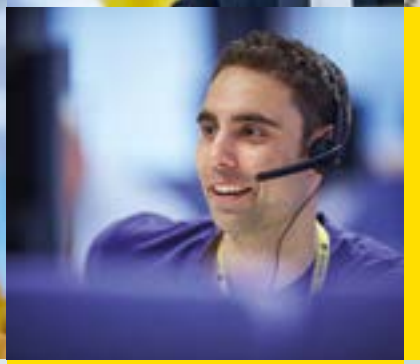
| Retirement | Investments | Insurance | Health |

AVIVA

We are Aviva

Aviva plc

Annual report and accounts 2014



We are Aviva

We put our customers at the heart of everything we do, enabling us to offer the best possible service and increase employee engagement and customer advocacy.

I am very proud that we give our support, emotionally and financially, when it matters the most.

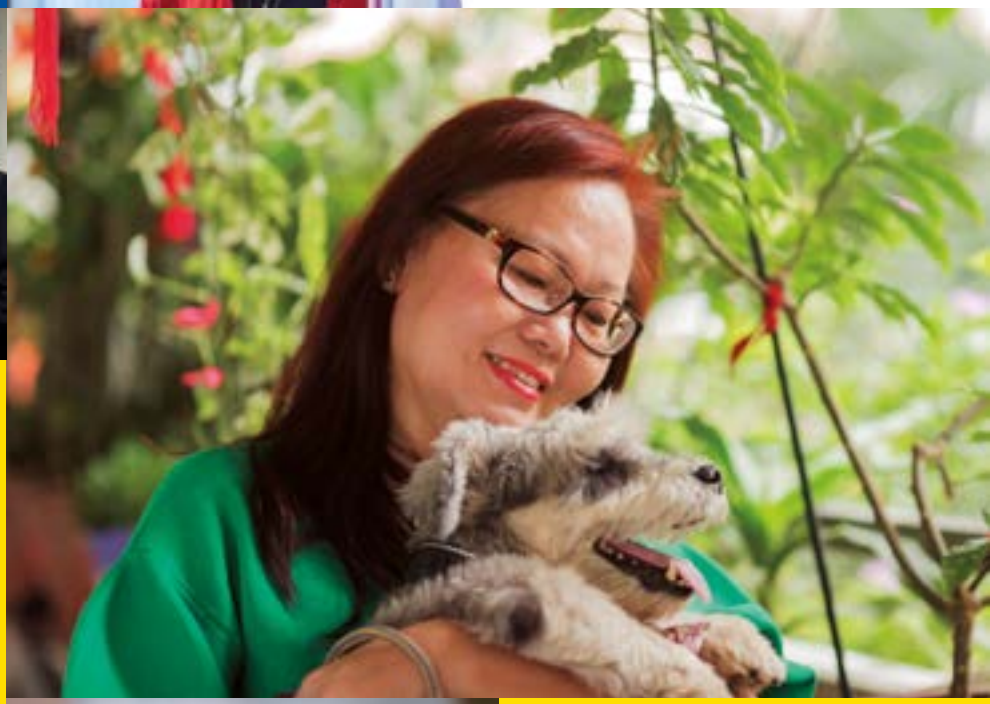
—

Debra
Aviva employee

Quick, professional, helpful. Sorted me out with the minimum of fuss and the maximum of help.

—

Jane and Andy
Aviva customers



All my insurance online with one company at a great price.

—

Reuben
Aviva customer

This report contains 'forward-looking statements' with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, results, strategic initiatives and objectives. For further details, reference should be made to the 'Cautionary Statement' on page 320. The Strategic Report of Aviva is incorporated by reference into the Directors' and corporate governance report. The Directors' and corporate governance report has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Who we are

We help people save for the future and manage the risks of everyday life.

We have strong businesses in selected markets: UK, Europe, Asia and Canada. We offer:

Read more on pages 32-45

Life Insurance

Retirement Income, Savings, Pensions, Life cover, Protection

General Insurance

Home, Motor, Travel, Commercial

Health Insurance

Private Medical Insurance

Asset Management

Managing assets for Aviva and other clients

Across our 16 businesses, we protect our 29+ million customers and the things that are important to them

£24.6bn
Paid in benefits and claims in 2014

£1.4m
Paid out per day for UK life insurance and critical illness claims

£246bn
Aviva Investors assets under management

319 years
Protecting our customers since 1696

Our investment thesis of cash flow plus growth sets out why investors should choose us

Read more on page 25

We measure our performance using five key metrics

Read more on page 10

£2,173m	£1,412m	£1,010m	95.7%	51.5%
Operating profit on an IFRS basis[1]	Cash remittances[2]	Value of new business[3]	General insurance combined operating ratio improved by	Operating expense ratio reduced by
+6%	+11%	+11%	1.6pp	2.6pp

1 On a continuing basis.
2 2013 and 2014 dividend from UKGI was remitted to Group in January 2014 and February 2015 respectively. Cash remittances disclosed are on a continuing basis.
3 Excludes Eurovita, Aseval, CxG and Malaysia.

Our plan

We have a clear strategy to deliver sustainable and progressive cash flows underpinned by good potential for growth, by always putting customers first.

Our strategy

Read more on pages 14-25

The 'what we do, how we do it and where we do it'

True Customer Composite

Meeting all customer needs across life, general, health insurance and asset management

Digital First

Emphasising customer experience driven by digital – online and mobile

Not Everywhere

Focusing only in markets and segments where we can win

Our values are at the heart of how we do business

Care more

We care like crazy about our customers, each other and our communities

Kill complexity

We are obsessed with making things simpler for our customers and each other

Never rest

We are driven to think bigger and do better for our customers and each other

Create legacy

We strive to create a sustainable future for our customers and each other

Creating a bright and sustainable future for our customers, employees and communities

Read more on pages 48-53

Customers

UK General Insurer of the Year

70+

Awards worldwide in 2014

Employees

65%

2014 employee engagement up 9% points[4]

A UK Living Wage employer

Communities

40,220

Volunteering hours by our people in 2014

A top 10 company in the FTSE4 Good

4 Three percentage points above the global financial services norm.

£2,173m
(2013: £2,049m)
Operating profit on a continuing basis

£1bn
Value of new business

12.25p
Final dividend, a 30% increase

View online summary and download the full report at **www.aviva.com/reports/ar2014**

> In this report you can learn about the tangible progress we showed in 2014 and our plans for the future.
>
> Mark Wilson, Group CEO

This Strategic Report (on pages 02 to 59) was approved by the Board of Directors on 4 March 2015 and signed on its behalf by the Group Chief Executive Officer.

Mark Wilson
Group Chief Executive Officer

Strategic Report

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Wigan, United Kingdom

Linda's story

Insurance can make a real difference to people's lives. Linda Hunns has had critical illness cover with Aviva since 2002. This is her story.

"I was doing fine. I enjoyed life to the full as a mother and grandmother.

I loved going for walks and prided myself on keeping fit, as well as enjoying my part-time job at the local hospital.

Then came the bombshell. A routine mammogram showed I had breast cancer. Luckily we'd caught it early and the cancer was very small, but I still had a gruelling time with surgery, radiotherapy and chemotherapy.

Everything else had to take a back seat. Once I'd started treatment I remembered that I had critical illness cover with Aviva and might be able to make a claim.

I spoke to a young girl with a lovely manner. She told me that I would receive the money once the hospital had confirmed the type of cancer. It was that simple. Aviva even sorted out all the confirmations for me.

The service I received from Aviva was excellent. I can't tell you how much this money meant to me. It meant one less thing to worry about and so it hugely helped in my recovery.

I went back to work in February and things are getting back to normal. In fact, I turned 60 this year and celebrated by taking the whole family away for a week in the sun."

> "The money meant one less thing to worry about and so it hugely helped in my recovery."
>
> Linda Hunns

Dear shareholder

I am enormously pleased that 2014 has been another year of progress for Aviva in its transformation to become one of the best performing financial institutions in our sector

John McFarlane
Chairman
4 March 2015

Aside from good organic business performance, the year culminated with the announcement of the proposed acquisition of Friends Life, which will give us a considerably stronger underpinning.

A strong management team

Our Chief Executive Officer, Mark Wilson, has completed his second year with us and the advancement of the group under his leadership over a relatively short period has been impressive.

During this time, he has assembled a management team that is not only able to deliver good business performance, but who have considerable potential for the future. I know you would wish me to thank Mark and the team for their contribution.

A clear strategy

Under Mark's leadership, Aviva now has a clear purpose, is embracing new cultural values around our people, our customers our shareholders and the communities where we do business, and has articulated a clear strategy for the future.

Proposed acquisition of Friends Life

While Aviva's recent organic growth and return prospects already present a compelling investment proposition, the proposed acquisition of Friends Life not only consolidates our leading position in the UK, it offers greater dividend capacity and balance sheet strength than would otherwise have been possible organically. I believe it offers an attractive outcome to both Aviva and Friends Life shareholders.

Operating performance

Headline operational performance improved in the year, despite having been impacted by a stronger sterling exchange rate and the decline in the annuities market following the Chancellor's Budget decision.

Operating profit on an IFRS basis grew by 6% during the year to £2,173 million, which included lower operating expenses, down 7%. Value of new business increased by 11% to over £1 billion and there was a 1.6 percentage point improvement in the combined operating ratio to 95.7%. Net asset value increased to 340 pence per share and shareholders benefited from a total shareholder return of 11.5%.

