Group's Annual Report and Accounts 2014) and MCEV PVNBP; and
- Premiums for health business in the UK and Singapore are now included in both IFRS Net Written Premium (see note 5a of the Group's Annual Report and Accounts 2014) and MCEV PVNBP.

We note that comparatives for Singapore are not affected until the second half of 2013 when the product terms and conditions were changed, resulting in new business or business renewing after 1 July 2013 being included as covered business.

Liquidity Premium

The CEIOPS (now EIOPA) Task Force on Liquidity Premium issued a set of Principles dated 1 March 2010 on the application of the liquidity premium. Principle 2 states that "The liquidity premium should be independent of the investment strategy followed by the company". In agreement with this, Aviva has removed the requirement for the liquidity premium to only apply to those liabilities backed by corporate bonds or certain illiquid non-traded assets (notably UK commercial mortgages). As a consequence an optimised notional portfolio is assumed which can include the actual assets backing the liabilities.

The approach to estimating the market level of liquidity premium is set out in Note F2. For assets valued on a mark to model basis (notably UK commercial mortgages) the liquidity premium continues to be estimated consistently with the underlying valuation model. For all other assets, the formula structure proposed by the CFO / CRO Forum and adopted in the Solvency II Fifth Quantitative Impact Study (QIS 5) is adopted.

The application of the liquidity premium has also been extended to apply to participating business, and the adjustment to annuity type contracts exposed to some lapse risk (15% reduction to the market level liquidity premium) has been removed. An adjustment factor is now applied to the market level of liquidity premium to reflect the degree to which the liabilities are illiquid. The adjustment applied to various product lines is as follows:

- 100% of full liquidity premium applied to Immediate Annuities, UK Bulk Purchase Annuities and Spanish cash flow matched business such as Financial Annuities
- 75% of full liquidity premium applied to Participating contracts (both UK and Continental European types) and Deferred Annuities; and
- 0% of full liquidity premium applied to all other products.

Restatement impacts

The impact of both the extension of scope and liquidity premium change on the key metrics is shown in the table below.

		Restated 2013
£m	Extension of scope	Liquidity Premium Change
Gross of tax and non-controlling interests		
Value of New Business	45.3	20.7
MCEV Operating Earnings	70.0	(127.3)
MCEV Total Earnings	110.2	(346.4)
Net of tax and non-controlling interests		
Operating Capital Generation	5.1	—
Opening MCEV	373.0	523.0
MCEV Operating Earnings	57.3	(32.4)
MCEV Total Earnings	88.3	(201.7)
Closing MCEV	445.9	319.6

F1 – Basis of preparation continued

(d) IFRS Restatement of prior period figures

Restatements of IFRS financial statements have been consistently reflected in the Group MCEV financial statements. These reflect:

- The Group has adopted amendments to IAS32 *Financial Instruments*: *Presentation* that became effective as of 1 January 2014. These amendments clarify the meaning of 'current legally enforceable right to set-off' to reinforce that a right to set-off must not be contingent on any future event, including counterparty default or bankruptcy. Additionally, amendments to IAS32 clarify that a settlement mechanism must be in place to ensure settlement in practice that is either simultaneous or sufficient to result in insignificant credit and liquidity risk. The amendments to IAS32 have been applied retrospectively in accordance with the transitional provisions of the standard. The primary impact of the application of the amendments has resulted in the grossing up of certain assets and liabilities related to derivatives and repurchase arrangements in the statement of financial position that were previously reported net. There is no impact on the profit or loss and equity for any period presented. The effect on amounts previously reported at 1 January 2013 and 31 December 2013 is set out in note 1 of the Group's Annual Report and Accounts 2014.

(e) Held for Sale operations

Aviva's methodology adopts the MCEV Principles published by the CFO Forum in October 2009 with the exception of stating held for sale operations at their expected fair value less cost to sell in the consolidated statement of financial position, where applicable.

It is considered that the CFO Forum MCEV Principles were designed to define the approach to valuing covered business on an ongoing basis and do not explicitly define the appropriate treatment of covered business operations that are held for sale. For these operations, where a sale price is known with relative certainty, the directors believe it is reasonable to value the shareholders' interest as the expected fair value less cost to sell thus reflecting the expected value upon completion of the transaction.

There are no held for sale operations included in life covered business at 31 December 2014. Certain life covered operations classified as held for sale in the comparative period, consistent with the IFRS classification, were sold or reclassified during 2014, as detailed below. In the comparative period, the life covered MCEV for the held for sale operations was adjusted within the value of in force business and this adjustment was reported in the analysis of earnings through the acquired/divested business line (*31 December 2013: £35 million*). Results for the comparative period have been adjusted to allow for the impact of the MCEV restatement on the held for sale values. The adjustment reflects the amount needed to align the contribution to shareholder equity with the expected fair value less cost to sell, and there was no impact on the life and related business MCEV operating profits and total earnings.

In line with the preparation of the consolidated statement of financial position – MCEV basis, the assets and liabilities of held for sale operations in the comparative period are stated at the IFRS values with any differences in measurement on an MCEV basis reflected in the additional value of in-force long term business.

Within other disclosures where applicable, held for sale operations in the comparative period are excluded, reflecting that these operations are stated at expected fair value less cost to sell. Further details are provided against each applicable disclosure.

US Operations

Following the classification of the United States business as held for sale on 21 December 2012, the US was re-measured to expected fair value less cost to sell, in line with treatment of other Held for Sale businesses, as described above. This resulted in an increase to the closing life MCEV at 31 December 2012 of £1,095 million to £1,058 million. This adjustment was reported in the analysis of earnings through the acquired/divested line, and hence there was no impact to the life and related business MCEV operating profits and total earnings. No adjustment has been made to the closing life MCEV at 31 December 2012 in relation to the MCEV restatement.

From 1 January 2013 the results for the held for sale operations in the US were not included within the covered business as MCEV was not used to manage this business. For Group MCEV reporting, which includes general insurance and other non-covered business, the US operations were included prior to sale on an IFRS basis within non-covered but related to life business. The transfer to non-covered but related to life business was reported as an 'opening adjustment' in both the Group MCEV and covered business analysis of earnings. There was no impact to the total earnings from the transfer as the US operations were reported on both an IFRS and MCEV basis at the sale price less cost to sell. The sale of the Aviva US business completed on 2 October 2013 and the transaction proceeds received were based on the estimated earnings and other improvements in statutory surplus over the period from 30 June 2012 to 30 September 2013. The final purchase price was subject to customary completion adjustments. A profit on disposal of £808 million was recorded in 2013, reflecting management's best estimate of the completion adjustments as of 31 December 2013.

In 2014, the Group paid a settlement of £20 million related to the purchase price adjustment. The settlement and the aggregate development of other provisions related to the discontinued operations in 2014 resulted in a net £58 million gain which has been presented as profit on disposal of discontinued operations.

Spanish long-term business – Caixa Galicia

On 19 September 2014 Aviva announced the sale of its 50% holding in CXG Aviva Corporacion Caixa Galicia de Seguros y Reaseguros S.A. ("CxG"), a Spanish life assurance company, to NCG Corporacion Industrial S.L. ("NCG Banco") following a decision by the Spanish Arbitration Tribunal which concluded legal proceedings between Aviva and NCG Banco.

On 11 December 2014 the Group transferred its entire holding in CxG for cash consideration of £221 million resulting in a net profit on disposal of £94 million.

F1 – Basis of preparation continued

Italian long-term business – Eurovita

During 2013 the Italian long-term business Eurovita Assicurazioni S.p.A ("Eurovita") was classified as held for sale, as a result of management determining that the value of this business will principally be recovered through sale. Following classification as held for sale, Eurovita, included with the "Europe" operating segment, was re-measured to fair value less cost to sell resulting in a decrease to the closing MCEV at 31 December 2013 of £17 million. This figure has increased since FY13 due to the MCEV restatement, which increased the MCEV of Eurovita but had no impact on the sale price. The disposal completed on 30 June 2014 with net proceeds of £32 million and loss on sale of £2 million.

Korean long-term business

During 2013, the Group's Korean joint venture business, Woori Aviva Life Insurance ("WALI"), was classified as held for sale following the decision of management to seek to dispose of the business. Following classification as held for sale, WALI, included within the "Asia" operating segment, was re-measured to fair value less cost to sell, resulting in an increase to the closing MCEV at 31 December 2013 of £48 million. The disposal completed on 27 June 2014 with net proceeds of £17 million and profit on sale of £6 million.

Indonesian long-term business

During 2013, the Group's 60% stake in the Indonesian business "Aviva Indonesia" was classified as held for sale following the intention to structure the business as a joint venture where Aviva's ownership is 50%. Following classification as held for sale, Aviva Indonesia was re-measured to fair value less cost to sell, resulting in an increase to the closing MCEV at 31 December 2013 of £4 million.

The restructure completed on 26 May 2014 with a loss of £6 million and this business is included in the consolidated statement of financial position at its closing MCEV.

Other held for sale operations

During 2014 it was determined that the value of the Group's Taiwan joint venture, First-Aviva Life Insurance Co., Ltd would no longer be recovered principally through a sale. As a result, the business was reclassified out of 'assets of operations held for sale'. Consequently, this business is included in the consolidated statement of financial position at its closing MCEV.

Operations sold in the comparative period

During 2013 several additional operations were held for sale and sold. Details are as follows:

- Aseval Aseguradora Valenciana, Sociedad Anonima de Seguros y Reaseguros ("Aseval") was sold to Bankia SA ("Bankia") on 24 April 2013
- Aviva Life Holdings Ireland Limited ("ALHI") sold Ark Life Assurance Company ("Ark Life") to Allied Irish Bank ("AIB") on 8 March 2013
- The Group's Malaysian joint ventures were sold to Sun Life Assurance Company of Canada on 12 April 2013
- Aviva Russia was sold to Blagosostoyanie on 8 April 2013
- The Group's Romanian pensions business was sold on 7 May 2013
- Aviva transferred 16% of its holdings in its Polish joint venture business to Bank Zachodni WBK S.A., its partner in these operations, on 20 December 2013.

(f) Restructuring

During 2014 there has been significant restructuring of the Irish, Turkish, Polish and Italian businesses. Details are as follows:

- The sale of Aviva Insurance Limited's ("AIL") investment in Aviva Life & Pensions Ireland Limited ("ALPI") to Aviva UK Life & Pensions Limited ("UKLAP") was completed on 31 December 2014 for a consideration of £490 million. The payment of consideration from UKLAP to AIL has resulted in a transfer of MCEV Free Surplus from UKLAP to AIL. This has led to a decrease in the MCEV of covered business of £490 million and an increase in the MCEV of non-covered business of the same amount. The methodology used to calculate the MCEV in ALPI is unchanged at 31 December 2014. This is because it is still regulated by the CBI and remains an entity in its own right. The total closing MCEV of the Group is unchanged.
- On 13 November 2014 Aviva and its joint venture partner Sabanci Holdings completed an initial public offering of a minority share of their Turkish life and pensions joint venture AvivaSa Emeklilik ve Hayat A.S ("Aviva SA"), reducing the Group's holdings in Aviva SA from 49.8% to 41.3%. Sabanci and the Group continue to share contractual joint control of Aviva SA. The transaction has led to a reduction in the MCEV of covered business of £25 million.
- Aviva International Insurance Limited ("AII") sold its Polish business, Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK SA ("Poland Pensions") to Aviva Towarzystwo Ubezpieczen na Zycie S.A. ("Poland Life"). The transaction has resulted in a reduction in the share of the Poland Pensions business owned by Aviva and has led to a reduction of £73 million in the MCEV of covered business.
- The Italian long-term business Aviva S.p.A., which is 50% owned by Aviva Italia Holdings ("AIH"), has transferred its share in the joint venture Aviva Vita S.p.A. ("Aviva Vita") to AIH. AIH has increased its interest in Aviva Vita from 25.5% to 80% and its interest in the joint venture Aviva Assicurazioni Vita S.p.A. from 50% to 80%. In total this has resulted in an increase of £157 million to the MCEV of covered business.

F1 – Basis of preparation continued

(g) New business premiums

New business premiums include:

- premiums arising from the sale of new contracts during the period;
- non-contractual additional 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.

(h) 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. The normalised investment return on equities and property has been calculated by reference to the ten-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 with the duration of the backing assets in the relevant currency plus an appropriate risk premium (expected return is equivalent to the gross redemption yield less an allowance for defaults).

The expected existing business contribution (in excess of reference rate) is calculated using the start of period implied discount rate (IDR), which itself is based on the normalised investment returns. The methodology applies the IDR to the Value of In Force (VIF) and Required Capital (RC) components of the MCEV and adds to this the total expected return for Free Surplus (FS) to derive the total expected return, in a manner consistent with that previously used under European Embedded Value reporting. This total is presented as the expected existing business contribution (reference rate), expected existing business contribution (in excess of reference rate) and expected return on shareholders' net worth (grossed up for tax for pre-tax presentation), with only the excess contribution being impacted by the approach. For businesses where the IDR is unpublished, the expected return in excess of the reference rate is calculated as the excess of the real world equivalent embedded value (EqEV) over the MCEV amortised over the average duration of the portfolio. The approach to expected return has no impact on total return or on the closing balance sheet.

(i) New business tax

Where the present value of future profits is negative, tax on new business is applied at the full corporation rate and consequential movements in the value of any associated deferred tax asset is included as a variance within existing business operating return. This treatment only applied to certain entities in Italy in the comparative period.

(j) 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.

F1 – Basis of preparation continued

(k) Consolidation adjustments

The effect of transactions between the Group's 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.