Dividend

In line with the statement we made in the formal offer for Friends Life, the Board has declared a final dividend of 12.25 pence per share (*2013: 9.40 pence*) representing a 30% increase on the 2013 final dividend per share, and a 2014 full year dividend of 18.1 pence (*2013: 15.00 pence*), up 21%.

Board and governance

It has indeed been an honour to have served you as your Chairman, and with Board and management colleagues for whom I have the greatest respect.

However, as was announced in September, I shall be standing down from this position at the Annual General Meeting, and will be replaced by Sir Adrian Montague, our Senior Independent Director.

The membership of the Board was largely unchanged in the year, with the exception of Tom Stoddard who joined us as Chief Financial Officer in April 2014, following Pat Regan's departure, and he already has made an important contribution.

Following the completion of the proposed acquisition Sir Malcolm Williamson, Chairman of Friends Life, will join the Board of Aviva plc as Senior Independent Director, and Andy Briggs, the Group Chief Executive of Friends Life, will become Chief Executive Officer of Aviva UK and Ireland Life, the merged UK life business of the combined Group and also joins the Board. We look forward to both Sir Malcolm and Andy joining the Board.

Gay Huey Evans has decided to retire from the Board from the conclusion of the 2015 AGM and on behalf of the Board I

> The Company is in good hands and has the capacity to become one of the world's leading institutions.
>
> John McFarlane
> Chairman

340p

Net asset value per share, a 26% increase

1 million

Children helped through our Street to School programme

18.1p

Total dividend, a 21% increase

would like to take this opportunity to thank her for her contribution to the Board.

Our people

As with last year, 2014 has brought considerable change and challenge for our people, which they have embraced and managed professionally.

Led by Mark Wilson, we are building a high performance and enlightened culture across the Group, and this is demonstrating tangible progress in making Aviva a great place to work and advance.

On behalf of the Board, I would express our gratitude to our people for their dedication and enthusiastic support for our customers.

Investing in communities

As a responsible business, we strive to be a force for good across the markets in which we operate. We provide access to a range of insurance products tailored to the needs of low income groups and, through Aviva Investors, we work to integrate environmental, social and corporate governance issues into our investment decisions and analysis in order to create long-term value.

In addition, our global community development initiative, Street to School, has made a major investment in improving the lives of more than one million children and helped the issue of street children's rights move to the centre stage of policy at the United Nations. Aviva will continue to work with the Consortium for Street Children and the UN and continue our longstanding work in South East Asia for another two years.

Looking ahead

If the proposed acquisition of Friends Life completes, the enlarged Group should bring a stronger business and financial foundation, new commercial opportunities and the prospect of a higher and progressive dividend for shareholders.

The transformation is not yet complete however, I leave knowing the Company is in good hands and has the capacity to become one of the world's leading institutions.

I wish my successor Sir Adrian every success, and retire knowing that for Aviva, the best is yet to come.

Strength in our management team

Chairman elect

Sir Adrian Montague CBE will become Non-Executive Chairman on the retirement of John McFarlane at the Aviva AGM in April 2015.

"It will be a privilege to chair Aviva. The Company is recovering strongly and delivering against its investment thesis of cash flow plus growth, under the strong management team ably led by Mark Wilson. John McFarlane has been an extraordinary Chairman, and has made an immense contribution to Aviva's recovery."

Tangible progress but much more to do

Our role in business is not to follow the competition, but to exceed our own expectations. To break our own records. To ensure that our positive impact on our customers, shareholders and society is greater this year than the last. That is what we are trying to do at Aviva

Mark Wilson
Group Chief Executive Officer
4 March 2015

Overview

I have now served as your Chief Executive for more than two years. By any measure Aviva is now a very different company, which is delivering much more for customers and investors alike.

2014 was a year in which we were able to show tangible progress, despite headwinds from currency, changing regulation and lower interest rates.

Results show tangible progress, with all key metrics moving in the right direction. Cash[1] is up 65%, operating earnings per share is up 10%, value of new business is up 15%[2] and our 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.

But these results do not by themselves show the progress on de-risking the business and the more efficient allocation of capital that has served us well in somewhat volatile markets over the past 12 months.

To reflect the progress made during the year and our improved financial position, we announced a 30% increase in the final dividend to coincide with the announcement of our proposed acquisition of Friends Life.

That we were able to contemplate such a transaction shows the improvements we have made, including repairing the balance sheet, reducing costs and growing the profitable segments of the business.

We have entered 2015 in a position of strength. Nevertheless, it would be wrong to assume that our turnaround is nearing completion. While performance has improved, there is no room for complacency. Two years of results do not yet create a lasting legacy.

Delivering Our Investment Thesis: Cash Flow Plus Growth

When I joined Aviva, one of my first priorities was to rebuild the Group's financial strength and establish an investment thesis. This sets out why investors should choose us. It is defined as "Cash flow plus Growth".

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%[2] higher at a record £1,010 million and we have grown general insurance underwriting profit 54% to £321 million. In asset management, the turnaround at Aviva Investors is progressing and the AIMS fund range has over £1 billion of assets under management eight months after launch.

Friends Life

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

Financially, we expect this transaction to add about £600 million to cash flow, eliminate any need to de-lever, generate £225 million of expense savings as well as material capital synergies.

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

Our Strategy

We have anchored the company in strong values and a clear strategy. These are preconditions for any successful business – and are even more fundamental for a turnaround.

The Aviva values – create legacy; care more; kill complexity; and never rest – are the core beliefs at the heart of how we do business. They act as a guide whenever we decide on a course of action, and help us to focus on meeting our customers' needs.

And in July 2014 we launched our strategic anchor to answer some

1 Excess centre cash flow. Refer to the glossary for a definition and more information.
2 On a constant currency basis.

> Aviva has travelled a long way in the past two years. But we have further to travel than the distance we have come.
>
> Mark Wilson
> Group CEO

£692m

Excess centre cash flow[1], a 65% increase

£2,173m

Operating profit on an IFRS basis

47.0p

Operating earnings per share

1 Refer to the glossary for a definition and more information.

fundamental questions defining our business strategy: what we do, how we do it and where we do it.

Firstly, we are a True Customer Composite, which means we can provide customers with life, general and health insurance and asset management in one place. We are in a peer group of one – the only true composite of scale in the UK and one of only a few in the world. Our aim is to offer customers one view of Aviva - one statement, one premium, one phone number and one log-in.

Secondly, Digital First. Digital is increasingly how our customers want to deal with us – and how we will serve them. Therefore if it is a choice of where we will invest, it will be in digital first across any channel.

Thirdly, Not Everywhere. We are not interested in planting flags or being in 100 countries. Our focus is on a select number of markets and segments where we have scale and profitability or a distinct competitive advantage – where we can win.

Our people

Turnarounds are not delivered by strategies or financial engineering. They are delivered by people. I want to thank our people for their dedication and commitment, which has helped Aviva make such progress.

Over the past two years, Aviva employees have seen significant change. Despite the sometimes difficult choices that have had to be made, 2014 saw employee engagement markedly improve – in particular in levels of pride, motivation and advocacy. These now stand above sector benchmarks. We have attracted some of the best talent in the market to our senior team – although they are well aware they will be judged by their performance rather than their CVs.

I also want to pay a personal tribute to John McFarlane, who will step down as Chairman at the AGM. John has shown strength and subtlety as Chairman and I am grateful for his guidance and challenge. John became Chairman during a challenging time for the business and has left with the business in a stronger position. Following the AGM, John will be replaced by Sir Adrian Montague. We have already benefited from working with Sir Adrian as Senior Independent Director and look forward to working with him as Chairman.

Going Forward

The proposed Friends Life transaction speeds up our turnaround. A successful integration of Friends Life is a major 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 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 – and in 2015 the Friends Life transaction allows us to reset our expectations once again.

Proposed acquisition of Friends Life

Our proposed acquisition of the FTSE 100 life insurer, Friends Life, is good for shareholders and customers alike. They will benefit from being part of a strong, more diversified and resilient business with a wide range of products:

- It is consistent with our investment thesis of cash flow plus growth creating c.£600 million of incremental cash flow
- We expect annual run rate cost savings of £225 million by the end of 2017
- It will create the UK's leading insurance, savings and asset management business with c.16 million customers[1], equivalent to accessing one in four households.
- We are an iconic British business and this acquisition will increase our scale in attractive segments of our home market
- We are stronger together, with the best of both companies giving us a leadership position in the growing corporate pensions and protection markets
- It will increase our assets under management at Aviva Investors by up to £70 billion (a 28% increase)[2]
- It will increase our cash flows, reduce our leverage and support continued growth in our dividend
- It will allow us to invest in our other businesses for growth.

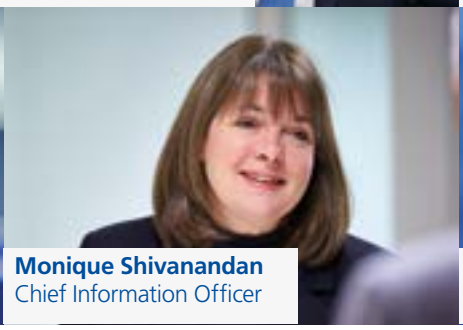
Strengthened management team

We made a number of senior appointments in 2014 to strengthen our management team and bring new skills into the Group.