During 2014, UK Annuities (UKA) and UK General Insurance (UK GI) have entered into a quota share reinsurance arrangement with Aviva International Insurance Limited (AII). Both treaties have an effective date of 1 January 2014 covering 10% of the UKA business and 5% of the UK GI business. The impact of this arrangement has been reflected within the Group MCEV results.

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 (other operations 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 other operations 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 with any required adjustment reflected in the additional value of the in force long-term business in the consolidated statement of financial position.

(l) Exchange rates

The Group's principal life overseas operations during the period were located within the Eurozone, Poland and Singapore. 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 F2.

F2 – Principal assumptions

Economic Assumptions – deterministic

(a) Reference rates and expense inflation

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 beyond the last available market data point to an ultimate forward rate using the Nelson-Siegel functional form if necessary. For markets in which there is no reliable swap yield curve, the risk-free rate is based on relevant government bond yields with adjustments made to reflect the local market environment where necessary. For certain business, swap rates are adjusted for a 'liquidity premium' in deriving the risk free rates, and these adjustments 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	2014	2013	2012
Reference Rate			
1 year	**0.6%**	0.6%	0.6%
5 years	**1.5%**	2.2%	1.0%
10 years	**1.9%**	3.1%	1.9%
15 years	**2.1%**	3.5%	2.6%
20 years	**2.2%**	3.6%	2.9%
Expense inflation	**3.0%**	3.4%	2.8%

Eurozone	2014	2013	2012
Reference Rate			
1 year	**0.2%**	0.4%	0.3%
5 years	**0.4%**	1.3%	0.8%
10 years	**0.8%**	2.2%	1.6%
15 years	**1.2%**	2.7%	2.1%
20 years	**1.4%**	2.9%	2.3%
Expense inflation[1]	**0.9%**	2.5%	2.5%

1 Based on France, the largest Eurozone business. Inflation is modelled using a real yield curve; the figures disclosed above show the inflation rate at a duration of 10 years.

Poland	2014	2013	2012
Reference Rate			
1 year	**1.8%**	2.7%	3.4%
5 years	**1.9%**	3.7%	3.4%
10 years	**2.2%**	4.3%	3.5%
15 years	**2.4%**	4.4%	3.4%
20 years	**2.5%**	4.3%	3.2%
Expense inflation	**0.7%**	3.8%	2.1%

Singapore	2014	2013	2012
Reference Rate			
1 year	**0.7%**	0.3%	0.5%
5 years	**1.9%**	1.7%	0.9%
10 years	**2.5%**	2.9%	1.8%
15 years	**2.7%**	3.3%	2.4%
20 years	**2.9%**	3.5%	2.8%
Expense inflation	**3.0%**	3.0%	3.0%

For service companies, expense inflation relates to the underlying expenses rather than the fees charged to the life company.

F2 – Principal assumptions continued

(b) Liquidity premiums

The following liquidity premium adjustments are made to the swap rate for certain immediate annuity and participating type contracts. The risk-free rate is taken as the swap yield curve for the currency of the liability, adjusted by adding the following to each swap rate:

								New business		Embedded value
	4Q 2014	3Q 2014	2Q 2014	1Q 2014	Restated [1] 4Q 2013	Restated [1] 3Q 2013	Restated [1] 2Q 2013	Restated [1] 1Q 2013	2014	Restated [1] 2013
UK immediate annuities[2,3,4]	**1.31%**	**0.89%**	**0.98%**	**1.05%**	1.06%	1.17%	1.21%	1.24%	**1.09%**	1.10%
UK deferred annuities[2,3,5]	**n/a**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	**0.82%**	0.83%
Ireland immediate annuities	**0.19%**	**0.21%**	**0.24%**	**0.28%**	0.32%	0.38%	0.39%	0.44%	**0.19%**	0.28%
France immediate annuities	**0.19%**	**0.21%**	**0.24%**	**0.28%**	0.32%	0.38%	0.39%	0.44%	**0.19%**	0.28%
France participating business	**0.14%**	**0.16%**	**0.18%**	**0.21%**	0.24%	0.29%	0.30%	0.33%	**0.15%**	0.21%
Italy participating business	**0.14%**	**0.16%**	**0.18%**	**0.21%**	0.24%	0.29%	0.30%	0.33%	**0.15%**	0.21%
Spain annuities	**0.19%**	**0.21%**	**0.24%**	**0.28%**	0.32%	0.38%	0.39%	0.44%	**0.19%**	0.28%
Spain participating business	**0.14%**	**0.16%**	**0.18%**	**0.21%**	0.24%	0.29%	0.30%	0.33%	**0.15%**	0.21%

1 The comparative period has been restated as set out in note F1 – Basis of Preparation.
2 In the comparative period an additional provision of £250 million was set aside by the UK due to the uncertainty in their estimation of future liquidity premium on mark to model assets (commercial, healthcare and equity release mortgages). This additional provision has been released at 31 December 2014 due to respective changes in the liquidity premium assumed for those assets over the year in response to market movements and changes in the equity release mark to model asset valuation.
3 The approach to estimating the liquidity premium on new business in the UK has been revised during 2014, with an immaterial impact at both 31 December 2014 and the comparative period.
4 Historically immediate annuities have also been sold in the UK life and pensions business (UKLAP) as well as the UK annuity business. The liquidity premium for the UKLAP policies at 31 December 2014 is 61 bps (*31 December 2013: 52 bps).*The approach to estimating the liquidity premium on this business has been revised during 2014 to be consistent with the approach taken for these products in other businesses.
5 Historically deferred annuities and participating business eligible for a liquidity premium have also been sold in the UK life and pensions business (UKLAP) as well as the UK annuity business. The liquidity premium for these policies at 31 December 2014 is 46 bps (*31 December 2013: 39 bps).* The approach to estimating the liquidity premium on this business has been revised during 2014 to be consistent with the approach taken for these products in other businesses.

The approach to estimating the market level of liquidity premium is consistent with the formula structure proposed by CFO/CRO Forum and adopted in the Solvency II Fifth Quantitative Impact Study (QIS5). The formula for the liquidity premium is:
United Kingdom/Europe: 50% of (iBoxx Corporate bond spread – 40bp)

The liquidity premium is applied to all components of the MCEV with the exception of the adjustment for the "look-through" into service company expenses. There is no term structure for the liquidity premium.

(c) Risk premium

For life and pensions operating earnings, Aviva uses normalised investment returns. The normalised investment returns are expressed as a swap rate based on the typical duration of the assets held plus an asset risk premium. This risk premium is used for operating profit, Implied Discount Rates (IDR), Internal Rates of Return (IRR) and payback period. More detail is given in note F1 – 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	2014	2013	2012
Equity risk premium	**3.5%**	3.5%	3.5%
Property risk premium	**2.0%**	2.0%	2.0%

Future returns on fixed interest investments are calculated from prospective yields less an adjustment for credit risk; this includes an adjustment for credit risk on all Eurozone sovereign debt.

Economic Assumptions – stochastic

(a) Methodology used to derive assumptions

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 'Non-economic assumptions'.

Model – United Kingdom

Swap rates are generated by a model, the LIBOR Market Model Plus (LMM+), which projects a full swap curve at monthly intervals. Forward rates are assumed to have a distribution that lies between the log-normal and normal distributions. Although this does not guarantee non-negative interest rates, it maintains interest rates within a more plausible range than the standard Libor Market Model, and gives a better fit to certain swaption volatility surfaces. The introduction of a liquidity premium results in a parallel shift to the underlying yield curve. After making this adjustment, the model is calibrated to volatilities for swaptions for ten year swaps for a range of option terms and strike rates. Swaption volatilities are taken from SuperDerivatives. 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 a liquidity premium plus an excess return. A stochastic volatility jump defusion model is used, which allows for varying levels of volatility over time and across strike prices. Option volatilities are taken from Markit.

The model also generates property total returns and real yield curves, which is a significant asset class for the UK. In the absence of liquid market data, the property volatilities are based on historic data.

Assumptions for correlations between asset classes have been set based on historic data.

F2 – Principal assumptions continued

Model – Europe and Asia

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 introduction of a liquidity premium results in a parallel shift in the underlying yield curve. The model is calibrated to at-the-money options of a variety of terms and tenors. Swaption volatilities are taken from SuperDerivatives. 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 a liquidity premium, where applicable, plus an excess return. This excess return is generally modelled using a log-normal model where volatility varies by time horizon. This allows the model to capture the term structure of implied volatilities. For most business, the model is calibrated to at-the-money options for a variety of terms; the exception is the model in Poland which uses a fixed volatility based on historic data, given the lack of a deep and liquid market for options in Poland. Option volatilities are taken from Markit.

Assumptions for correlations between asset classes have been set based on historic data.

(b) Volatilities

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 swaption implied volatilities. For Polish and Singaporean options, swaption volatilities are based on implied volatilities from modelled returns.

	2014 Swap length				2013 Swap length			
Option length	**10 years**	**15 years**	**20 years**	**25 years**	10 years	15 years	20 years	25 years
UK Sterling								
10 years	**27.2%**	**26.0%**	**25.2%**	**24.6%**	16.3%	16.0%	15.5%	15.2%
15 years	**25.5%**	**24.5%**	**23.7%**	**22.9%**	15.4%	14.9%	14.2%	13.8%
20 years	**25.2%**	**23.9%**	**22.8%**	**21.7%**	15.1%	14.3%	13.5%	13.0%
25 years	**24.7%**	**23.4%**	**22.0%**	**20.6%**	14.9%	14.2%	13.2%	12.5%
Euro								
10 years	**38.4%**	**34.8%**	**32.6%**	**30.9%**	23.3%	22.3%	21.7%	21.1%
15 years	**37.4%**	**33.4%**	**30.7%**	**29.4%**	23.3%	21.5%	20.2%	19.3%
20 years	**36.2%**	**31.9%**	**28.9%**	**28.0%**	23.0%	20.3%	18.4%	17.5%
25 years	**33.8%**	**29.9%**	**27.2%**	**26.3%**	21.8%	18.7%	16.9%	15.9%
Poland Zloty								
10 years	**32.7%**	**30.7%**	**28.8%**	**26.9%**	19.2%	19.0%	18.6%	18.1%
15 years	**27.6%**	**25.7%**	**23.8%**	**22.1%**	16.6%	16.3%	15.8%	15.2%
20 years	**23.9%**	**22.0%**	**20.3%**	**18.7%**	15.1%	14.7%	14.2%	13.6%
25 years	**20.4%**	**18.7%**	**17.3%**	**16.0%**	13.8%	13.3%	12.8%	12.3%
Singapore dollar								
10 years	**18.7%**	**16.9%**	**15.5%**	**14.4%**	20.0%	19.9%	19.7%	19.4%
15 years	**16.1%**	**14.6%**	**13.4%**	**12.5%**	17.4%	17.3%	17.1%	16.8%
20 years	**14.0%**	**12.7%**	**11.6%**	**10.8%**	15.9%	15.7%	15.5%	15.2%
25 years	**12.3%**	**11.1%**	**10.2%**	**9.5%**	14.6%	14.5%	14.3%	14.0%

Equity implied volatilities

The implied volatility is that determined by the Black-Scholes formula to reproduce the market price of the option, except for Poland as noted above, where a fixed volatility based on historic data is used. The following table sets out the equity implied volatilities. Where market data is not available (particularly for 15 year options), equity volatilities are based on implied volatilities from modelled returns.

							2014
Option length	**UK**	**Ireland**	**France**	**Spain**	**Italy**	**Poland**	**Singapore**
5 years	**20.3%**	**20.7%**	**20.7%**	**21.8%**	**20.7%**	**30.0%**	**16.3%**
10 years	**22.3%**	**20.8%**	**20.8%**	**22.2%**	**20.8%**	**30.0%**	**17.0%**
15 years	**22.7%**[1]	**20.9%**[1]	**20.9%**[1]	**22.3%**[1]	**20.9%**[1]	**30.0%**	**17.8%**[1]

1 Based on implied volatilities from modelled returns

							2013
Option length	**UK**	**Ireland**	**France**	**Spain**	**Italy**	**Poland**	**Singapore**
5 years	18.9%	20.1%	20.1%	23.4%	20.1%	30.0%	16.9%
10 years	22.1%	20.6%	20.6%	24.1%	20.6%	30.0%	18.1%
15 years	23.1%[1]	21.2%[1]	21.2%[1]	23.8%[1]	21.2%[1]	30.0%	19.3%[1]

1 Based on implied volatilities from modelled returns

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.

Model property implied volatility at 31 December 2014 is 15% for the UK and 13% for other markets (*31 December 2013: 15% and 15% respectively*).

F2 – Principal assumptions continued

Non-economic assumptions

(a) 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, for example 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, that is, 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.

(b) 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, although in a number of start-up operations an allowance is made for the spreading of fixed costs over a larger volume of business. In the UK maintenance expense assumption changes in the current period are driven by expense savings as a result of continuing restructuring and process improvements, reducing the current and long-term cost base.

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.

Other assumptions

(a) Poland Pensions legislation change

During 2013 a review of the Pillar II Pensions system (OFE) was carried out and on 4 September 2013, the Polish government announced a preferred option to change the system, with the draft law being published on 10 October 2013. The changes were significant and in summary involved the transfer of over 50% of existing pensions assets to the state system along with an additional gradual transfer 10 years before retirement; in addition new premiums will be credited to the state system unless pension scheme members specifically state otherwise.