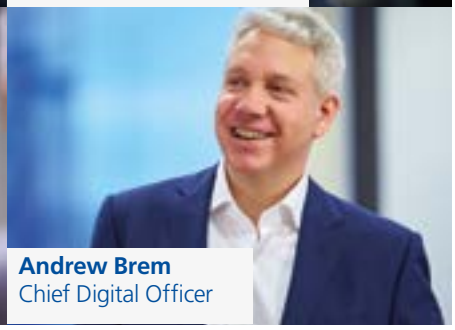
Tom Stoddard
Chief Financial Officer

Chris Wei
CEO, Global Life Insurance and Chairman Asia

Euan Munro
CEO, Aviva Investors



Monique Shivanandan
Chief Information Officer



Andrew Brem
Chief Digital Officer

1 Based on customer numbers as at 31 December 2013 and prior to the deduction of overlapping customers.
2 Based on 2014 funds under management.

	What we said we'd do	What we've done	Our plan of action
Cash flow	• Continue to improve cash remittances • Show improvement in cost income ratio • Continue to improve our turnaround businesses • Reduce integration and restructuring costs in 2014.	• Cash remittances up 11% • Cost income ratio has improved by 2.6 percentage points to 51.5% • Cash remittances from turnaround businesses[2] up 15% • Integration and restructuring costs down 61% to £140 million.	• Continue to improve cash remittances and cost income ratio of all our businesses • Complete proposed acquisition of Friends Life to improve incremental cash flow by c.£0.6 billion and add significant scale and expertise to our back book initiative.
Growth	• Increase VNB in our life businesses through product mix and pricing • Improve COR and underwriting in general insurance businesses through predictive analytics • Improve net flows in asset management • Strategic partnerships e.g. Indonesia • Improve efficiency and invest in digital and automation.	• VNB up 11% to £1,010 million[3] • Improvement in underwriting result has driven a 1.6 percentage point improvement in COR to 95.7% • Launched Aviva Investors Multi Asset Strategy range • Launched our joint venture with Astra International in Indonesia and continued to work closely with COFCO Ltd in China • Invested in our digital strategy including the appointment of a Chief Digital Officer, Andrew Brem.	• Allocate capital to those markets which have attractive growth opportunities • Continue to increase VNB in our life business • Improve COR and underwriting in our general insurance business through automation • Drive positive external fund flows at Aviva Investors • Ensure digital is a key enabler to True Customer Composite • Complete proposed acquisition of Friends Life to: – add up to c.£70 billion of funds for Aviva Investors – bring c.5 million[4] Friends Life customers.
Financial strength	• Ensure £400 million of expense savings reach the income statement[1] • Execute on plans to reduce the intercompany loan • Deliver on remaining divestments • Reduce external leverage over the medium term • Prepare for Solvency II.	• Intercompany loan reduced from £4.1 billion to £2.8 billion as at 28 February 2015 • £571 million expense savings achieved since 2011 • Disposals of River Road, Korea, Eurovita, Turkey general insurance and CxG completed • External leverage down to 28% on a S&P basis • Preparation continues for Solvency II • Enhanced capital management of Ireland Life and Spain.	• Reduce intercompany loan to £2.2 billion by the end of 2015 • Ensure readiness to start Solvency II reporting on 1 January 2016 • Continue to improve our financial controls • Complete proposed Friends Life transaction to: – reduce leverage – deliver £225 million of expected synergy benefits.

1 Based on 2011 baseline expense total of £3,366 million.
2 Our turnaround businesses include Spain, Aviva Investors, Ireland and Italy.
3 Excludes Eurovita, Aseval, CxG and Malaysia.
4 Based on customer numbers as at 31 December 2013 and prior to the deduction of overlapping customers.

Our performance

We use five key financial metrics to measure the performance and efficiency of our business. We also focus on other metrics to measure customer advocacy, employee engagement and our impact on society

Relevance and performance

Our five key **financial** metrics are closely tracked by management to evaluate Aviva's operating performance. These financial metrics are calculated on a continuing basis.

Read more about our investment thesis on page 25. For definitions of our key metrics, turn to the glossary on pages 316-317.

Cash remittances[1]

Sustainable cash remittances from our businesses are a key financial priority and form part of our investment thesis.

The overall improvement in cash remittances was driven by improvements across the majority of our markets. We continue to take action on capital efficiency to increase these remittances.

2014
£1,412m

2013
£1,269m

2012
£904m

Adjusted operating profit[2]: IFRS basis

This is our key measure of operating profitability.

Operating profit was up 6%, which included the benefit of operating expense savings of £113 million[3]. The result also includes an adverse foreign exchange impact of £87 million. See pages 26 to 29 for further details of the performance of our markets in the year.

2014
£2,173m

2013
£2,049m

2012
£1,926m

Operating expenses

Managing our expense base is essential to delivering our investment thesis and to improve competiveness.

Operating expenses on a continuing basis reduced by 7% (4% on a constant currency basis) showing the impact of cost savings initiatives across the majority of our markets. Foreign exchange has benefited operating expenses by £98 million. Compared with the 2011 baseline for the expense reduction target, there has been an overall reduction of £571 million, which shows the original £400 million expense target has been fully achieved.

2014
£2,795m

2013
£3,006m

2012
£3,234m

Value of new business (VNB)[4]

This measures growth and is the source of future cash flows in our life businesses.

VNB increased 11% (15% on a constant currency basis) driven by growth in France, Poland, Italy, Spain and Asia. Growth in these markets was partly offset by reductions in Turkey, mainly driven by a reduction in our share of the business following the partial IPO. In the UK, VNB was stable with the adverse impact of reduced individual annuity sales offset by increases in bulk annuities and equity release and protection.

2014
£1,010m

2013
£909m
(restated)[5]

Combined Operating Ratio (COR)

This is a key measure of underwriting profitability of our General Insurance business.

COR improved 1.6 percentage points with improvements in the UK, Ireland and Europe. These results more than offset an adverse movement in Canada.

2014
95.7%

2013
97.3%

2012
97.0%

1 2013 and 2014 dividend from UKGI was remitted to Group in January 2014 and February 2015 respectively. Cash remittances disclosed are on a continuing basis.
2 On a continuing basis excluding Delta Lloyd.
3 On a constant currency basis.
4 Excludes Eurovita, Aseval, CxG and Malaysia.
5 Restated to reflect changes in the MCEV methodology. 2012 was not restated and therefore is not included. Refer to the glossary for further details.

Our financial, customer, employee and community measures are all moving in the right direction, although we still have much to do.

Mark Wilson, Group CEO

Relevance and performance

We also measure **non-financial** metrics, such as the engagement and diversity of our people, and our customer advocacy, as these are critical to our long-term competitiveness.

Read more about our non-financial performance on pages 48 to 53 and in our CR report at www.aviva.com/cr2014

Customer advocacy

Our Relationship Net Promoter Score® (RNPS) measures the likelihood of a customer recommending Aviva.

Our 2014 survey shows six of our businesses achieved upper quartile performance, four were at market average and two were at lower quartile relative to their local markets. During 2014, Aviva has returned the most consistent and improved set of RNPS results since the survey began in 2009.

	2014	2013[6]
in upper quartile	50%	33%
at or above market average	33%	17%
below market average	17%	50%

Employee engagement

We are focused on creating an environment in which employees can thrive and build a career at Aviva. We measure this through our annual global Voice of Aviva survey.

Engagement improved 9 percentage points in 2014, and now is 3 percentage points above the global financial services norm, driven by a double-digit uplift in trust of our senior leaders. There were also advances in levels of employee pride, motivation and advocacy.

2014
65%

2013
56%

Community investment

We have a long heritage of community investment which includes cash, in kind donations and skills-based volunteering.

Investment in communities

2014
£6.3m

2013
£6.2m

Number of volunteering hours

2014
40,220

2013
41,223

Reduction in CO_2e

CO_2e data includes emissions from our buildings, business travel, outsourced data centres, water and waste to landfill.

In 2010 we set ourselves an ambitious target to cut CO_2e emissions by 20% by 2020, with a minimum 5% reduction each year. In 2014, we exceeded that target, achieving a 32% reduction well ahead of plan. We are now setting new ambitious targets.

2014
4% in the year

2013
8% in the year

Diversity

We remain committed to having a diverse management team and workforce in terms of gender, as well as diversity of experience, skills and knowledge, background and nationality.

At 31 December 2014, we had the following gender split:

Board membership

Males	Females
9	2

Senior management

Males	Females
645	168

Aviva Group employees

Males	Females
12,658	13,706

6 The percentage figures from previous years have been restated to provide a like for like comparison. The restated figures are based on those markets within which Aviva has continued to operate from 2011, which are: UK, Ireland, Canada, France, Italy, Spain, Poland, Lithuania, Singapore, China and India.

Singapore

Help when it's needed most

It must be one of the worst moments imaginable: a diagnosis of terminal cancer.

That was the devastating news given to one of our customers in Singapore, Mr Yeo Chong Kheng and his family.

But because Mr Yeo had a life insurance policy with us we could help and reassure him and his family at an awful time.

We made a payment to Mr Yeo when he received his diagnosis. This meant he could spend his last weeks more comfortably and put his affairs in order, knowing that his wife and son would be taken care of after he had gone.

In particular, he now knew that his son would still be able to study overseas.