The document enacting the law was signed by the President on 27 December 2013 and became law on 1 February 2014. Given the scale of the changes, the impact on the value of the Poland pensions business at 31 December 2013 was significant, reducing the value in force by £236 million (net of tax and minority interests), based on an assumption of 70% of existing customers directing future premiums to the state system. Experience during 2014 has shown that the actual percentage of existing customers directing future premiums to the state system is 73%. Despite a lower percentage of existing customers staying with Aviva than expected, the average age and premium of those customers has been better than expected. Consequently the impact of this at 31 December 2014 has been to increase the value in force by £0.5 million (net of tax and minority interests).

(b) UK budget announcement on annuity reform

On 19 March 2014, the UK Chancellor of the Exchequer announced new legislation that removes the requirement for people who are retiring to take their defined contribution pension as an annuity. From April 2015 anyone who is aged 55 or over will be able to take their entire pension fund as cash, although only the first 25% will be tax-free. The remaining 75% of the fund will be taxed at the saver's marginal rate.

Following the announcement, Aviva has experienced decreased demand for annuities in the UK, although the average size of annuities has increased and annuities still play a central role in post-retirement financial planning as a tax efficient method of securing a guaranteed lifetime income. The reforms allow pension savers a greater level of flexibility that is likely to lead to changes in policyholder behaviour that may affect when customers take their retirement benefits and also lapse experience. As such there is continuing uncertainty within pension markets and an allowance of £50 million (net of tax and minority interest) has been made at FY14 to allow for this. The provision has been included as a lapse operating assumption change at FY14, thereby reducing the closing MCEV.

(c) UK pension scheme charge caps and commission

On 27 March 2014 the Pensions Minister announced that fees on default funds in auto-enrolment schemes would be capped at 0.75% p.a. from April 2015; and both active member discounts and commission payments will not be permitted from April 2016. On 17 October 2014 the Department for Work and Pensions issued a consultation paper containing draft legislation for these changes. This consultation closed on 14 November 2014. The Government intends to lay regulations in Parliament for its approval early in 2015.

Aviva's response has been to:

- Apply a cap on annual management charges on default funds of 0.75% p.a.
- Abolish active member discounts and set leaver charges to active member levels.
- Remove initial commission immediately and renewal commission by the regulatory requirement date in April 2016.

At 31 December 2014 the expected impact on MCEV was estimated as £165 million (net of tax and minority interest). Of this, £20 million relates to new business, and has been deducted from the value of new business. The remaining £145 million relates to existing business and has been included within other non-operating variances, thereby reducing the closing MCEV.

F2 – Principal assumptions continued

(d) Spain pensions legislation change

During 2014 the Spanish government has reduced the cap on annual management charges on pensions products from 2% p.a. to 1.5% p.a.

The impact of this at 31 December 2014 has been to reduce the value in force by £4 million (net of tax and minority interests).

(e) Cost of residual non-hedgeable risk (CNHR)

For the balance sheet and operating profit, a charge of 3.2% (*FY 2013: 3.9%*) 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. The charge is set so as to give an aggregate allowance that is in excess of the expected operational risk costs arising from the in-force covered business over its remaining lifetime. The decrease in the charge since FY 2013 results from a reassessment of the group diversification benefit.

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 non-hedgeable risks include insurance, expense, persistency and operational risks. The capital is equal to the capital from the ICA results for those risks considered including allowance for management actions consistent with the base MCEV. Diversification benefits are included between non-hedgeable risks of the covered business. No diversification benefit is assumed with hedgeable risks of the covered business or with non-covered business in general. 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.

(f) Calculation of technical provisions

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.

(g) Economic assumption changes in France

The French business is particularly sensitive to interest rates and swaption volatilities. This is primarily due to high guarantees on some of their participating business and a dynamic lapse methodology that assumes policies lapse if the expected crediting rates payable to policyholders become substantially lower than a rate assumed to be payable by the French market in general. Over 2014, the Eurozone has seen a significant fall in interest rates and increase in swaption volatilities. As part of their usual assumption review, Aviva France made a number of economic assumption changes to reflect the current low interest rate environment. In particular amendments were made to the future crediting rates assumed to be payable in the French market in general as well as the future crediting rates payable to Aviva France's policyholders. The effect of this change is reported within economic variances along with all other economic movements affecting the MCEV over the reporting period and increased the value of in force business by £293m (net of tax and minority interest) mainly due to the impact of lower expected future lapses.

(h) Valuation of equity release assets in the UK

At full year 2014 the model used to the value the equity release assets held in the UK annuity fund has been refined. This model derives a best estimate view on property growth and explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash flows. Additionally there has been a change to the methodology for deriving the liquidity premium which is used to discount the asset cash flows. These changes affect both assets and IFRS liabilities by a broadly similar amount. However, there has been a negative impact on MCEV due to aligning the MCEV valuation of assets to the IFRS valuation of assets. In addition, the reduction in yield included under IFRS, due to the additional return demanded by investors, is not reflected in the MCEV reference rate. Overall, there is a reduction in MCEV of £312 million (net of tax and minority interests) which is included within the reported 2014 economic variances.

(i) Required capital and tax

	Tax rates[1]			Required capital (% EU minimum or equivalent)	
	2014	2013	2012	**2014**	2013
United Kingdom[2]	**20.0%**	20.0%	23.0%	**100%/ 200%**	100%/ 200%
Ireland	**12.5%**	12.5%	12.5%	**180.0%**	180.0%
France	**34.4%**	34.4%	34.4%	**107.5%**	107.5%
Spain[3]	**25.0%**	30.0%	30.0%	**146.7%**	188.1%
Italy[4]	**34.3%**	34.3%	34.3%	**115.5%**	191.7%
Poland	**19.0%**	19.0%	19.0%	**125.5%**	125.5%
Singapore	**17.0%**	17.0%	17.0%	**146.7%**	146.7%

1 Current tax legislation and rates have been assumed to continue unaltered except where changes in future tax rates have been substantively enacted.
2 The required capital in the United Kingdom under MCEV is 100% for unit-linked and other non-participating business and annuity business with 200% for 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.
3 This is the aggregate required capital for in force business in Spain. A higher percentage in the comparative period reflects the economic environment at the time.
4 This is the aggregate required capital level for in force business in Italy. A higher percentage in the comparative period reflects the inclusion of Eurovita at that time.

The main rate of UK Corporation tax reduced to 21% from 1 April 2014, with a further reduction to 20% from 1 April 2015. This reduction to 20% is considered a known future change for MCEV purposes and has been reflected in the Group's MCEV net assets as at 31 December 2014.

F2 – Principal assumptions continued

In France, the long term tax rate of 34.43% was temporarily increased to 38% in 2013 and this increase was renewed during 2014. The French government have also announced that this temporary increase will remain in force during 2015. The impact of this has been to reduce the closing MCEV at 31 December 2014 by £13 million (net of tax and minority interests). There has been no change to the long-term tax rate assumption.

There has been a reduction to the corporation tax rate in Spain, from 30% in 2014 to 28% for 2015 and 25% for 2016 onwards. This reduction is considered a known future change for MCEV purposes and has been reflected in the closing MCEV at 31 December 2014 with a positive impact of £8 million (net of tax and minority interests).

Following the inclusion of the 3% dividend distribution tax in the France MCEV at 31 December 2013, Aviva has undertaken a review to ensure that dividend withholding taxes across the territories in which it does business are consistently treated in its results. As a result, the MCEV of Aviva's Turkish joint venture business has been adjusted to reflect the 15% withholding tax payable on distribution of profits to its Aviva Group UK shareholder. The adjustment has been made to the opening MCEV with an impact of £(19) million (net of tax and minority interest) presented within economic variances in notes F4 and F11. Furthermore all components of MCEV profit during 2014 have also been adjusted to reflect the additional withholding tax due, which has had an impact of £(5) million (net of tax and minority interest) during 2014.

Similarly the MCEV of Aviva's Chinese joint venture business has been adjusted to reflect the 5% withholding tax payable on the excess of profits distributable to its Aviva Group UK shareholder, over capital injections received. The adjustment has been made to the opening MCEV with an impact of £(6) million (net of tax and minority interest) presented within economic variances in notes F4 and F11. Furthermore all components of MCEV profit during 2014 have also been adjusted to reflect the additional withholding tax due, which has had an impact of £(2) million (net of tax and minority interest) during 2014.

(j) Valuation of debt

Borrowings in the MCEV consolidated statement of financial position are valued on an IFRS basis, consistent with the IFRS primary financial statements in the Group's Annual Report and Accounts 2014. At 31 December 2014 the market value of the Group's external debt, subordinated debt, preference shares including General Accident plc preference shares of £250 million (classified as non-controlling interests) and direct capital instrument was £7,511 million (*31 December 2013: £7,573 million*).

	2014 £m	2013 £m
Borrowings per summarised consolidated statement of financial position - MCEV basis	**7,378**	7,819
Add: Amount included in held for sale	**—**	29
Less: Securitised mortgage funding	**(1,372)**	(1,313)
Borrowings excluding non-recourse funding – MCEV basis	**6,006**	6,535
Less: Operational financing by businesses	**(696)**	(1,410)
External debt and subordinated debt – MCEV basis	**5,310**	5,125
Add: Preference shares (including General Accident plc), direct capital instrument and fixed rate tier 1 notes	**1,342**	1,832
External debt, subordinated debt, preference shares, direct capital instrument and fixed tier 1 notes – MCEV basis	**6,652**	6,957
Effect of marking these instruments to market	**859**	616
Market value of external debt, subordinated debt, preference shares, direct capital instrument and fixed rate tier 1 notes	**7,511**	7,573

(k) Asset classes

The significant asset classes for UK participating business are equities, property and long-term fixed rate bonds. The most significant assumptions are the distribution of future long-term interest rates (nominal and real) and swaption implied volatilities.

For many businesses, including France, the most important assets are fixed rate bonds of various durations. For Poland the most significant asset class is equity.

(l) Exchange rates

The Group's principal overseas operations during the period were located within the Eurozone, Poland and Singapore. The results and cash flows of these operations have been translated into sterling at the average rates for the period and the assets and liabilities have been translated at the period end rates as follows:

	2014	2013
Eurozone		
Average rate (€1 equals)	**£0.81**	£0.85
Period end rate (€1 equals)	**£0.78**	£0.83
Poland		
Average rate (PLN1 equals)	**£0.19**	£0.20
Period end rate (PLN1 equals)	**£0.18**	£0.20
United States		
Average rate ($US1 equals)	**£0.61**	£0.64
Period end rate ($US1 equals)	**£0.64**	£0.60
Singapore		
Average rate ($SGD1 equals)	**£0.48**	£0.51
Period end rate ($SGD 1 equals)	**£0.48**	£0.48

F3 – Development of MCEV

The table below presents the key life and pensions MCEV results for 31 December 2014.

	Full year 2014 £m	Restated[1] Audited Full year 2013 £m
Present value of new business premiums (gross of tax & non-controlling interests)	**24,728**	23,177
New business margins (gross of tax & non-controlling interests)	**4.1%**	3.9%
Value of new business[2]	**1,009**	904
Expected returns	**1,246**	1,291
Experience variances	**38**	75
Operating assumption changes	**448**	(142)
Other operating variances	**6**	131
Operating earnings (gross of tax & non-controlling interests)	**2,747**	2,259
Economic variances	**(152)**	1,627
Other non-operating variances	**(258)**	(308)
Non-operating earnings (gross of tax & non-controlling interests)	**(410)**	1,319

1 The comparative period has been restated as set out in note F1-Basis of preparation
2 The value of new business includes Eurovita, Aseval, CxG and Malaysia until their disposal.

Please note that all comparative figures quoted in this note relate to restated results for continuing operations only.

Profitability (gross of tax and non-controlling interests)
Operating earnings for FY14 are £2,747 million *(FY13: £2,259 million)*. These are offset by £(410) million *(FY13: £1,319 million)* non-operating earnings to give total MCEV earnings of £2,337 million *(FY13: £3,578 million).*

New Business
VNB has increased by 12% to £1,009 million (*FY13: £904 million)*, primarily driven by increases in Europe and Asia. The UK returned to growth in the second half of the year, reflecting strong trading and improved margins on equity release products as well as increased sales of bulk purchase annuities and protection products. This increase was partially offset by the significant decline in individual annuities volumes following the announcements made in the 2014 UK budget and a general market decline as increasingly customers are choosing to defer taking their pension, as well as lower pensions VNB mainly following the Department for Work and Pensions announcement to cap pension charges. This means that overall VNB in the UK was in line with the 2013 total. Ireland's VNB improved reflecting a strategic shift in business mix towards higher value products, in particular protection business.

The increase in France reflects higher volumes and a continued shift in product mix towards more profitable unit-linked investments, and in Poland, is primarily due to increased sales of higher margin protection business and the one-off benefit from higher pension contributions in Lithuania, due to regulatory changes. In Italy (excluding Eurovita), VNB increased due to higher volumes, and both Italy and Spain have benefited from improved margins on participating products following management actions including the introduction of lower guarantee products. The decline in Turkey was mainly driven by a reduction in our share of the business following the partial IPO.

In Asia increases are mainly due to continued focus on sales of higher margin products, particularly protection products in China, as well as the inclusion of the Singapore retail health business as covered business with effect from July 2013.

New business volumes increased by 7% to £24,728 million *(FY13: £23,177 million)* on a PVNBP basis, principally driven by higher volumes across most European businesses and products (other than individual annuities in the UK) due to the improved economic environment. Margins have increased to 4.1% *(FY13: 3.9%)* with increases across most businesses.