Nothing can bring Mr Yeo back. But we know that what we could do meant a great deal to him and his family.

Mr Yeo's wife, Mdm Chin Yoke Yoon, recalls how the family coped with the news: "Dealing with my husband's sudden illness was such a difficult time for the whole family, so not having to worry about our finances, on top of everything else, was a relief. This experience has made me realise just how beneficial insurance can be, so I'm now an advocate and I want to help others understand the importance of planning for the future."

We believe it is our privilege to support our customers at such difficult times.

> "This has shown me just how important insurance is."
>
> — Mdm Chin Yoke Yoon

Where the world is going

We have identified six long-term 'horizons' which will impact our industry over the next few years

My life, my way

Customers will be much more in control, expecting to self-serve and self-solve. They will want to be able to access data and insight, and use it to guide their own decisions

The age of disruption

New agile competitors will act faster to disrupt established businesses

Older and healthier

The emergence of a generation aged 50 plus who will live longer and who are healthier. Markets will be driven increasingly by this group's attitudes and needs

The power of communities

The economic power of governments will have declined further and the power of 'communities' of mutual interests, both virtual and local, will have increased

Winning through data

Those who interpret data quickly and intuitively to inform the development of products and services that provide real value for customers will lead the way

Shifting wealth

Developing markets will have a much larger share of the world's savings and assets pool

These trends will provide both challenges and opportunities for Aviva.

The rapid pace of technological change is expected to continue and customer expectations will continue to evolve, reinforcing the importance of the Digital First and True Customer Composite elements of our strategy.

Personal wealth is highly concentrated within the 50+ population and there are significant opportunities for businesses who can meet their developing needs both in helping them save and then manage their retirement.

Faster growing, developing markets provide opportunities for Aviva to help new customers to accumulate assets and to protect themselves and their families against unforeseen events.

As part of the Not Everywhere component of our strategy, we will continue to allocate capital selectively to businesses where we can compete with scale and provide differentiated value and service to our customers, including our growth businesses in Poland, Turkey and Asia.

In addition to the six long-term horizons, Aviva closely monitors two further trends that are particularly relevant to our industry: climate and regulation.

> The increasing effects of climate change present considerable uncertainty for our customers and communities.
>
> Mark Wilson
> Group CEO

Key trend: climate

Aviva also pays close attention to weather patterns and climate change. There is growing evidence that a gradual long-term change in the Earth's weather patterns and average temperatures is occurring, due to increased quantities of greenhouse gases in the atmosphere and other man-made causes.

One impact of climate change is an increase in extreme weather events. For example, 2014 saw significant flooding in parts of the world (including in our home UK market), and it was the hottest year on record globally*.

Climate change will have a significant impact on both society and our business. Some risks are changing, more complex risk management is required and greater losses can be incurred.

Our business is about helping people prepare for the future, which is why we're helping society respond to the challenges of climate change.

For more information on our response to climate change see pages 52-53.

Key trend: regulation

As well as the longer term trends that we have identified, we continue to experience regulatory change across many of our markets.

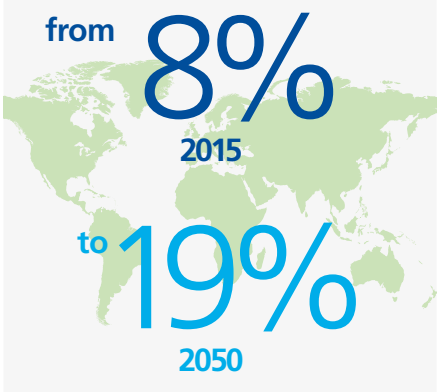
In the UK, 2014 saw dramatic upheaval in the annuity market, and in Poland, the pensions market has been largely transferred to the state over the last few years.

We are being held to increasingly high standards of conduct by our regulators. This is consistent with the relationships with customers that we wish to achieve through our customer thesis.

We also face increased scrutiny as a Global Systemically Important Insurer, which could result in additional capital or other requirements on top of the Solvency II regime which comes into force in 2016, harmonising solvency rules across the European Union.

Aviva will continue to work closely with key regulatory bodies on these and other issues.

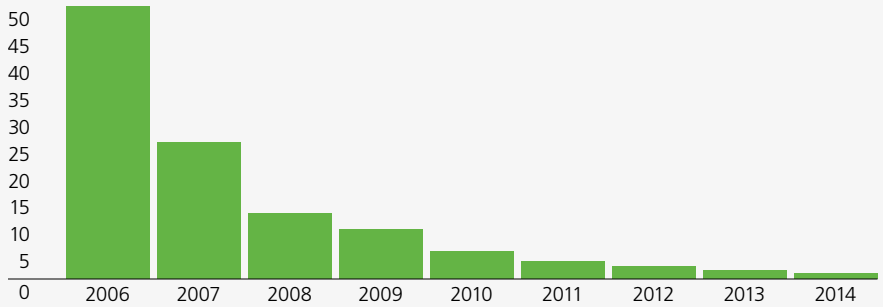
% of population aged 65+
(Average across Aviva's 16 markets)



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2012 Revision, NDC Taiwan, August 2014 Revision.

Ageing populations will be looking for help to meet their retirement needs. Population ageing is already advanced in our more mature markets; for example the proportion of the population over 65 in 2015 is 18% in the UK and 19% in France, and is anticipated to rise to 25% in 2050 for both markets. In contrast, in Indonesia, 5% of the population today is aged 65 or over, but that proportion will more than triple to 16% by 2050, and in China, the proportion aged 65 or over will rise from 9% to 24% in the same period.

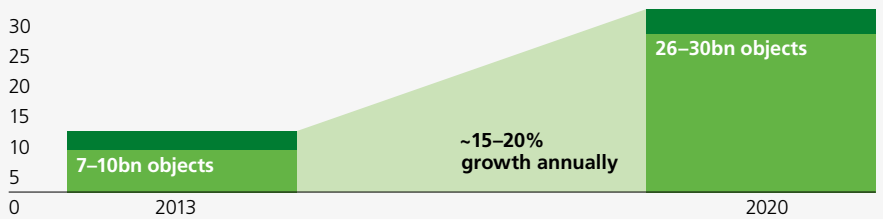
Falling cost of technology
Cost of network (bandwidth), Mbps 2006-14, US$



Source: Accenture, DrPeering.net

The cost of technology continues to fall. Combined with the increasing use of Big Data, this enables existing organisations and disruptive new entrants to gain new and faster customer insights, and to provide more products and services digitally.

Growth in connected objects
Some 30 billion objects may be connected to the Internet of Things by 2020



Source: McKinsey Global Institute

Not only are increasing numbers of people and enterprises doing more and more online, but growth in the Internet of Things (smart embedded devices connected to the Internet) is providing businesses with new real-time data sources and business opportunities.

* UN World Meteorological Organization.

How we are different

Aviva is the only insurer of scale in the UK which offers life, general and health insurance, and asset management – a True Customer Composite. We help customers manage the risks of everyday life, and provide them with an easy-to-understand, convenient experience when and how they want it

Life insurance

Retirement income, Savings & Pensions, Life cover, Protection
Customers buy insurance products to save for the future, to provide reassurance their savings will last through retirement, and to protect against the risks to their family income after an accident, illness or death.

General insurance

Home, Motor, Travel & Commercial
General insurance policies protect customers from loss in the event of damage to their property or assets, or injury to themselves.

Health insurance

Private Medical Insurance
Customers buy health insurance products to protect their health, and for wellness support, supplementing any healthcare provision they receive from the state, and giving them a choice in the level of treatment they receive should they fall ill.

Asset management

Asset management for Aviva and other clients
Customers trust us with their money, and we invest it on their behalf to generate investment returns.

We help customers insure their first car, provide life cover when they buy a house or start a family, help insure them when they set up a business and protect their income should they experience a critical illness or unemployment. We also help them save for important events such as education, a child's wedding and, most importantly, a comfortable retirement. We then help people manage their income after they have retired.

We sell our products through multiple channels, so that customers can access our products and services in the way that they choose. This can be direct or via intermediaries such as financial advisers, and partners such as banks. Customers are increasingly looking to access Aviva digitally across all of our channels, online or through their mobile. This is a key focus of our strategy.

How we create value

Aviva offers simple, convenient access to meet customers' insurance, protection, savings and retirement needs

We do this by:

Underwriting

Our underwriting and pricing expertise coupled with our analytics capability allow us to underwrite risk in a way that accurately reflects our customers' profiles and is thus more price competitive.

Risk management

Our scale affords us the opportunity to optimally manage risk, pooling different risks, maintaining capital strength and working with the best reinsurance specialists in the world so that customers know we will be there when they need us.

Asset & liability management

Customer premiums are invested by specialist teams to balance investment return with risk and to maintain sufficient funds to pay claims. Wherever possible we match liabilities to assets. For example, money received for annuities is invested in assets which will continue to pay a return for the long term, such as corporate bonds.

Understanding Big Data and analytics

Big Data enables us to better support our customers through accurate risk assessment and to present opportunities to customers at every stage of their lives.

Underpinned by:

Strong brand

300+ year heritage

Financial strength

Scale and diversity

Customer service

Enabling sustainable value creation:

We create value for our investors and deliver economic and social benefits for our customers, employees and society

Customers

Customers benefit from a range of solutions to meet their needs, with easy access when and how they want it. Our strong brand and financial strength give customers confidence we will pay out in the event of a claim. Making sure our customers stay with us is important to our long-term success.