Expected Return
The total expected return was £1,246 million *(FY13: £1,291 million).* Expected return from existing business was £1,039 million *(FY13: £1,067 million)* and expected return on shareholder net worth was £207 million *(FY13: £224 million)*. The reduction from FY13 is principally driven by a reduction in expected return in Italy and Spain, partially offset by an increase in France and UK. In Italy and Spain, expected return includes an anticipated release of allowances for guarantees in the opening MCEV. This allowance was significantly lower at the start of 2014 than at the start of 2013, reflecting the narrowing of credit spreads over 2013, and therefore reduces expected return. There is an increase in the expected return in the UK as the opening MCEV at the start of 2014 is higher than the start of 2013 due to higher volumes of business in force. In France the increased expected return in 2014 is driven by a higher opening MCEV value at the start of 2014.

F3 – Development of MCEV continued

Experience Variances, Operating Assumption Changes and Other Operating Variances

Experience variances and operating assumption changes total £486 million *(FY13: £(67) million*). There are small overall positive experience variances of £38 million *(FY13: £75 million)*, mainly driven by positive lapse experience in France and Poland offset by negative experience in the UK. In the UK, negative experience arises from lapses and project costs. However, they are significantly offset by a reduction in frictional costs. Capital transactions have accelerated the release of required capital and therefore the frictional cost of holding that capital has reduced (see note F11 for further details). In addition there have been reserve releases resulting from data valuation improvements.

Operating assumption changes of £448 million are mainly driven by the UK as a result of changes to annuitant mortality assumptions with an impact of £153 million and expense assumptions reflecting a reduction to the current and long-term cost base due to continuing restructuring and process improvements with an impact of £143 million.

Other operating variances of £6 million *(FY13: £131 million)* include the change in terms and conditions on some of Asia's healthcare business in Singapore so that it is now included in covered business, as well as the impact of a review of CNHR in Singapore. Other operating variances is also impacted by prior period adjustments in Aviva Investors and the UK, reflecting modelling refinements for UK retail fund management business and healthcare business respectively. In the UK, this also includes the impact on frictional cost of capital restrictions as a result of two reinsurance transactions undertaken in 2014. Whilst the reinsurance is intra-group in nature, it causes the Group to hold more capital under the current regulatory regime than would otherwise be the case. This increases required capital (and reduces free surplus) at a Group level and therefore increases frictional costs (see note F12 for further details).

Non-operating earnings

Non-operating earnings in the period were £(410) million *(FY13: £1,319 million).*

Economic variances of £(152) million *(FY13: £1,627 million)*, are primarily due to positive impacts in the UK, Spain and Poland which are offset by negative impacts in France and Asia. In Europe, there has been a significant fall in risk-free rates and significant increase in swaption volatilities due to higher uncertainty over future returns. In France this has a negative impact with an increase in the cost of guarantees, albeit mitigated to some extent by the change in assumption to future crediting rates payable to policyholders in the French market in general and by Aviva France (see note F2(g) for further details). In Italy and Spain, the increase in cost of guarantees is offset by the positive impact of narrowing government and corporate bond spreads on investment gains. Falling risk-free rates have a positive impact in Poland, as this increases the discounted value of fixed investment fees on the unit-linked business. In Asia, falling risk-free rates are increasing the cost of guarantees in China and Korea (prior to sale). In the UK positive variances are due to the benefit of falling risk-free rates and changes in corporate bond and mortgage spreads net of the change in liquidity premium, partially offset by a change to the model used to value certain equity release assets and the consequential impact on the liabilities that they back. In Spain and Poland investment variances have been positive as falling risk-free rates have increased the discounted value of future profits.

Other non-operating variances were £(258) million *(FY13: £(308) million*), primarily driven by the UK where pension legislation changes have resulted in lower future management charges levied on auto-enrolment pension funds.

Total Life MCEV (net of tax and minority interest)

The life covered MCEV is £15,274 million, a decrease of £482 million in the period from the restated opening MCEV of £15,756 million. This movement comprises operating earnings of £1,950 million in the year, economic variances of £(125) million and exceptional items (including integration and restructuring costs) of £(206) million, resulting in total MCEV earnings of £1,619 million. Dividends and other capital flows from the covered business reduce MCEV by £1,116 million. A reduction in acquired/divested business of £517 million is primarily due to the cost to Aviva Life & Pensions UK Limited (UKLAP) for the purchase of Aviva Life and Pension Ireland Limited (ALPI) from Aviva Insurance Limited (AIL). Life covered MCEV is also impacted by the sale of Eurovita, and the increase in minority interest holding in Italy, the sale of Caixa Galicia in Spain, a reduction in Aviva's share of the Poland Pensions business, and the sale of Woori Aviva Life in South Korea. Exchange rate impacts also reduce closing MCEV by £468 million.

F4 – Geographical analysis of life MCEV earnings

The table below presents the components of the life and pensions MCEV earnings. The components of operating profit are calculated using economic assumptions as at the start of the year (in-force business) or start of the quarter or more frequently (new business) and operating (demographic and expenses) assumptions as at the end of the period.

Gross of tax and non-controlling interests Full year 2014	UK & Ireland £m	Europe £m	Asia £m	Other £m	Total £m
Value of new business	482	391	127	9	1,009
Earnings from existing business					
– expected existing business contribution (reference rate)	142	131	21	3	297
– expected existing business contribution (in excess of reference rate)	343	377	18	4	742
	485	508	39	7	1,039
Experience Variances					
– maintenance expense	12	(8)	(3)	(4)	(3)
– project and other related expenses	(101)	(1)	(2)	—	(104)
– mortality/morbidity	(15)	—	2	—	(13)
– lapses	(31)	38	(1)	1	7
– other	114	28	6	3	151
	(21)	57	2	—	38
Operating assumption changes:					
– maintenance expense	138	58	(9)	—	187
– project and other related expenses	(41)	—	—	—	(41)
– mortality/morbidity	196	3	14	—	213
– lapses	(32)	19	(6)	14	(5)
– other	89	2	3	—	94
	350	82	2	14	448
Expected return on shareholders' net worth	74	121	12	—	207
Other operating variances	(93)	(17)	59	57	6
Operating earnings before tax and non-controlling interests	1,277	1,142	241	87	2,747
Economic variances					(152)
Other non-operating variances					(258)
Earnings before tax and non-controlling interests					2,337
Tax on operating earnings					(667)
Tax on other activities					144
Earnings after tax and before non-controlling interests					1,814

Please refer to F3 for analysis of the components of MCEV earnings.

F4 – Geographical analysis of life MCEV earnings continued

Gross of tax and non-controlling interests Restated [1] Full Year 2013	UK & Ireland £m	Europe £m	Asia £m	Other £m	Total £m
Value of new business	477	323	104	—	904
Earnings from existing business:					
– expected existing business contribution (reference rate)	190	128	19	—	337
– expected existing business contribution (in excess of reference rate)	246	462	22	—	730
	436	590	41	—	1,067
Experience Variances					
– maintenance expense	17	(16)	—	1	2
– project and other related expenses[2]	(84)	(7)	4	—	(87)
– mortality/morbidity	35	6	9	1	51
– lapses[3]	27	43	(5)	—	65
– other	32	5	7	—	44
	27	31	15	2	75
Operating assumption changes:					
– maintenance expense[4]	120	(127)	27	(4)	16
– project and other related expenses	16	—	—	—	16
– mortality/morbidity[5]	35	20	12	(1)	66
– lapses[6]	(125)	(75)	(2)	—	(202)
– other[7]	(73)	36	(1)	—	(38)
	(27)	(146)	36	(5)	(142)
Expected return on shareholders' net worth	87	122	14	1	224
Other operating variances[8]	(79)	168	42	—	131
Operating earnings before tax and non-controlling interests	921	1,088	252	(2)	2,259
Economic variances[9]					1,627
Other non-operating variances[10]					(308)
Earnings before tax and non-controlling interests					3,578
Tax on operating earnings					(599)
Tax on other activities					(446)
Earnings after tax and before non-controlling interests					2,533

1 The comparative period has been restated as set out in note F1 – Basis of preparation.
2 Within the UK, project and other related expenses reflect higher than expected expenditure on development of systems and processes.
3 Persistency experience saw an improvement at FY13 in most of our businesses reflecting a more stable economic outlook.
4 UK maintenance expense assumption change is primarily driven by the capitalisation of the benefit of recent expense reductions. In Europe the negative impact of expense assumption change relates primarily to France, following a review of expense allocation.
5 Positive mortality/morbidity operating assumption changes primarily reflect a change to annuitant assumptions in the UK.
6 Despite the positive experience variances due to short term provision releases in the UK, there is a negative impact from lapse assumption changes, primarily due to the strengthening of the assumptions on early retirement. The negative impact in Europe is a result of strengthening of long-term persistency assumptions primarily in Poland.
7 Other UK assumption changes reflect the change in the assumed level of non-hedgeable risks. In Europe other assumption changes relate to a reduction in the guaranteed annuity take up rate in Italy.
8 Other operating variances include management actions taken to reduce guarantees on existing business in Italy and France. In the UK and Ireland this is due to the management actions enhancing benefits to with-profit policyholders.
9 Favourable economic variances are mainly driven by narrowing credit spreads in UK and across European markets.
10 Other non-operating variances include the pension legislation change in Poland, dividend tax in France, offset by change of corporate tax in UK.

F4 – Geographical analysis of life MCEV earnings continued

Net of tax and non-controlling interests Full year 2014	UK & Ireland £m	Europe £m	Asia £m	Other £m	Total £m
Value of new business	386	217	101	8	712
Earnings from existing business					
– expected existing business contribution (reference rate)	114	81	16	2	213
– expected existing business contribution (in excess of reference rate)	275	218	14	3	510
	389	299	30	5	723
Experience variances					
– maintenance expense	9	(3)	(2)	(3)	1
– project and other related expenses[1]	(81)	(1)	(1)	—	(83)
– mortality/morbidity	(12)	1	1	—	(10)
– lapses	(24)	26	(1)	1	2
– other[2]	91	18	5	2	116
	(17)	41	2	—	26
Operating assumption changes:					
– maintenance expense[3]	110	38	(6)	—	142
– project and other related expenses	(33)	—	—	—	(33)
– mortality/morbidity[4]	158	4	12	—	174
– lapses	(26)	17	(5)	11	(3)
– other[5]	71	—	2	—	73
	280	59	3	11	353
Expected return on shareholders' net worth	60	62	9	—	131
Other operating variances[6]	(76)	(15)	50	46	5
Operating earnings after tax and non-controlling interests	**1,022**	**663**	**195**	**70**	**1,950**
Economic variances[7]					(125)
Other non-operating variances[8]					(206)
Earnings after tax and non-controlling interests					**1,619**

1 Within the UK, project and other related expenses reflect higher than expected expenditure on development of systems and processes.
2 Other experience variances in the UK are most notably due to the impact of changes to the pattern of required capital releases as a result of capital management transactions and a reduction in reserves arising from improvements to valuation data.
3 Maintenance expense operating assumption changes in the UK are driven by continuing restructuring and process improvements reducing the current and long-term cost base. In Europe the positive impact of expense assumption changes relate to all territories.
4 In the UK, mortality/morbidity assumption changes primarily relate to annuitant mortality assumption changes.
5 Other assumption changes in the UK include the impact of including age related premium increases on healthcare business and the impact of increased annual management charges following enhancements to unitised with profit asset shares in NWPSF.
6 Other operating variances include management actions taken to change terms and conditions on some of Asia's healthcare business in Singapore, as well as the impact of refinements to the CHNR calculation in Singapore. There is an impact from prior period adjustments in Aviva Investors (reported in the 'Other' operating segment). In the UK, this partly reflects the impact on frictional costs of capital restrictions as a result of two reinsurance transactions undertaken in 2014.
7 Economic variances are materially driven by negative variances in France and Asia partly offset by positive variances in the UK, Spain and Poland. In particular in France there is a significant adverse impact, partly mitigated by a number of economic assumption changes (see note F2 (g) for further details).
8 Other non-operating variances are primarily driven by the impact of pension legislation changes in the UK, resulting in lower future management charges levied on auto-enrolment pension funds, and the extension of the temporary corporate tax rate to 2015 in France.