29+ million[1]

Customers worldwide

Shareholders

Aviva creates value for shareholders by returning profits to them in the form of dividends, and by re-investing in our businesses around the world.

11.5%

Total shareholder return in 2014

Employees

Our aim is for employees to work within a diverse, collaborative and customer-focused organisation, with equal opportunities, fair reward and encouragement to achieve their potential.

26,364[1]

Employees worldwide

Society

Aviva plays a significant role in the community as a major employer, long-term investor, and enabler of economic growth by helping people and businesses to manage risk, as well as via specific investment in the communities in which we operate, such as our community funds.

£6.3 million

Total community investment in 2014

1 As at 31 December 2014.

Our strategic framework

In a rapidly changing world, our purpose is to free people from fear of uncertainty. Our Strategic Framework sets the direction and priorities for the business and encapsulates our purpose and culture

Our strategy

In 2013, we set out our new purpose and values, the theses that shape how we work, and our priorities. The theses were defined as:

- cash flow plus growth for investors
- simplicity and convenience for our customers, which we called 'simplicity your way'
- ownership, diversity and digital priorities for distribution
- achievement, potential and collaboration for our people.

Our thinking was encapsulated in our Strategic Framework. This framework has helped provide clear direction for turning around our business.

Our Strategic Anchor builds on this framework to provide a clear statement of our business strategy to help us make decisions to compete in our rapidly evolving world. It comprises the "what we do, how we do it and where we do it" of our business strategy. There are three elements to our Strategic Anchor:

- True Customer Composite
- Digital First
- Not Everywhere.

True Customer Composite

We are a True Customer Composite. This is what differentiates us. We are the only true composite of scale in the UK, which means we are one of only a few insurance companies in the world which can provide customers with life, general and health insurance and asset management in one place.

For more information see pages 20-21.

Digital First

We put Digital First – this is how we will capitalise on being a True Customer Composite. Direct digital distribution is fundamentally changing the customer relationship in many of our markets. So, if it is a choice of where we invest it will be in Digital First across all our distribution channels – it's how customers want to do business with us.

For more information see pages 22-23.

Not Everywhere

We are Not Everywhere. We are not interested in planting flags or being in 100 countries. We will focus on a select number of markets where we have scale and profitability or a distinct competitive advantage – where we can win.

For more information see page 24.

Where the world is going

Our role within it

Our business strategy

Our plan of action

What matters here

"The strategic framework has helped engage our people as well as providing clear direction for turning round our business; our strategic anchor is a clear statement of how we compete in a rapidly changing world."

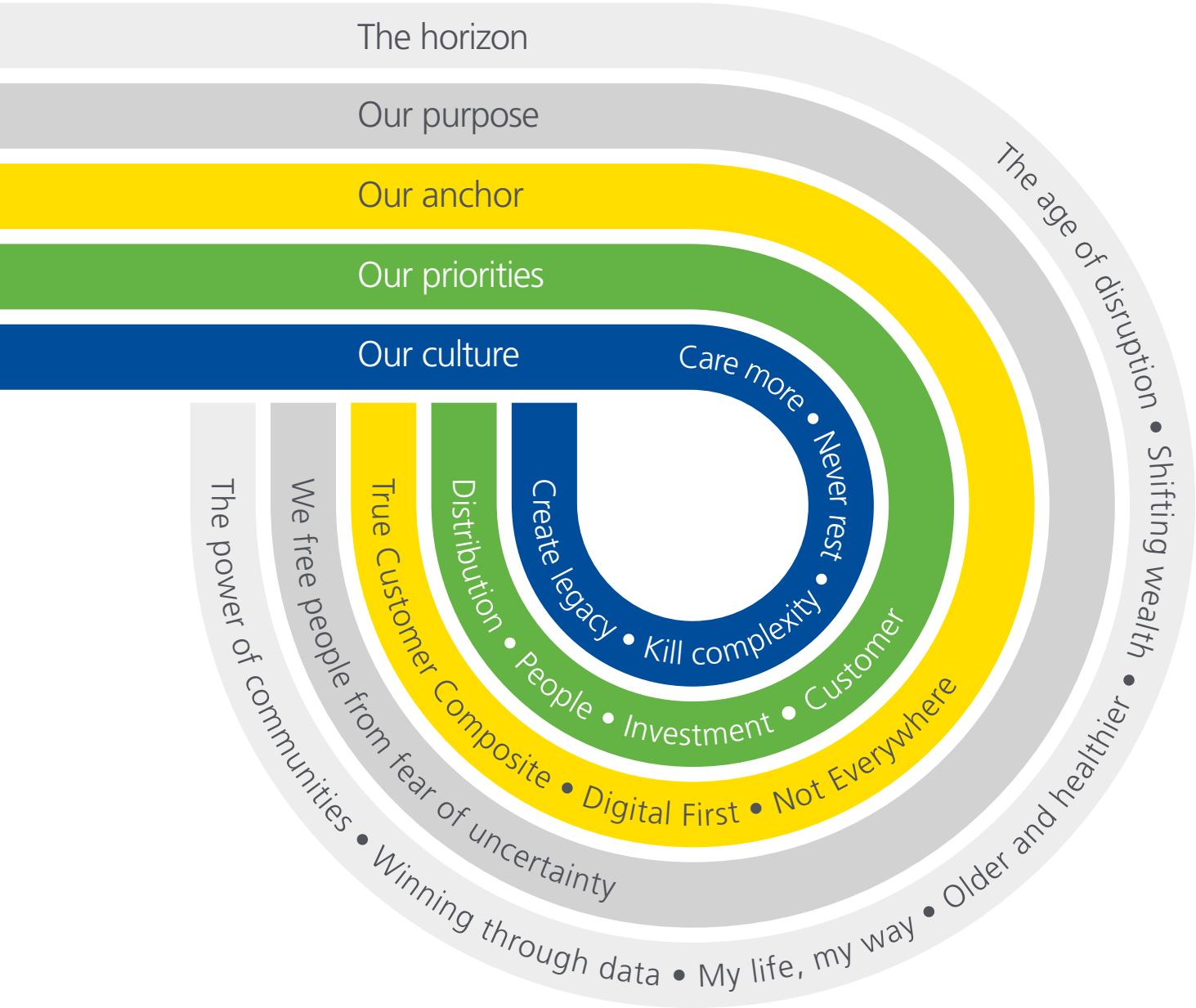
Mark Wilson
Group CEO

Strategic framework

Embedding our strategy

We want to ensure everyone in every team understands our strategy, their role in delivering it and how they can live out our values.

In December, we ran our second worldwide 'Week of Conversations' about exactly that. It gave our people the opportunity to have open and constructive discussions, reflect on what they had achieved in 2014 and goals for 2015. These conversations were held within teams, but also at five live events broadcast across 12 locations around the world, led by members of the Group Executive.



True Customer Composite

We are a True Customer Composite, offering customers life, general and health insurance and asset management. We will provide our customers with tailored offerings to recognise, reward and delight them, in return for their trust and loyalty

Why it's important

Operating as a True Customer Composite enables us to carry out more effectively our purpose of 'freeing people from fear of uncertainty'. The True Customer Composite will benefit customers by offering them a flexible combination of products tailored to their needs, from protecting their lives and assets to saving for retirement. We will be able to offer more competitive prices and reward loyalty, since customer acquisition and administration are cheaper. We will provide customers with additional value and convenience compared to our mono-line competitors, supported by the benefits of increased customer retention and engagement.

Why now

In the past, the financial benefits of the composite were clear (lower capital requirements through diversifying our risk), but operational benefits were more elusive. Very few customers held more than one Aviva product as our business was distributed almost solely through intermediaries.

In the emerging digital world, the advantages of being a True Customer Composite become more tangible. We will have much greater direct access to customers, who will not use intermediaries to the same extent.

If customers are not relying on brokers to analyse their needs and recommend a suitable package of products, they could find themselves managing multiple different products from different providers. This is not what our customers tell us they want.

What they want is simplicity to meet all their insurance needs. This builds on our customer thesis priority of 'simplicity, your way'.

Aviva is the only composite of scale in the UK that can offer life, general and health insurance and asset management, and one of only a few international insurers that can do this.

How we've progressed

We have launched new propositions and campaigns rewarding existing customer loyalty, and improving average product holdings and profitability. For example, in Singapore we now offer discounted general insurance products to Singapore Armed Forces life assurance policyholders.

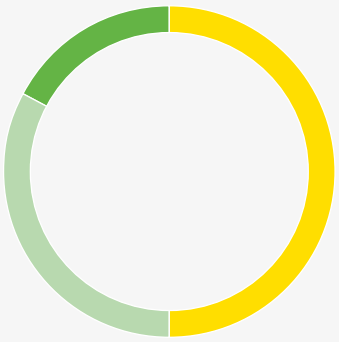
In France, we offer discounts on selected new products to existing business customers, and we are selling unit-linked products to existing 'Euro fund/with-profit' customers who want long-term savings products offering returns linked to the performance of the investment markets.

Customer focused innovation

Our Customer Cup competition captures our people's best ideas so we can improve things for our customers. The judges for the 2015 competition have challenged entrants to come up with ideas to make the most of our True Customer Composite model.

The 2014 winners, our Life Claims Assessment Team (pictured above), speak every day to customers who have been diagnosed with serious illnesses. Thanks to this team's great ideas, customers' claims can be settled much more quickly, and they can access support as a result of our partnerships with leading cancer charities such as Macmillan Cancer Support. The results are industry-leading – and mean we can better support our customers when they most need help.

Customer advocacy



in upper quartile	50%
at or above market average	33%
below market average	17%

Our Relationship Net Promoter Score® measures the likelihood of a customer recommending Aviva. During 2014 Aviva returned the most consistent and improved set of RNPS® results since the survey began in 2009.

In February 2014 we launched MyAviva in the UK. This creates one place for UK direct customers to purchase, view and amend their Aviva policies.

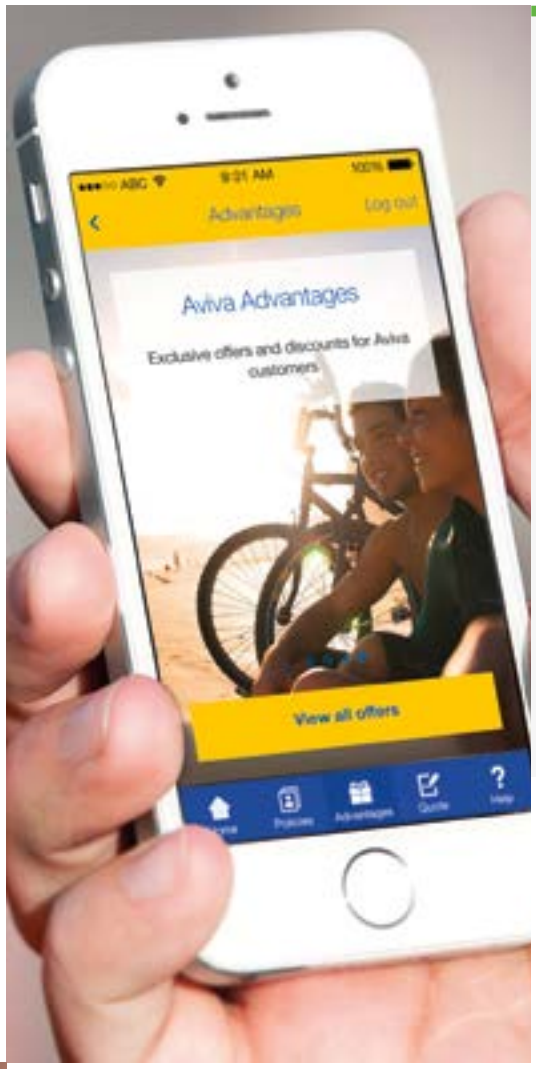
We have developed new composite corporate propositions, and are streamlining the way we interact with corporate clients.

In China our 'All in One' offer brings together life, health, accident and savings. We have also launched a health and wellness platform, to offer customers easy access via one portal to Aviva COFCO's services, encompassing health, wellness and financial "wellbeing".

What we plan to do next

We will build on our experience to capitalise on our unique position as one of very few True Customer Composites in the world, developing solutions that flexibly combine products to meet customers' needs and reward their loyalty.

We will leverage digital technology to improve customer experience, increase engagement and reduce cost, leading to longer and more valuable relationships with customers.



MyAviva app – altogether better

MyAviva brings together the products that help our customers in the UK protect their life, health, loved ones, future and possessions in one secure and simple-to-use online place. It has a single login so they can see all their Aviva policies in one place, offers access to discounts on a range of our products, as well as rewards and giveaways through Aviva Advantages. We've also launched a MyAviva app in the UK so customers can use their phone to view their policies, set reminders to renew their car and home insurance, check the value of their pension – and access a wealth of offers. It's a whole new way for us to serve our customers when they want and how they want.

Download the Android version

Download the iOS version

Making it easy for our customers

We want to do what our customers want as simply and efficiently as possible. That's why we're revolutionising our processes and roles by applying Systems Thinking. It's led by front line staff, who know our customers best. For example, through Systems Thinking, Aviva France has simplified the process to validate funeral claims, so that it can just take a single phone call.

www.aviva.com/systems-thinking

> Focusing on products that meet customers' needs ... being able to flexibly tailor product combinations, and get a better outcome for that particular customer. And the happier a customer is, the more likely they are to stay with us, the lower our costs will be and the better the deal we can offer these customers.
>
> John Lister
> Group Chief Risk Officer

Digital First

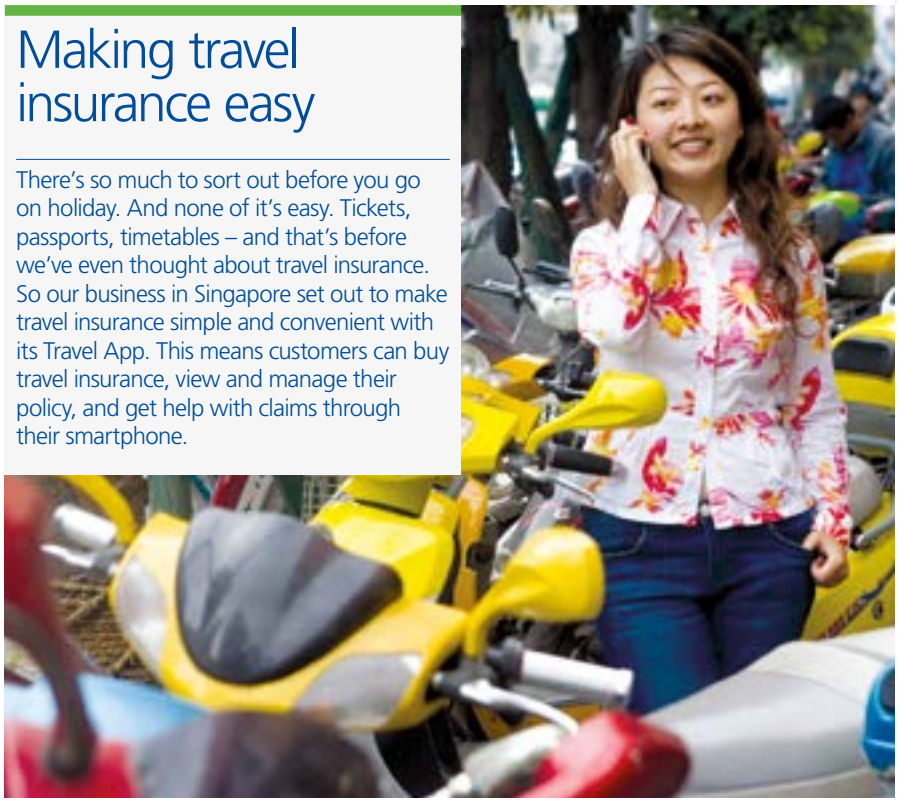
We put Digital First because our customers are increasingly choosing this as their preferred way to deal with us. Through digital we can support customers more quickly with their enquiries and transactions, wherever they are in the world

Quick, agile and innovative

Today's successful businesses are quick, agile and innovative. That's why we hold hackathons. Over a couple of days, we work with developers and designers to take an idea, work out how to deliver it – and do it. These events have challenged how we work and how we design the products our customers want. We've identified nine start-up technology companies we want to work with, including specialists in artificial intelligence and enhanced analytics.

Making travel insurance easy

There's so much to sort out before you go on holiday. And none of it's easy. Tickets, passports, timetables – and that's before we've even thought about travel insurance. So our business in Singapore set out to make travel insurance simple and convenient with its Travel App. This means customers can buy travel insurance, view and manage their policy, and get help with claims through their smartphone.



Why it's important

The environment in which we operate is changing rapidly due to recent advances in technology and digital distribution.

Aviva puts Digital First – this is how we will capitalise on being a True Customer Composite. We have to think Digital First across all our distribution channels – it's how customers want to connect with and do business with us.

Putting Digital First means putting digital at the forefront of all change and development activity across Aviva.

We are not starting our digital offering from scratch. We already have significant direct and digital operations in several of our key markets.

Digital First will help make the True Customer Composite central to a new relationship with customers that builds on our understanding of how customers want to use our products in a digital world. We will also seek out and apply innovative business models and capabilities for our customers.

UK Digital Insurer of the Year

We put Digital First – and we know we're on the right lines when others recognise what we're doing. So we were delighted to be awarded the title of the UK's Digital Insurance Company of the Year at the Incisive Media Awards in November for our MyAviva website, with the citation saying we were the 'stand out performer'. That's praise indeed – but we are even more pleased that our customers are saying things like "the website is simplicity itself. Even a technophobe can use it" and "At long last I am able to have all of my insurance in one place and be able to manage it myself. Happy customer". We want all our customers to be just as happy.

> We want to be at the forefront of emerging technologies, combining that with customer insight to deliver really innovative digital products and services.
>
> Andrew Brem
> Chief Digital Officer

Digital distribution
Increasingly customers want to be able to self-serve: researching, buying and modifying policies online. Digital allows customers to connect with us directly, giving us the opportunity to improve customer experience, increase interaction with them and reduce the cost to serve them.

Predictive analytics
A key part of digital is predictive analytics, which uses Big Data to predict risk, behavioural, and customer purchasing patterns.

This allows us to develop products that better meet customer needs and to more accurately and efficiently underwrite, price, bundle and deliver our products, leading to a more robust business.