F4 – Geographical analysis of life MCEV earnings continued

Net of tax and non-controlling interests Restated [1] Full Year 2013	UK & Ireland £m	Europe £m	Asia £m	Other £m	Total £m
Value of new business	368	183	85	—	636
Earnings from existing business					
– expected existing business contribution (reference rate)	148	85	15	—	248
– expected existing business contribution (in excess of reference rate)	189	235	17	—	441
	337	320	32	—	689
Experience variances					
– maintenance expense	13	(6)	—	1	8
– project and other related expenses[2]	(65)	(4)	3	—	(66)
– mortality/morbidity	27	4	7	—	38
– lapses[3]	21	25	(4)	—	42
– other	25	6	6	—	37
	21	25	12	1	59
Operating assumption changes:					
– maintenance expenses[4]	93	(74)	24	(2)	41
– project and other related expenses	12	—	—	—	12
– mortality/morbidity[5]	27	14	9	(1)	49
– lapses[6]	(96)	(44)	(2)	—	(142)
– other[7]	(55)	17	(1)	—	(39)
	(19)	(87)	30	(3)	(79)
Expected return on shareholders' net worth	67	58	11	1	137
Other operating variances[8]	(64)	111	36	—	83
Operating earnings after tax and non-controlling interests	710	610	206	(1)	1,525
Economic variances[9]					718
Other non-operating variances[10]					(185)
Earnings after tax and non-controlling interests					2,058

1 The comparative period has been restated as set out in note F1 – Basis of preparation.
2 Within the UK, project and other related expenses reflect higher than expected expenditure on development of systems and processes.
3 Persistency experience saw an improvement at FY13 in most of our businesses reflecting a more stable economic outlook.
4 UK maintenance expense assumption change is primarily driven by the capitalisation of the benefit of recent expense reductions. In Europe the negative impact of expense assumption change relates primarily to France, following a review of expense allocation.
5 Positive mortality/morbidity operating assumption changes primarily reflect a change to annuitant assumptions in the UK.
6 Despite the positive experience variances due to short term provisions releases in the UK, there is a negative impact from lapse assumption changes, primarily due to the strengthening of the assumptions on early retirement. The negative impact in Europe is a result of strengthening of long-term persistency assumptions primarily in Poland.
7 Other UK assumption changes reflect the change in the assumed level of non-hedgeable risks. In Europe other assumption changes relate to a reduction in the guaranteed annuity take up rate in Italy.
8 Other operating variances include management actions taken to reduce guarantees on existing business in Italy and France. In the UK and Ireland this is due to the management actions enhancing benefits to with-profit policyholders.
9 Favourable economic variances are mainly driven by narrowing credit spreads in UK and across European markets.
10 Other non-operating variances include the pension legislation change in Poland, dividend tax in France, offset by change of corporate tax in UK.

F5 – Earnings per share

(a) Basic earnings per share

(i) The profit/(loss) attributable to ordinary shareholders is:

	2014			Restated[1] 2013		
Continuing operations	Operating profit £m	Non-operating items £m	Total £m	Operating profit £m	Non-operating items £m	Total £m
Profit/(loss) before tax attributable to shareholders' profits	**2,885**	**(403)**	**2,482**	2,337	698	3,035
Tax attributable to shareholders' profit/(loss)	**(811)**	**137**	**(674)**	(778)	(297)	(1,075)
Profit/(loss) for the year	**2,074**	**(266)**	**1,808**	1,559	401	1,960
Amount attributable to non-controlling interests	**(158)**	**(50)**	**(208)**	(160)	(328)	(488)
Cumulative preference dividends for the year	**(17)**	**—**	**(17)**	(17)	—	(17)
Coupon payments in respect of direct capital instruments (DCI) and fixed rate tier 1 notes (net of tax)	**(69)**	**—**	**(69)**	(70)	—	(70)
Profit/(loss) attributable to ordinary shareholders from continuing operations	**1,830**	**(316)**	**1,514**	1,312	73	1,385
Profit/(loss) attributable to ordinary shareholders from discontinued operations	**—**	**58**	**58**	207	1,066	1,273
Profit/(loss) attributable to ordinary shareholders	**1,830**	**(258)**	**1,572**	1,519	1,139	2,658

1 The comparative periods have been restated as set out in note F1 – Basis of preparation.

(ii) Basic earnings per share is calculated as follows:

	2014			Restated[1] 2013		
Continuing operations	Before tax £m	Net of tax, non-controlling interests, preference dividends and DCI[2] £m	Per share p	Before tax £m	Net of tax, non-controlling interests, preference dividends and DCI[2] £m	Per share p
Operating profit attributable to ordinary shareholders	**2,885**	**1,830**	**62.2**	2,337	1,312	44.6
Non-operating items:						
Investment return variances and economic assumption changes on long-term business	**(152)**	**(125)**	**(4.3)**	1,627	719	24.5
Short-term fluctuation in return on investments backing non-long-term business	**261**	**197**	**6.7**	(336)	(255)	(8.7)
Economic assumption changes on general insurance and health business	**(145)**	**(114)**	**(3.9)**	33	27	0.9
Impairment of goodwill, joint ventures and associates	**(24)**	**(24)**	**(0.8)**	(86)	(86)	(2.9)
Amortisation and impairment of intangibles	**(106)**	**(73)**	**(2.5)**	(99)	(59)	(2.0)
Profit/(loss) on disposal and remeasurement of subsidiaries, joint ventures and associates	**120**	**120**	**4.1**	155	157	5.3
Integration and restructuring costs and exceptional items	**(357)**	**(297)**	**(10.1)**	(596)	(430)	(14.6)
Profit/(loss) attributable to ordinary shareholders from continuing operations	**2,482**	**1,514**	**51.4**	3,035	1,385	47.1
Profit/(loss) attributable to ordinary shareholders from discontinued operations	**58**	**58**	**2.0**	1,538	1,273	43.3
Profit/(loss) attributable to ordinary shareholders	**2,540**	**1,572**	**53.4**	4,573	2,658	90.4

1 The comparative periods have been restated as set out in note F1 – Basis of preparation.

2 DCI includes direct capital instruments and fixed rate tier 1 notes.

(iii) The calculation of basic earnings per share uses a weighted average of 2,943 million *(FY13: 2,940 million)* ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 31 December 2014 was 2,950 million *(FY13: 2,947 million)* and 2,948 million *(FY13: 2,938 million)* excluding shares owned by the employee share trusts.

F5 – Earnings per share – continued

(b) Diluted earnings per share is calculated as follows:

(i) Diluted earnings per share is calculated as follows:

	2014			Restated[1] 2013 £m		
	Total £m	Weighted average number of shares million	Per share p	Total £m	Weighted average number of shares million	Per share p
Profit/(loss) attributable to ordinary shareholders	**1,514**	**2,943**	**51.4**	1,385	2,940	47.1
Dilutive effect of share awards and options	**—**	**44**	**(0.7)**	—	39	(0.5)
Diluted earnings/(loss) per share from continuing operations	**1,514**	**2,987**	**50.7**	1,385	2,979	46.6
Profit/(loss) attributable to ordinary shareholders	**58**	**2,943**	**2.0**	1,273	2,940	43.3
Dilutive effect of share awards and options	**—**	**44**	**(0.1)**	—	39	(0.6)
Diluted earnings/(loss) per share from discontinued operations	**58**	**2,987**	**1.9**	1,273	2,979	42.7
Diluted earnings/(loss) per share	**1,572**	**2,987**	**52.6**	2,658	2,979	89.3

1 The comparative periods have been restated as set out in note F1 – Basis of preparation.

(ii) Diluted earnings per share on operating profit attributable to ordinary shareholders is calculated as follows:

	2014			Restated[1] 2013 £m		
	Total £m	Weighted average number of shares million	Per share p	Total £m	Weighted average number of shares million	Per share p
Operating profit attributable to ordinary shareholders	**1,830**	**2,943**	**62.2**	1,312	2,940	44.6
Dilutive effect of share awards and options	**—**	**44**	**(0.9)**	—	39	(0.6)
Diluted operating profit per share from continuing operations	**1,830**	**2,987**	**61.3**	1,312	2,979	44.0
Operating profit attributable to ordinary shareholders	**—**	**2,943**	**—**	207	2,940	7.0
Dilutive effect of share awards and options	**—**	**44**	**—**	—	39	(0.1)
Diluted operating profit per share from discontinued operations	**—**	**2,987**	**—**	207	2,979	6.9
Diluted operating profit per share	**1,830**	**2,987**	**61.3**	1,519	2,979	50.9

1 The comparative periods have been restated as set out in note F1 – Basis of preparation.

F6 – Geographical analysis of general insurance and health operating earnings

The consolidated income statement on an MCEV basis includes operating earnings from the Group's general insurance and health insurance business (managed on a short-term basis) as analysed below. These results are included on an IFRS basis.

	2014 £m	Restated[1] 2013 £m
General insurance		
United Kingdom & Ireland	**478**	455
Canada	**189**	246
Europe	**104**	98
Asia & Other	**10**	(52)
Operating profit – general insurance	**781**	747
Health insurance		
United Kingdom & Ireland	**10**	16
Europe	**9**	14
Asia & Other	**1**	—
Operating profit – health insurance	**20**	30
Total operating profit	**801**	777

1 The comparative periods have been restated as set out in note F1 – Basis of preparation.

F7 – Geographical analysis of fund management operating earnings

The consolidated income statement on an MCEV basis includes earnings from the Group's fund management operations as analysed below. These results are included within MCEV operating profit on an IFRS basis. 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.

	2014 £m	Restated[1] 2013 £m
Aviva Investors	**22**	27
Asia	**1**	2
Total – continuing operations	**23**	29
Total – discontinued operations[2]	**—**	31
Total operating profit	**23**	60

1 The comparative period has been restated as set out in note F1 – Basis of preparation.
2 Discontinued operations in 2013 represent the result for US operations on an IFRS basis.

F8 – Other operations

Where subsidiaries provide services to our life business, the MCEV value associated with that activity is included within the Life MCEV operating earnings. Other activities undertaken by such subsidiaries are included in the MCEV Consolidated income statement on an IFRS basis as analysed below.

	2014 £m	Restated[1] 2013 £m
United Kingdom & Ireland	**4**	(16)
Europe	**(16)**	(7)
Asia	**(8)**	(12)
Other Group operations[2]	**(71)**	(41)
Total – continuing operations	**(91)**	(76)
Total – discontinued operations[3]	**—**	(4)
Total operating profit	**(91)**	(80)

1 The comparative period has been restated as set out in note F1 – Basis of preparation.
2 Other operations include Group and head office costs.
3 Discontinued operations in 2013 represent the result for US operations on an IFRS basis.

In 2013 we found evidence of improper allocation of trades in fixed income securities in Aviva Investors. In the 2013 result, there is a total adverse impact on operating profit from this activity of £132 million reflecting compensation expected to be claimed in respect of these breaches and other associated costs. These amounts are shown in operating profit in 'Other Group operations'.

This was more than offset by the gain of £145 million relating to the Ireland pension scheme curtailment gain.

In February 2015, Aviva Investors reached a settlement with the FCA for certain systems and controls failings that happened between August 2005 to June 2013 and agreed to pay a fine of £17.6 million. Provision for this expected cost was made at the year end and is fully reflected within the 'Other operations' FY14 result.

Excluding these one-offs, 'Other Group operations' costs in relation to non insurance activities of £53 million (FY13: costs of £54 million) were broadly stable.

F9 – Integration and Restructuring Costs

Integration and restructuring costs from continuing operations were £159 million *(FY13: £354 million)* and mainly include expenses associated with the Group's Solvency II programme. Compared to the prior period, integration and restructuring costs have reduced by £195 million principally driven by a significant reduction in transformation spend.

F10 – Exceptional items

Exceptional items are those items that, in the Directors' view, are required to be separately disclosed by virtue of their nature or incidence to enable a full understanding of the Group's financial performance. Exceptional items in continuing operations are a net charge of £198 million (*FY13: net charge of £242 million*). This is driven by pension legislation changes in the UK reducing future management charges levied on auto-enrolment default funds with an impact of £181 million, an extension of the temporary increase in corporate tax rate in France with an impact of £22 million, an £11 million impact on Poland pensions as a result of regulatory changes, and a reduction in the maximum annual management charge on pension products in Spain with an impact of £9 million. This is partially offset by a benefit from a reduction in the corporate tax rate in Spain with an impact of £23 million and a £2 million impact in Lithuania as a result of moving to a Eurozone yield curve.

F11 – 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. During the first half of 2014, UK Life implemented two capital management actions that enable certain shareholder assets to be reflected on the regulatory balance sheet and the economic risk to be hedged more efficiently. The first involved the transfer of certain assets and associated liabilities from the RIEESA to the New With Profits Sub Fund (NWPSF). This action reduced the present value of in-force covered business by £757 million and increased required capital by the same amount. The second capital management action results in future shareholder transfers (that arise as bonuses are paid to policyholders) emerging in the NWPSF rather than the Non Profit Sub Fund (NPSF) and this reduces the present value of in-force covered business by £298 million and increases required capital by £94 million and increases free surplus by £199 million. These effects are presented within 'Other operating variances' in the table below.

Net of tax and non-controlling interests Full year 2014	**Free surplus £m**	**Required capital[1] £m**	**VIF £m**	**Total MCEV £m**
Opening MCEV	**2,310**	**6,551**	**6,129**	**14,990**
Opening Adjustments[2]	**125**	**107**	**534**	**766**
Adjusted Opening MCEV	**2,435**	**6,658**	**6,663**	**15,756**
New business value	**(350)**	**297**	**765**	**712**
Expected existing business contribution (reference rate)	**—**	**—**	**213**	**213**
Expected existing business contribution (in excess of reference rate)	**—**	**—**	**510**	**510**
Expected return on shareholders' net worth	**46**	**85**	**—**	**131**
Transfers from VIF and required capital to the free surplus	**1,221**	**(267)**	**(954)**	**—**
Experience variances	**(11)**	**(78)**	**115**	**26**
Assumption changes[3]	**223**	**(66)**	**196**	**353**
Other operating variances[4,5]	**32**	**1,152**	**(1,179)**	**5**
	244	**1,008**	**(868)**	**384**
Operating MCEV earnings	**1,161**	**1,123**	**(334)**	**1,950**
Economic variances[6]	**37**	**(24)**	**(138)**	**(125)**
Other non-operating variances[7]	**(32)**	**—**	**(174)**	**(206)**
Total MCEV earnings	**1,166**	**1,099**	**(646)**	**1,619**
Capital & dividend flows[8]	**(1,116)**	**—**	**—**	**(1,116)**
Foreign exchange variances	**(48)**	**(206)**	**(214)**	**(468)**
Acquired/divested business[9]	**(519)**	**(101)**	**103**	**(517)**
Closing MCEV	**1,918**	**7,450**	**5,906**	**15,274**

1 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
2 Represents the impact of the MCEV restatement as set out in note F1- Basis of preparation.
3 Assumption changes include annuitant mortality and maintenance expense assumption changes in the UK.
4 Other operating variances are driven by prior period adjustments in Aviva Investors, UK and France and management actions taken to change terms and conditions on some of Asia's healthcare business in Singapore, as well as refinements to the CNHR calculation in Singapore. The large reduction in VIF and offsetting increase in required capital is a result of the capital transactions in the UK.
5 Two internal reinsurance arrangements were undertaken in 2014. The first to reinsure an additional 10% of UK Annuity business to Aviva International Insurance Limited and the second to reinsure 10% of UK Annuity business to UKLAP. These transactions had an adverse impact on Group MCEV free surplus of £204 million (MCEV note F12) in total. On an economic capital basis these transaction improve the UK Life position and as a result the adverse impact on MCEV has therefore been excluded from operating capital generation to reflect the economic substance of the management action.
6 The reduction in VIF is primarily driven by France, where falling interest rates and increased swaption volatilities have increased the cost of guarantees, mitigated to some extent by a number of economic assumption changes (see F2 (g) for further details).
7 Other non-operating variances include the impact of the Department for Work and Pensions announcement in the UK (see F2 for further information) and the temporary increase to the corporation tax rate in France.
8 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.
9 A decrease of £490 million is due to the sale of ALPI to UKLAP- see F1 Basis of preparation. This line also includes the sale of Eurovita and the increase in minority interest holding in Italy, the sale of CxG in Spain, a reduction in Aviva's share of Poland Pensions business, and the sale of Woori Aviva Life in South Korea.