How we've progressed

In December 2014, Andrew Brem joined Aviva as our Chief Digital Officer and a member of the Group Executive.
In this new role, Andrew will drive our Group-wide digital transformation which will have a significant impact on every aspect of customer interactions:

- product innovation and development through data analytics, customer insights, and risk management
- direct distribution, interactive communication and claims handling
- marketing and branding across social media and the internet.

Digital garage
We are also structurally and physically separating digital functions from our businesses. We are developing our first Digital Garage, in an old warehouse in Shoreditch, London, not far from Silicon Roundabout. This puts business people alongside IT people to spur their creativity and give them space to develop new propositions, working in an agile way.

We will be using a similar approach across our other businesses.

What we plan to do next

We aim to bring to our customers the entire breadth of our offering digitally, in an integrated experience.

We will build on our existing digital infrastructure and achievements, for example MyAviva in the UK, and continue to leverage analytics and data to provide interfaces and apps that customers can use to interact with us.

We are also looking to use digital to find new ways to engage with people meaningfully more often. We are harnessing the power of digital throughout the organisation and across all our distribution channels to improve processes, reduce costs and improve user experience.

Finally, we are also working on a number of innovations in the digital space.

Virtual branch ... excellent service

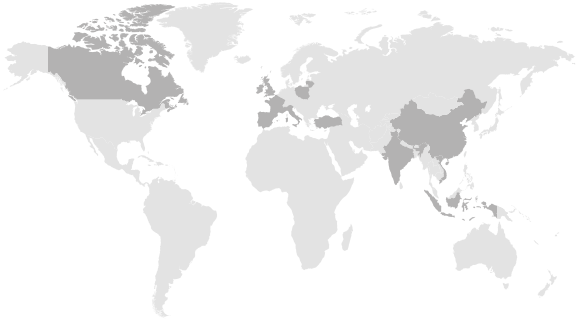
What do our customers want? Simplicity and convenience. That's why Aviva Poland has set up its virtual branch, a real innovation in Polish financial services. Customers can hold a video conference with a professional adviser on their investment choices, complete their application and make their investment online.

It's a great option for busy people and is proving popular with investors who have little time to manage their finances or who can't get to an adviser's office.

It's a great example of our customer thesis in action – 'simplicity, your way'.

www.aviva.pl/wirtualny-oddzial

Not Everywhere



United Kingdom
Ireland
France
Italy
Spain
Poland
Turkey
Lithuania
Canada
Singapore
China
India
Indonesia
Hong Kong
Taiwan
Vietnam

We will focus on a select number of markets where we have scale and profitability or a distinct competitive advantage – where we can win

Why it's important?

All insurance companies need diversification, for example in products or geography, in order to pool risks. That is the whole premise behind insurance. But, we must still strike a balance between diversification and complexity.

Over the past two years we have reduced the number of businesses from 28 to 16, so that we can concentrate our efforts in our key markets. We are also a British champion and this is our home base – being the largest player in the UK is critical to our performance and the safety and reassurance this provides works well across many of our target markets.

Not Everywhere is more than just geography. It is a mindset of excellence. We need to focus our resources where we can be most competitive, underpinned by our core strengths such as underwriting, risk management, asset & liability management, and understanding Big Data and analytics. We will not provide every product to every customer and we will be selective about the risks that we take on.

What's next

We will continue to reshape our portfolio to drive returns higher:

- Only operate in markets where we have scale and defined competitive advantage
- Reallocate capital between business lines and countries
- A preference for composite where margins and regulation are supportive.

How we've progressed

January
Aviva signed a joint venture in **Indonesia** with PT Astra International Tbk (Astra), Indonesia's largest publicly listed company, to create life insurer Astra Aviva Life. Mark Wilson, Group CEO, said: "Astra is a hugely respected household name in Indonesia and the ideal partner for Aviva in one of the world's fastest growing insurance markets. This joint venture creates a compelling growth opportunity, underlines our commitment to Asia and supports our investment thesis of cash flow plus growth."

March
As part of Aviva's strategy to focus on businesses where we have a leadership position and can generate attractive returns, we announced the sale of our **Turkish general insurance** business Aviva Sigorta A.S., to a private equity consortium led by EMF Capital Partners.

April
We announced the sale of our entire 47% stake in **South Korean** business Woori Aviva Life Insurance to NongHyup Financial Group.

September
We announced the sale of our holding in one of our **Spanish** joint ventures CxG Aviva to Novacaixagalicia Banco (NCG Banco), for €280 million (£221 million) in cash. The transaction resulted from a decision by the Arbitration Tribunal in Madrid, following the merger of Caixa Galicia and Caixa Nova into Novacaixagalicia in December 2010, and the bank's subsequent restructuring in 2011.

November
We completed the Initial Public Offering (IPO) of a minority stake in our **Turkish Life** JV with Sabancı Group, AvivaSA, valuing the company at TL1.68 billion (£469 million). Separately, AvivaSA and Akbank agreed to extend their exclusive bancassurance agreement for another seven years.

December
We announced our intention to acquire Friends Life in the **UK**. Our focus on the UK is incredibly important to us. This transaction will create the UK's leading insurance, savings and asset management business with 16 million customers[1]. These customers stand to benefit from being part of a stronger, more diversified and resilient group with a wide range of products. We are an iconic British business and this proposed acquisition will increase our scale in attractive segments of our home market.

We're not trying to be all things to all people. We will continue to deploy capital selectively and focus on the things we're good at.

Jason Windsor, Chief Capital Officer

1 Based on customer numbers as at 31 December 2013 and prior to the deduction of overlapping customers.

Cash flow plus growth

We set out clearly why investors should choose us, enabling them to make an informed decision about our business. Our aim is to deliver cash flow plus growth and this supports our dividend paying potential

Cash flow

We have businesses with the potential to produce significant cash flow:

- Our core business lines are: life insurance, general insurance, health insurance and our asset management business, Aviva Investors
- We focus on increasing cash remittances from our business units to the Group centre. Our excess holding company cash flow is remittances less central spend and debt financing costs. Standalone, we have a target to more than double our excess holding company cash flow to £800 million by 2016
- Our business model gives us significant diversification benefits. The mix of different businesses reduces the impact on us of market shocks
- We will maintain our balance sheet strength at an appropriate level to ensure financial resilience. We will continue to reduce our internal debt level.

How we measure it

Cash remittances from business units less central spend and debt financing costs

Growth

We focus on growing value of new business in life insurance, underwriting profit in general insurance and external fund flows in Aviva Investors:

- The value of new business (i.e. the present value of future profits from life business written during the year) has exceeded £1 billion for the first time
- We have businesses in selected growth markets of Europe, such as Poland and Turkey, as well as South East Asia and China
- The restructuring of our businesses in Italy, Spain and Ireland has created the opportunity for growth in these recovering insurance markets
- In 2014, we increased general insurance underwriting profit (i.e. premiums less claims and expenses) by 54% to £321 million
- Aviva Investors' flagship range of multi-strategy funds, AIMS, was launched in July 2014 creating an attractive outcomes-based solution for investors, and the potential for significant growth in our external fund flows.

How we measure it

Life: Value of new business "VNB"
General Insurance: Change in underwriting result
Aviva Investors: External net fund flows

Financial simplicity and clear financial priorities are essential for investors to make an informed decision about us. Our financial reporting focuses on five key metrics. The table below sets out the priority metrics for each of the markets in which we operate.

Matrix of metrics – five clear financial priorities

	Cash flow	Operating Profit	Expenses	VNB	COR
Group	■	●	●	●	●
UK Life	■	●	●	◆	–
UK General Insurance	■	●	●	–	■
France	■	●	●	◆	■
Canada	■	●	●	–	■
Italy	■	●	◆	●	■
Spain	■	●	●	●	–
Ireland	■	●	●	●	■
Poland	●	●	◆	■	■
Turkey	◆	●	◆	■	–
Asia	◆	●	●	■	■
Aviva Investors	■	●	●	–	–

KEY ■ critical ● significant ◆ important

Our proposed acquisition of Friends Life would accelerate our transformation in line with our investment thesis, 'cash flow plus growth'. It is expected to increase the quantum, resilience and diversification of group cash flows and improve Aviva's ability to invest for growth in its chosen markets and products, leveraging the respective strengths of Aviva and Friends Life.

For more information on our performance against the five key financial metrics in 2014, see page 10.

Laying the foundations for the next stage of transformation

Financially, we made further progress on improving our performance and increasing our financial flexibility. Operationally, we have continued to deliver expense savings and realise efficiencies across the Group

Thomas D. Stoddard
Chief Financial Officer
4 March 2015

Overview

In 2014, operating earnings per share (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[3] by £1.3 billion in the 12 months to February 2015 to £2.8 billion. Our capital level and liquidity are within our risk appetite, with an estimated economic capital surplus[4] 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 (*2013: £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 (*2013: £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

1 On a continuing basis, excluding US Life.
2 Excess centre cash flow. Refer to the glossary for a definition and more information.
3 Between Aviva Insurance Limited and the Group.

The Group has made substantial progress in improving its financial flexibility.

Tom Stoddard
CFO

£1,383m
(2013: £1,254m)
Operating profit attributable to ordinary shareholders[5]

51.5%
(2013: 54.1%)
Operating expense ratio

4 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.
5 Net of tax, non-controlling interests, preference dividends and coupon payments in respect of direct capital instruments and fixed rate Tier 1 notes.