Net of tax and non-controlling interests Restated[1] Full Year 2013	Free surplus £m	Required capital[2] £m	VIF £m	Total MCEV £m
Opening MCEV[3]	1,951	6,417	6,411	14,779
New business value	(353)	172	817	636
Expected existing business contribution (reference rate)	—	—	248	248
Expected existing business contribution (in excess of reference rate)	—	—	441	441
Expected return on shareholders' net worth	18	119	—	137
Transfers from VIF and required capital to the free surplus	1,256	(345)	(911)	—
Experience variances	(92)	131	20	59
Assumption changes	126	27	(232)	(79)
Other operating variances	259	213	(389)	83
	293	371	(601)	63
Operating MCEV earnings	1,214	317	(6)	1,525
Economic variances	(77)	11	784	718
Other non-operating variances[4]	119	—	(304)	(185)
Total MCEV earnings	1,256	328	474	2,058
Capital & dividend flows[5]	(610)	(4)	—	(614)
Foreign exchange variance	(2)	83	9	90
Acquired/divested business[6]	(160)	(166)	(231)	(557)
Closing MCEV	2,435	6,658	6,663	15,756

1 The comparative period has been restated as set out in note F1- Basis of preparation.
2 Required capital is shown net of implicit items permitted by local regulators to cover the minimum solvency margins.
3 Opening MCEV includes the adjustment related to the removal of US Life held for sale operations from covered business on 1 January 2013 and the adjustment for the MCEV restatement. Details of both are set out in note F1- Basis of preparation.
4 Other non-operating variances are primarily driven by the impact of pension legislation change in Poland as well as the impact of tax changes in France and the UK.
5 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 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.
6 Acquired/divested business includes the adjustment for held for sale operations and disposal of Aseval, Ark Life, Malaysia, Russia and Romania pensions.

F12 – MCEV Free Surplus Emergence

The table below shows the free surplus generation in existing business and new business. Total free surplus generation of £1,161 million in the current period includes the impact of two internal reinsurance transactions between the UK Annuity business and Aviva International Insurance Ltd and the UK Annuity business and Aviva Life & Pensions UK Limited which in total have an adverse impact on Group MCEV free surplus of £204 million. On an economic capital basis these transactions improve the UK Life position and as a result the adverse impact on MCEV has therefore been excluded from operating capital generation to reflect the economic substance of the management action.

Net of tax and non-controlling interests Full Year 2014	**United Kingdom & Ireland [1] £m**	**Europe £m**	**Asia & Other[2] £m**	**Total £m**
Existing business				
Transfer from VIF to net worth	**397**	**473**	**84**	**954**
Return on net worth	**60**	**62**	**9**	**131**
Impact of experience variances and assumption changes on net worth	**1,224**	**33**	**(5)**	**1,252**
Release of required capital to free surplus	**(982)**	**157**	**(1)**	**(826)**
Total existing business free surplus generation	**699**	**725**	**87**	**1,511**
New business				
Impact on net worth	**81**	**(88)**	**(46)**	**(53)**
Reduction in free surplus from required capital	**(96)**	**(184)**	**(17)**	**(297)**
Total new business free surplus generation	**(15)**	**(272)**	**(63)**	**(350)**
Total free surplus generation	**684**	**453**	**24**	**1,161**

1 In the UK the release of required capital to free surplus and the impact of experience variances and assumption changes on net worth primarily reflect capital management actions, see F11 for further details.
2 The introduction of a reinsurance arrangement in Asia during 2013 had a positive impact on FY13 free surplus emergence which is not repeated at FY14.

Net of tax and non-controlling interests Restated [1] Full Year 2013	United Kingdom & Ireland £m	Europe £m	Asia & Other £m	Total £m
Existing business				
Transfer from VIF to net worth	386	448	77	911
Return on net worth	67	58	12	137
Impact of experience variances and assumption changes on net worth	529	61	74	664
Release of required capital to free surplus	(373)	210	18	(145)
Total existing business free surplus generation	609	777	181	1,567
New business				
Impact on net worth	(45)	(90)	(46)	(181)
Reduction in free surplus from required capital	32	(182)	(22)	(172)
Total new business free surplus generation	(13)	(272)	(68)	(353)
Total free surplus generation	596	505	113	1,214

1 The comparative periods have been restated as set out in F1- Basis of preparation.

F13 – Segmental analysis of life and related business embedded value

The required capital across our life businesses varies between 103% and 180% of EU minimum or equivalent (*104% to 192% at FY13)*. The weighted average level of required capital for our life business expressed as a percentage of the EU minimum (or equivalent) solvency margin has decreased to 109% (*FY13: 115%*). 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 2014 the aggregate regulatory requirements based on the EU minimum test amounted to £6.9 billion (*FY13: £5.8 billion*). The increase in the required capital in the UK in 2014 primarily reflects two capital management actions undertaken during the year which increased required capital by £0.9 billion (and reduced the present value of in force covered business by £1.1 billion). At this date, the actual net worth held in our long-term business, was £9.4 billion (*FY13: £9.1 billion*) which represents 136% (*FY13: 156%*) of these minimum requirements.

Net of tax and non-controlling interests Full Year 2014	**Free surplus £m**	**Required Capital[1] £m**	**VIF £m**	**Total MCEV £m**
United Kingdom[2,3]	**988**	**4,366**	**2,362**	**7,716**
Ireland	**91**	**161**	**381**	**633**
United Kingdom & Ireland	**1,079**	**4,527**	**2,743**	**8,349**
France[4]	**250**	**2,118**	**976**	**3,344**
Poland	**152**	**102**	**946**	**1,200**
Italy[5]	**127**	**348**	**248**	**723**
Spain[6]	**49**	**117**	**153**	**319**
Other Europe	**5**	**12**	**103**	**120**
Europe	**583**	**2,697**	**2,426**	**5,706**
Asia[7]	**235**	**203**	**624**	**1,062**
Other	**21**	**23**	**113**	**157**
Total	**1,918**	**7,450**	**5,906**	**15,274**

1 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins
2 In the UK, the reduction in VIF is offset by an increase in required capital as a result of capital management transactions, see F11 for further details. Free surplus has reduced mainly due to the purchase of the Aviva Life & Pensions Ireland business ("ALPI"). See F1 for further information. This has been partially offset by the benefit arising due to changes to annuitant mortality assumptions and expense savings.
3 Two internal reinsurance arrangements were undertaken in 2014. The first to reinsure an additional 10% of UK Annuity business to Aviva International Insurance Limited and the second to reinsure 10% of UK Annuity business to UKLAP. These transactions had an adverse impact on Group MCEV free surplus of £204 million (MCEV note F12) in total. On an economic capital basis these transactions improve the UK Life position and as a result the adverse impact on MCEV has therefore been excluded from OCG to reflect the economic substance of the management action.
4 The reduction in VIF in France is driven by the increase in the cost of guarantees as a result of falling interest rates and increased swaption volatilities.
5 In Italy, the increase in free surplus and VIF and fall in required capital is driven by the sale of Eurovita and the decrease in the minority holding (see F1 for further information).
6 In Spain, the reduction in required capital is driven by improvements in the economic environment. Required Capital is now equal to the target capital level.
7 The increase in VIF in Asia is due to changes in the terms and conditions on some of Asia's healthcare business in Singapore, higher margin protection sales in China and the sale of Korea.

Net of tax and non-controlling interests Restated[1] Full Year 2013	Free surplus £m	Required Capital[2] £m	VIF £m	Total MCEV £m
United Kingdom	1,581	3,225	3,173	7,979
Ireland	131	165	380	676
United Kingdom & Ireland	1,712	3,390	3,553	8,655
France	227	2,213	1,318	3,758
Poland	202	111	969	1,282
Italy [3]	62	484	92	638
Spain[3]	32	204	146	382
Other Europe	10	15	102	127
Europe	533	3,027	2,627	6,187
Asia	185	236	473	894
Other	5	5	10	20
Total	2,435	6,658	6,663	15,756

1 The comparative period has been restated as set out in F1- Basis of preparation.
2 Required capital is shown net of implicit items permitted by local regulators to cover minimum solvency margins.
3 Required capital in Italy and Spain reflects the current economic environment and is in excess of regulatory requirements.

F14 – Present value of life new business premiums

The tables below set out the present value of new business premiums (PVNBP) written by the life and related businesses, gross of tax and non-controlling interests. 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, and is expressed at the point of sale.

The premium volumes and projection assumptions used to calculate the present value of regular premiums for each product are the same as those used to calculate the value of new business, so the components of the new business margin are on a consistent basis.

The weighted average capitalisation factor (WACF) is the multiple of the annualised regular premium which gives the present value at point of sale of the regular premiums.

Gross of tax and non-controlling interests Full Year 2014	**Regular premiums £m**	**WACF**	**Present value of regular premiums £m**	**Single premiums £m**	**Present value of new business premiums £m**
United Kingdom	**946**	**5.4**	**5,108**	**6,901**	**12,009**
Ireland[1]	**26**	**5.7**	**149**	**286**	**435**
United Kingdom & Ireland	**972**	**5.4**	**5,257**	**7,187**	**12,444**
France	**87**	**8.1**	**709**	**3,924**	**4,633**
Poland	**50**	**8.7**	**435**	**138**	**573**
Italy	**41**	**5.7**	**232**	**2,410**	**2,642**
Spain	**40**	**6.1**	**245**	**864**	**1,109**
Other Europe[2]	**111**	**3.8**	**421**	**74**	**495**
Europe	**329**	**6.2**	**2,042**	**7,410**	**9,452**
Asia[3]	**248**	**6.4**	**1,584**	**367**	**1,951**
Other[4]	**—**	**—**	**—**	**881**	**881**
Total life and pensions	**1,549**	**5.7**	**8,883**	**15,845**	**24,728**

1 The WACF in Ireland increased largely due to a strategic shift in business mix towards protection business and away from pensions business.
2 In Turkey the WACF reduced due to a change in persistency assumptions for pensions business.
3 The increase in WACF in Asia was largely driven by the inclusion of Retail Health business in Singapore in the second half of 2013.
4 Other includes the UK Retail Investment business which was transferred from UK Life to Aviva Investors in May 2014.

Gross of tax and non-controlling interests Restated [1] Full Year 2013	Regular premiums £m	WACF	Present value of regular premiums £m	Single premiums £m	Present value of new business premiums £m
United Kingdom	878	5.1	4,443	7,481	11,924
Ireland	26	4.4	114	355	469
United Kingdom & Ireland	904	5.0	4,557	7,836	12,393
France	89	8.0	712	3,786	4,498
Poland	38	9.0	341	145	486
Italy	51	5.5	279	1,955	2,234
Spain	52	5.6	290	934	1,224
Other Europe	103	4.6	473	71	544
Europe	333	6.3	2,095	6,891	8,986
Asia	290	5.6	1,632	108	1,740
Other	—	—	—	58	58
Total life and pensions	1,527	5.4	8,284	14,893	23,177

1 The comparative period has been restated as set out in F1- Basis of preparation.

F15 – Geographical analysis of value of new business

The tables below set out the present value of new business premiums (PVNBP) written by the life and related businesses, the value of the new business and the resulting margin, firstly gross and then net of tax and non-controlling interests. The value generated by new business written during the period is the present value of the projected stream of after-tax distributable profit from that business, including expected profit between point of sale and the valuation date. It reflects the additional value to shareholders created through the activity of writing new business including the impacts of interactions between in force and new business with the exception of tax as noted in the basis of preparation. The value of new business has been calculated using economic assumptions at the point of sale which has been implemented with the assumptions being taken as those appropriate to the start of each quarter. For contracts that are re-priced more frequently, weekly or monthly economic assumptions have been used. The operating assumptions are consistent with those used to determine the embedded value. The value of new business is shown after the effect of the frictional costs of holding required capital, and after the effect of the costs of residual non-hedgeable risks on the same basis as for the in-force covered business.

	Present value of new business premiums		Value of new business		New business margin	
Gross of tax and non-controlling interests	**Full Year 2014 £m**	Restated[1] Full Year 2013 £m	**Full Year 2014 £m**	Restated[1] Full Year 2013 £m	**Full Year 2014 %**	Restated[1] Full Year 2013 %
United Kingdom	**12,009**	11,924	**473**	469	**3.9%**	3.9%
Ireland	**435**	469	**9**	8	**2.1%**	1.7%
United Kingdom & Ireland	**12,444**	12,393	**482**	477	**3.9%**	3.8%
France	**4,633**	4,498	**205**	172	**4.4%**	3.8%
Poland	**573**	486	**64**	51	**11.2%**	10.5%
Italy	**2,642**	2,234	**54**	27	**2.0%**	1.2%
Spain	**1,109**	1,224	**38**	35	**3.4%**	2.9%
Other Europe	**495**	544	**30**	38	**6.1%**	7.0%
Europe	**9,452**	8,986	**391**	323	**4.1%**	3.6%
Asia	**1,951**	1,740	**127**	104	**6.5%**	6.0%
Other	**881**	58	**9**	—	**1.0%**	0.0%
Total life and pensions	**24,728**	23,177	**1,009**	904	**4.1%**	3.9%

1 The comparative period has been restated as set out in F1- Basis of preparation.

Value of new business shown in the table above includes the results of Eurovita, Aseval, CxG and Malaysia until their disposal. Excluding these, total VNB for 2014 is £1,010 million *(FY13:£909 million)*.

	Present value of new business premiums		Value of new business		New business margin	
Net of tax and non-controlling interests	**Full Year 2014 £m**	Restated[1] Full Year 2013 £m	**Full Year 2014 £m**	Restated[1] Full Year 2013 £m	**Full Year 2014 %**	Restated[1] Full Year 2013 %
United Kingdom	**12,009**	11,924	**379**	361	**3.2%**	3.0%
Ireland	**435**	448	**7**	7	**1.6%**	1.6%
United Kingdom & Ireland	**12,444**	12,372	**386**	368	**3.1%**	3.0%
France	**3,906**	3,779	**121**	99	**3.1%**	2.6%
Poland	**515**	440	**47**	38	**9.1%**	8.6%
Italy	**1,670**	932	**13**	7	**0.8%**	0.8%
Spain	**642**	689	**12**	9	**1.9%**	1.3%
Other Europe	**495**	544	**24**	30	**4.8%**	5.5%
Europe	**7,228**	6,384	**217**	183	**3.0%**	2.9%
Asia	**1,951**	1,739	**101**	85	**5.2%**	4.9%
Other	**881**	58	**8**	—	**0.9%**	0.0%
Total life and pensions	**22,504**	20,553	**712**	636	**3.2%**	3.1%

1 The comparative period has been restated as set out in F1- Basis of preparation.

F16 – Maturity profile of business

(a) Total in-force business

To show the discounted profile of the VIF emergence, the value of VIF in the statements of financial position has been split into five-year tranches depending on the date when the profit is expected to emerge. The reduction in total VIF over 2014 primarily reflects two capital management actions undertaken in the UK during the year which reduced the present value of in force covered business by £1.1 billion (and increased required capital by £0.9 billion).

Net of non-controlling interests 31 December 2014 £m	**0-5**	**6-10**	**11-15**	**16-20**	**20+**	**Total**
United Kingdom & Ireland	**427**	**597**	**484**	**351**	**884**	**2,743**
Europe	**1,006**	**654**	**382**	**194**	**190**	**2,426**
Asia and Other	**349**	**126**	**115**	**42**	**105**	**737**
Total	**1,782**	**1,377**	**981**	**587**	**1,179**	**5,906**

Net of non-controlling interests Restated[1] 31 December 2013 £m	0-5[2]	6-10	11-15	16-20	20+	Total
United Kingdom & Ireland	735	974	675	317	852	3,553
Europe	1,012	702	420	236	257	2,627
Asia and Other	217	97	78	36	55	483
Total	1,964	1,773	1,173	589	1,164	6,663

1 The comparative periods have been restated as set out in F1- Basis of preparation.
2 For held for sale operations, the VIF emergence is reported in the 0-5 column.

(b) New business

To show the discounted 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.

Net of non-controlling interests 31 December 2014 £m	**0-5**	**6-10**	**11-15**	**16-20**	**20+**	**Total**
United Kingdom & Ireland	**54**	**45**	**30**	**26**	**150**	**305**
Europe	**124**	**79**	**44**	**27**	**31**	**305**
Asia and Other	**76**	**33**	**16**	**9**	**21**	**155**
Total	**254**	**157**	**90**	**62**	**202**	**765**

Net of non-controlling interests Restated[1] 31 December 2013 £m	0-5[2]	6-10	11-15	16-20	20+	Total
United Kingdom & Ireland	116	77	49	34	137	413
Europe	99	70	42	28	32	271
Asia and Other	75	27	14	6	11	133
Total	290	174	105	68	180	817

1 The comparative periods have been restated as set out in F1- Basis of preparation.
2 For held for sale operations, the VIF emergence is reported in the 0-5 column.

F17 – Risk allowance within present value of in-force (VIF)

Within the VIF, there are additional allowances for risks not included within the basic present value of future profits calculation.

Net of non-controlling interests 31 December 2014 £m	**PVFP £m**	**Frictional costs £m**	**Non-hedgeable risks £m**	**Time value of financial options and guarantees £m**	**VIF £m**
United Kingdom	**3,246**	**(247)**	**(512)**	**(125)**	**2,362**
Ireland	**404**	**(7)**	**(16)**	**—**	**381**
United Kingdom & Ireland	**3,650**	**(254)**	**(528)**	**(125)**	**2,743**
France	**2,350**	**(80)**	**(189)**	**(1,105)**	**976**
Poland	**1,118**	**(5)**	**(115)**	**(52)**	**946**
Italy	**301**	**(7)**	**(9)**	**(37)**	**248**
Spain	**179**	**(2)**	**(20)**	**(4)**	**153**
Other Europe	**106**	**(1)**	**(2)**	**—**	**103**
Europe	**4,054**	**(95)**	**(335)**	**(1,198)**	**2,426**
Asia	**737**	**(29)**	**(61)**	**(23)**	**624**
Other	**116**	**—**	**(3)**	**—**	**113**
Total	**8,557**	**(378)**	**(927)**	**(1,346)**	**5,906**

Total risk allowances have increased compared to FY13:

- Frictional costs have decreased by £123 million primarily driven by Europe, France in particular, where falling interest rates reduce the cost of tax on investment income.
- The allowance for non-hedgeable risks has decreased by £18 million. There is an increase in the UK due to falling interest rates. In Italy, the fall in non-hedgeable risk from the reduction in economic capital is partially offset by the impact of the decrease in minority ownership, and in Asia the fall is driven by refinements to the non-hedgeable risk methodology.
- The Time Value of Options and Guarantees has increased by £535 million primarily due to the increase in the future potential cost of guarantees in France as a result of falling interest rates and increased swaption volatilities.

Net of non-controlling interests Restated [1] 31 December 2013 £m	PVFP £m	Frictional costs £m	Non-hedgeable risks £m	Time value of financial options and guarantees £m	VIF £m
United Kingdom	3,952	(255)	(468)	(56)	3,173
Ireland	405	(8)	(17)	—	380
United Kingdom & Ireland	4,357	(263)	(485)	(56)	3,553
France	2,341	(175)	(213)	(635)	1,318
Poland	1,150	(9)	(111)	(61)	969
Italy	158	(11)	(30)	(25)	92
Spain	185	(9)	(25)	(5)	146
Other Europe	104	(1)	(1)	—	102
Europe	3,938	(205)	(380)	(726)	2,627
Asia	614	(33)	(79)	(29)	473
Other	11	—	(1)	—	10
Total	8,920	(501)	(945)	(811)	6,663

1 The comparative period has been restated as set out in F1-Basis of Preparation.

F18 – Implied discount rates (IDR)

In the valuation of a block of business, the IDR is the rate of discount such that a traditional embedded value calculation for the covered 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.

	31 December 2014 %	Restated[1] 31December 2013 %
United Kingdom	**6.0%**	6.4%
Ireland	**0.9%**	1.7%
United Kingdom & Ireland	**5.6%**	6.0%
France	**6.8%**	6.7%
Poland	**4.5%**	6.3%
Italy[2]	**3.9%**	3.7%
Spain	**3.7%**	7.8%
Other Europe	**8.8%**	9.8%
Europe	**5.7%**	6.2%
Asia[2]	**4.4%**	4.8%
Other	**3.7%**	—
Total	**5.5%**	6.1%

1 The comparative periods have been restated as set out in note F1- Basis of Preparation.
2 In the comparative period IDRs have been calculated excluding held for sale operations, reflecting that they are stated at expected fair value less cost to sell.

As part of the MCEV restatement described in Note F1, 31 December 2012 IDRs were restated for UK, France, Italy, Spain and Ireland to 6.6%, 6.2%, 8.8%, 11.3% and 1.5% respectively. The 31 December 2012 IDR determines the expected existing business contributions for the restated 31 December 2013 analysis of earnings (notes F4 and F11). Singapore's FY12 IDR, a component of the "Asia" operating segment IDR, remains unchanged following the restatement because the region's healthcare business did not become covered business until the second half of 2013.

In 2014, IDRs have fallen across most businesses as a result of a reduction in real world returns.

F19 – Summary of non-controlling interest in life and related businesses' MCEV results

31 December 2014	**France £m**	**Spain £m**	**Italy £m**	**Poland £m**	**Asia £m**	**Total £m**	**Share-holders' Interest £m**	**Group £m**
Value of new business after tax	**13**	**15**	**22**	**5**	**—**	**55**	**712**	**767**
Life MCEV operating earnings/(loss) after tax	**38**	**39**	**35**	**18**	**—**	**130**	**1,950**	**2,080**
Life MCEV earnings/(loss) after tax	**17**	**119**	**33**	**26**	**—**	**195**	**1,619**	**1,814**
Closing covered businesses' embedded value	**281**	**256**	**412**	**170**	**—**	**1,119**	**15,274**	**16,393**

Restated [1] 31 December 2013	France £m	Spain £m	Italy £m	Poland £m	Asia £m	Total £m	Share-holders' Interest £m	Group £m
Value of new business after tax	13	15	10	4	—	42	636	678
Life MCEV operating earnings after tax	(2)	24	99	14	—	135	1,525	1,660
Life MCEV earnings after tax	(7)	146	375	(39)	—	475	2,058	2,533
Closing covered businesses' embedded value	284	316	770	166	2	1,538	15,756	17,294

1 The comparative period has been restated as set out in note F1- Basis of Preparation.

Non-controlling interest in life and related businesses is not impacted by the treatment of held for sale operations. There are no non-controlling interests in the United Kingdom. For comparative figures, non-controlling interest in Ireland was assumed to be 0% throughout the period on the grounds of materiality; no such approximation is required for the closing embedded value. Restructuring activity in Italy during 2014 has significantly reduced the non-controlling interest in the closing embedded value. See F1 – Basis of preparation for further details.

F20 – 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 liquidity premium adjustment, where applicable;
- one percentage point increase and decrease in the risk-free rate with a floor of 0%, 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% multiplicative increase in equity, property and swaption volatilities;
- 50 basis point increase and decrease in credit spreads with no change to liquidity premium; 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. Own sovereign debt is excluded from credit spread sensitivities.

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.

Life and related business embedded value

			Interest rates		
2014 Embedded value (net of non-controlling interests)	**As reported in F13 £m**	**10bp increase in adjustment to risk-free rates £m**	**1% increase £m**	**1% decrease £m**	**Swaption implied volatilities increased 25% £m**
United Kingdom & Ireland	**8,349**	**340**	**(275)**	**275**	**—**
France	**3,344**	**80**	**55**	**(545)**	**(290)**
Poland, Italy, Spain and Other Europe	**2,362**	**5**	**(55)**	**50**	**(10)**
Asia and Other	**1,219**	**—**	**35**	**(55)**	**(5)**
Total	**15,274**	**425**	**(240)**	**(275)**	**(305)**

		Equity/property			Credit spread		
2014 Embedded value (net of non-controlling interests)	**As reported in F13 £m**	**10% increase in market values £m**	**10% decrease in market values £m**	**25% increase in volatility £m**	**50bps increase £m**	**50bps decrease £m**	**EU minimum capital or equivalent £m**
United Kingdom & Ireland	**8,349**	**105**	**(185)**	**(60)**	**(1,195)**	**1,300**	**—**
France	**3,344**	**280**	**(295)**	**(255)**	**(60)**	**60**	**15**
Poland, Italy, Spain and Other Europe	**2,362**	**40**	**(40)**	**(15)**	**(20)**	**25**	**—**
Asia and Other	**1,219**	**25**	**(25)**	**—**	**(20)**	**20**	**10**
Total	**15,274**	**450**	**(545)**	**(330)**	**(1,295)**	**1,405**	**25**

F20 – Sensitivity analysis continued

New business

2014 Value of new business (net of tax and non-controlling interests)	As reported in F15 £m	10bp increase in adjustment to risk-free rates £m	Interest rates 1% Increase £m	 1% decrease £m	Swaption implied volatilities increased 25% £m
United Kingdom & Ireland	386	20	(9)	10	—
France	121	—	14	(26)	(4)
Poland, Italy, Spain and Other Europe	96	1	(5)	4	—
Asia and Other	109	—	9	(15)	—
Total	**712**	**21**	**9**	**(27)**	**(4)**

2014 Value of new business (net of tax and non-controlling interests)	As reported in F15 £m	Equity/property 10% increase in market values £m	 10% decrease in market values £m	 25% increase in volatility £m	Credit spread 50bps increase £m	 50bps decrease £m	EU minimum capital or equivalent £m
United Kingdom & Ireland	386	—	—	—	(76)	81	—
France	121	6	(7)	(5)	—	—	1
Poland, Italy, Spain and Other Europe	96	—	—	—	—	—	—
Asia and Other	109	—	—	—	—	—	2
Total	**712**	**6**	**(7)**	**(5)**	**(76)**	**81**	**3**

(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.

Life and related business embedded value

2014 Embedded value (net of non-controlling interests)	As reported in F13 £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 & Ireland	8,349	225	130	190	(500)
France	3,344	100	10	20	(30)
Poland, Italy, Spain and Other Europe	2,362	30	80	25	—
Asia and Other	1,219	45	45	30	—
Total	**15,274**	**400**	**265**	**265**	**(530)**

New Business

2014 Value of new business (net of tax and non-controlling interests)	As reported in F15 £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 & Ireland	386	34	17	31	(24)
France	121	5	4	2	—
Poland, Italy, Spain and Other Europe	96	4	10	3	—
Asia and Other	109	7	7	4	—
Total	**712**	**50**	**38**	**40**	**(24)**

Other information

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Product definitions

Annuity
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 dependants or on a bulk purchase basis for groups of people. Deferred annuities are accumulation contracts, which may be used to provide benefits in retirement. Annuities 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.

Critical illness cover
Pays out a lump sum if the insured person is diagnosed with a serious illness that meets the plan definition.

Deferred annuity
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.

Equity Release
Equity Release Mortgages allow a homeowner to receive a lump sum in return for a mortgage secured on their house. No interest is payable on the loan; instead, interest is rolled-up on the loan and the loan and accrued interest are repayable at redemption (upon death or moving into long term care).

General insurance
Also known as non-life or property and casualty insurance. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage to the property of others.

Group pension
A pension plan that covers a group of people, which is typically purchased by a company and offered to their employees.

Health insurance
Provides cover against loss from illness or bodily injury. Can pay for medicine, visits to the doctor, hospital stays, other medical expenses and loss of earnings, depending on the conditions covered and the benefits and choices of treatment available on the policy.

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.

Investment sales
Comprise retail sales of mutual fund-type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).

Individual savings account (ISAs)
Tax-efficient plans for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits.

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.

Open ended investment company (OEIC)
A collective investment fund structured as a limited company in which investors can buy and sell shares.

Pension
A means of providing income in retirement for an individual and possibly his/her dependants.

Personal pension
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.

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.

Collective investment scheme (SICAVs)
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.

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.

Whole life
A protection policy that remains in force for the insured's whole life; a lump sum will be paid out on death. 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.

General terms

Annual premium equivalent (APE)
Used as a measure of annual sales, taking the annual premium of regular premium contracts plus 10% of single premium contracts.

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)
A major trade association for UK insurance companies, established in July 1985.

Acquired value of in force (AVIF)
The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary.

Bancassurance / Affinity
An arrangement whereby banks, building societies or other groups sell insurance and investment products to their customers or members on behalf of other financial providers.

Combined operating ratio (COR)
COR is calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums.

Deferred acquisition costs (DAC)
The costs directly attributable to the acquisition of new business for insurance and investment contracts may be 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 would be received to sell or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit value).

Financial Conduct Authority (FCA)
One of the two bodies (along with the PRA) which replaced the Financial Services Authority from 1 April 2013. The FCA is a company limited by guarantee and is independent of the Bank of England. It is responsible for the conduct business regulation of all firms (including those firms subject to prudential regulation by the PRA) and the prudential regulation of firms not regulated by the PRA. The FCA has three statutory objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting effective competition in the interests of consumers.

Funds under management
Represents all assets actively managed or administered by or on behalf of the Group including those funds managed by third parties.

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.

Independent Financial Advisers (IFAs)
A person or organisation, authorised under the FCA, to give advice on financial matters.

Internal rate of return (IRR)
A discount rate used to measure profitability. The rate used is that which will bring a series of cash flows to a net present value of nil.

International financial reporting standards (IFRS)
These are accounting regulations designed to ensure comparable financial statements preparation and disclosure, and are the standards that all publicly listed companies in the European Union are required to use.

Operating profit
This is also referred to as adjusted operating profit or operating profit (IFRS basis). It is based on expected investment returns, and stated before tax and before non-operating items including, impairment of goodwill, exceptional and other items.

Inherited estate
In the UK, the assets of the long-term with-profit funds less the realistic reserves for non-profit policies written within the with-profit 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 and guarantees.

Long-term and savings business
Collective term for life insurance, pensions, savings, investments and related business.

Net written premiums
Total gross written premiums for the given period, less premiums paid over or 'ceded' to reinsurers.

New business strain (NBS)
The name given to the initial impact on shareholders' net assets when an insurance contract is sold. This "strain" arises because, in addition to meeting costs associated with the sale of contracts, insurance companies must meet capital and reserving requirements at the outset of a contract that are often significantly higher than the premiums received.

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 under Market Consistent Embedded Value (MCEV) principles published by the CFO Forum.

Prudential Regulatory Authority (PRA)
One of the two bodies (along with the FCA) which replaced the Financial Services Authority from 1 April 2013. The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit taking institutions, insurers and major investment firms. The PRA has two statutory objectives: to promote the safety and soundness of these firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders.

Solvency II
These are insurance regulations designed to harmonise EU insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk. Solvency II is due to become effective from 1 January 2016.

Financial Reporting Council Guidance on Internal Control
The Guidance on Risk Management, Internal Control and Related Financial and Business Reporting sets out best practice on internal controls for UK listed companies, and provides additional guidance in applying certain sections of the UK Corporate Governance Code.

UK Corporate Governance Code
The code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

Value of new business (VNB)
VNB is the present value of future profits from new business written at the point of sale. It is calculated on a market consistent basis using economic and operating assumptions which are the same as those used to determine the embedded value at the end of the reporting period and is stated after the effect of any frictional costs. Unless otherwise stated, it is quoted net of tax and non-controlling interests.

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 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.

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.

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.

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.

Implicit items
Amounts allowed by local regulators to be deducted from capital amounts when determining the EU required minimum margin.

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.

Liquidity premium
An addition to the risk-free rate used when projecting investment returns and discounting cash flows on certain types of contracts where the liabilities are illiquid and have cash flows that are predictable.

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.

Market consistent embedded value (MCEV)
A measure of the value of a life business to its shareholders. It is the sum of shareholders net assets and today's value of the future profits that are expected to emerge from business already written, where the assumptions used to calculate future profits are consistent with current market prices for traded assets.

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.

Real world equivalent Embedded Value (EqEV)
As for other embedded value measures, EqEV is a way of measuring the current value to shareholders of the in-force portfolio of a life and pensions business. EqEV includes the value of future profits and uses a set of realistic assumptions, including real world expected investment returns, allowing for the impact of the uncertainty in these returns in the risk discount rate.

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.

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.

Statutory basis
The valuation basis and approach used for reporting financial statements to local regulators.

Stochastic techniques
Techniques that allow for 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.

Shareholder services

Shareholder profile as at 31 December 2014

By category of shareholder	Number of shareholders	%*	Number of shares	%*
Individual	530,405	97.50	245,842,458	8.33
Banks and nominee companies	11,815	2.17	2,640,824,058	89.50
Pension fund managers and insurance companies	282	0.05	1,611,105	0.05
Other corporate bodies	1,527	0.28	62,209,719	2.11
Total	**544,029**	**100**	**2,950,487,340**	**100**

By size of shareholding	Number of shareholders	%*	Number of shares	%*
1–1,000	493,005	90.62	135,763,008	4.60
1,001–5,000	45,333	8.33	85,991,246	2.91
5,001–10,000	3,172	0.58	22,086,301	0.75
10,001–250,000	1,958	0.36	82,002,362	2.78
250,001–500,000	151	0.03	52,963,150	1.80
500,001 and above	409	0.08	2,539,223,495	86.06
American Depositary Receipts (ADRs)+	1	0.00	32,457,778	1.10
Total	**544,029**	**100**	**2,950,487,340**	**100**

+ The number of registered ordinary shares represented by ADRs. Please note that each Aviva ADR represents two (2) ordinary shares.
* Percentages do not necessarily add up due to rounding.

2015 financial calendar

Aviva General Meeting in respect of the proposed Acquisition of Friends Life	11am on 26 March 2015
Annual General Meeting	11am on 29 April 2015
Announcement of first quarter Interim Management Statement	7 May 2015

* The full financial calendar will be available at www.aviva.com/investor-relations/financial-calendar

2014 final dividend dates – ordinary shares

Ex-dividend date (ordinary) *	8 April 2015
Record date (ordinary and ADR)	9 April 2015
Last day for Dividend Reinvestment Plan election	23 April 2015
Dividend payment date *	15 May 2015

* Please note that the ADR local payment date will be approximately five business days after the proposed dividend date for ordinary shares. The ex-dividend date for ADR holders will be 7 April 2015.

Annual General Meeting (AGM)

- The 2015 AGM will be held at The QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Wednesday, 29 April 2015 at 11am.
- Details of each resolution to be considered at the meeting are provided in the Notice of AGM, which is available on the Company's website at www.aviva.com/agm.
- Shareholders can vote electronically at www.investorcentre.co.uk/eproxy, in person by attending the meeting, or by completing and returning the relevant voting card(s) by post.
- The voting results for the 2015 AGM will be accessible on the Company's website at www.aviva.com/agm shortly after the meeting.
- If you are unable to attend the AGM but would like to ask the directors a question in connection with the business of the meeting, please e-mail the group company secretary at aviva.shareholders@aviva.com.

AGM voting instructions

- Completed proxy instructions must be submitted to the Company's Registrar, Computershare Investor Services PLC (Computershare), to arrive by no later than:
- Monday, 27 April 2015 at 11am for ordinary shareholders; and
- Friday, 24 April 2015 at 11am for members of the Aviva Share Account and participants in the Vested Share Account and the Aviva All Employee Share Ownership Plan.
- ADR holders should submit instructions to Citibank, N.A., the Depositary, by no later than 10am on Thursday, 23 April 2015.

Dividends

- Dividends on ordinary shares are normally paid in May and November – please see the table above for the key dates in respect of the 2014 final dividend.
- Dividends on 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 will receive any dividends payable in sterling and holders of ADRs will receive any dividends payable in US dollars.
- The Company offers a Dividend Reinvestment Plan which provides the option for eligible shareholders to reinvest their cash dividend in additional ordinary shares in the Company. For further information please visit www.aviva.com/dividend. Completed application forms must be sent to the Company's Registrar, Computershare, by no later than 5pm on 23 April 2015.

Direct credit of dividend payments

- If you would like to have your cash dividends paid directly into your bank or building society account, or to have your dividends reinvested please visit www.aviva.com/dividends for more information or contact Computershare using the contact details overleaf.

Overseas global dividend service

- The Global Payments Service provided by Computershare enables shareholders living overseas to elect to receive their dividends in a choice of over 65 international currencies. For further details and fees for this service please visit www.investorcentre.co.uk/faq and select the Dividends and Payments tab, followed by Global Payment Service.

Manage your holdings online

You can view and manage your shareholding online at: www.aviva.com/ecomms. To log in you will require your 11 digit Shareholder Reference Number (SRN), which you will find on your proxy or voting card, latest dividend stationery, or any share certificate issued since 4 July 2011.

Please help us to be environmentally friendly and elect to receive electronic communications by registering your email address online, or by contacting Computershare directly.

Useful links for shareholders

Online shareholder services centre
www.aviva.com/shareholderservices

Dividend information for ordinary shares
www.aviva.com/dividends

Annual General Meeting information and electronic voting
www.aviva.com/agm
www.investorcentre.co.uk/eproxy

Aviva share price
www.aviva.com/shareprice

ADR holders
www.aviva.com/adr

Aviva preference shareholders
www.aviva.com/preferenceshares

Aviva preference share price
www.londonstockexchange.com

Aviva reports information
www.aviva.com/reports

Contact details

Ordinary and preference shares – Computershare

For any queries regarding your shareholding, or to advise of changes to your personal details, please contact the Company's Registrar, Computershare:

By telephone: 0871 495 0105
Lines are open from 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays).
Please call +44 117 378 8361 if calling from outside the UK.

By email: AvivaSHARES@computershare.co.uk

In writing: Computershare Investor Services PLC
The Pavilions, Bridgwater Road, Bristol BS99 6ZZ

American Depositary Receipts (ADRs) – Citibank

For any queries regarding Aviva ADRs, please contact Citibank Shareholder Services (Citibank):

By telephone: 1 877 248 4237 (1 877-CITI-ADR), or +1 781 575 4555 if you are calling from outside the US. (Lines are open from 8.30am to 6pm, Monday to Friday US Eastern Standard Time).

By email: citibank@shareholders-online.com

In writing: Citibank Shareholder Services,
PO Box 43077, Providence, Rhode Island 02940-3077
USA

Please visit www.citi.com/dr for further information about Aviva's ADR programme.

Group company secretary

Shareholders may contact the group company secretary as follows:

By email: aviva.shareholders@aviva.com

In writing: Kirstine Cooper, Group Company Secretary,
St Helen's, 1 Undershaft, London EC3P 3DQ

By telephone: +44 (0)20 7283 2000