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% (*2013: 97.2%*) and increased its underwriting profit 66% to £204 million (*2013: £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% (*2013: 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.

Italy was the stand-out performer of our European businesses. Cash increased 167% to £32 million, VNB[6] was 55%[7] higher at £63 million (*2013: £43 million*) and the COR improved 1.2 percentage points to 94.0% (*2013: 95.2%*). Operating profit was 2% higher at £172 million (*2013: £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 (*2013: £448 million*). French VNB was 25%[7] 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 (*2013: £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 (*2013: £184 million*), benefitting from a £39 million one-off from regulatory pension changes. VNB grew 31%[7] to £64 million (*2013: £51 million*) and the business remitted £106 million of cash to Group. With a 25% increase in cash, and a 31%[7] increase in VNB, Poland is a prime example of delivering cash flow plus growth.

In Asia, our Chinese business grew VNB 100%[7] 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%[7] to £87 million (*2013: £76 million*). We are seeking to renew our distribution agreement with DBS this year on appropriate terms.

Managing capital effectively

How we allocate capital is vital to delivering our investment thesis of 'cash flow plus growth'. We invest in order to optimise returns and future cash flows, while maintaining sufficient diversification to withstand the impact of any unforeseen events.

We have exited businesses that were capital inefficient or subscale but there remains more to do to improve overall return on capital. The proposed acquisition of Friends Life should provide greater financial flexibility to drive growth in the rest of the Group.

£692m

(2013: £420m)
excess centre cash flow

65%

increase

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 (*2013: 270p*) and our Market Consistent Embedded Value per share was 14% higher at 527p, as shown below.

Net asset value[8]

	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	**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[4] increased marginally to £8.4 billion (*2013: £8.3 billion*), with a coverage ratio of 182% (*2013: 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 was stable at £3.6 billion prior to the declaration of our 2014 final dividend (*2013: £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.

6 Italy excludes Eurovita.
7 On a constant currency basis.
8 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% (*2013: 31%*) on an S&P basis and 41% (*2013: 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.

Our challenge in 2015 through 2017 is to develop our capabilities around the True Customer Composite and Digital First, and shift towards investing in growth.

Tom Stoddard
CFO

IFRS profit before tax

This measures our total statutory IFRS profit before tax attributable to shareholders during the year.

It includes operating profit, as well as non-operating items such as restructuring costs, impairments, investment variances and profits or losses arising on disposals.

Total profit before tax of £2,339 million includes £2,281 million from continuing operations and £58 million from discontinued operations.

Operating profit performance in the year is set out on page 10.

On a continuing basis, non-operating items contributed £108 million to total profit (*2013: £768 million loss*). The two main reasons for the improvement are lower integration and restructuring costs and positive investment variances (*2013: negative variances*).

Integration and restructuring costs of £140 million (*2013: £363 million*) are £223 million lower due to a significant reduction in transformation spend. 2014 costs primarily relate to preparation for Solvency II.

Total investment variances and economic assumption changes were £188 million positive (*2013: £352 million adverse*). In the non-life business this included positive short-term fluctuations of £261 million, mainly due to a decrease in risk-free rates increasing fixed income security market values in the UK, Canada and France. Economic assumption changes were £145 million adverse as a result of lower discount rates. In the life business, 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.

Profit before tax from discontinued operations was £58 million (*2013: £1,273 million*) and relates to our US Life and related internal asset management businesses.

2014
£2,339m profit

2013	2012
£2,819m profit	£(2,521)m loss

Maidstone, United Kingdom

Time for tea

The British are famous for taking their tea very seriously – so much so that England is home to an exhibition of no fewer than 6,700 teapots. It's called Teapot Island and Keith and Sue Blazye, its owners, are one of our customers.

As Sue Blazye explains: "We woke up on Christmas morning and came downstairs to find our exhibition under three feet of water because a local river had flooded. It was horrendous."

Mr and Mrs Blazye wanted to get the exhibition up and running in time for the start of the tourist season and they didn't want to disappoint their customers.

Mr and Mrs Blazye and our case manager, Helen Anderson, worked closely with the loss adjuster to work out what the Blazyes wanted and how it could be delivered.

Opening in time wouldn't have been possible using standard drying and repair techniques. So our drying consultants found a way to get the repairs done in time. We use these new approaches more often now.

Thanks to Mr and Mrs Blazye's commitment, the partnership between our claims manager and the loss adjuster, and the innovative approach to getting the drying and repairs done, Teapot Island opened its doors to visitors in time for the start of the tourist season.

Helen Anderson said: "I've worked for Aviva for 13 years and this was one of the most unusual and complex claims I've worked on – but also one of the most gratifying. Delivering for our customers in this way is the best bit of my job."

Watch the Blazye's story at www.aviva.com/media/video-interviews/

> This is our life and we wanted it back to normal as quickly as possible. We were so impressed with the help and support that Aviva offered.
>
> Sue Blazye

UK Life

> Offering customers a digital one stop shop for all their insurance and savings needs gives us a unique competitive advantage.
>
> David Barral
> CEO, Aviva UK Life

Overview

We are a leading life insurer in the UK and Ireland with an overall market share of nearly 10%[1]. We offer a broad range of life insurance, investment, pension and health insurance products.

Much of our business is sold through a strong network of independent financial advisors and strategic partnerships with leading banks and retail brands in the UK. An increasing percentage is purchased direct by customers as we continue to simplify our products and make it easier for them to buy and self-serve online.

We received a record number of awards in 2014. These included Protection Provider of the Year, Health Provider of the Year (for the 5th year running) and a five star rating for life and pensions at the Financial Adviser Service Awards.

Strategy

Our strategy is to improve customer engagement and create deeper and stronger relationships with them. We are also focused on simplifying our business model and putting Digital First to enhance the services we offer while reducing costs and improving efficiency. This means we will increase our cash flow to the Group and grow our new business to deliver the investment thesis of cash flow plus growth.

We will grow our business and future cash flows by focusing on specific areas of the market: our back book, retirement, corporate benefits for Small and Medium-sized Enterprises (SMEs) and protection. We have one of the largest back books in the UK, with three million customers and £85 billion of assets under management. We can manage it more efficiently through rigorous capital management, automation, reducing our costs and improving customer service and retention.

The proposed acquisition of Friends Life would create the UK's leading insurance, savings and asset management business with 16 million customers[2], equivalent to accessing one in four UK households. These customers would benefit from a stronger, more diversified and resilient Group with a good range of products. We would have a leadership position in corporate pensions, a market expected to more than triple in ten years. We also expect the value of new business (VNB) in protection to increase significantly and would have the opportunity to sell our broader range of at-retirement products into the enlarged customer base.

Financial performance

We delivered a good set of results despite a challenging market and regulatory environment. We increased our cash remittance to the Group centre by 18% to £437 million by improving our capital efficiency and reducing operating expenses by 7%.

Life operating profits increased to £1,039 million, which included a £282 million benefit from longevity assumption changes. Excluding non-recurring items, profits have decreased 10% with the benefits of cost savings offset by the impact of reduced annuity trading and lower expected investment returns as a result of de-risking activity.

VNB was up 1% to £482 million, with strong trading in equity release products and increased sales of bulk purchase annuities and protection partly offsetting the decline in volumes of individual annuities.

1 Association of British Insurers (ABI) stats published Q3 2014 – based on Annual Premium Equivalent.
2 Based on customer numbers as at 31 December 2013 and prior to the deduction of overlapping customers.

Performance indicators[3]

£437m
(2013: £370m)
Cash remitted to Group

£1,039m
(2013: £952m)
Life operating profit

£565m
(2013: £607m)
Operating expenses

£482m
(2013: £477m – restated[4])
Value of new business

Operational highlights

In 2014 we:

- Focused our strategy on specific market segments, and our competitive advantage of offering customers a 'one stop shop' for all their insurance and savings needs
- Progressed our preparation for the implementation of Solvency II
- Achieved our best ever customer satisfaction scores (Relationship Net Promoter Score®).
- On 1 January 2015, we completed the transfer of our Irish Life business into our UK Life company, releasing further capital to the Group.

Market context and challenges

The UK is Aviva's home base and we are a British champion. There are opportunities for growth including the Government's pension reforms which give consumers flexibility in how and when they access their pension savings. The challenge will be providing them with the appropriate level of support within the constraints of the developing regulatory framework for advice.

We are continuing to reduce our reliance on individual annuities following reforms to the market announced in the 2014 Budget. We intend to mitigate loss of VNB through increased sales of income drawdown, equity release and Bulk Purchase Annuities (BPAs).

Assuming the proposed acquisition of Friends Life completes, one in four existing pension customers in the UK will be Aviva customers. That provides the opportunity to offer pensions, drawdown, equity release and long-term care, and create long-term value for shareholders. Similarly, our strengths in the employer-sponsored pension market mean we are well-placed to capitalise on pension saving through large employers and small businesses, including auto-enrolment.

The protection market is a strategic priority. The proposed acquisition of Friends Life would make us number one in protection[5], with an unrivalled product range and distribution reach, whether that is through intermediaries or, increasingly, direct-to-consumer.

Case study

Auto-enrolment

Auto-enrolment means that all UK employers must offer and enrol their employees into a suitable pension scheme by early 2018 at the latest, depending on the number of employees they have. To help employers, we've developed an online service to help them assess whether their employees have to be registered, make sure they make the minimum contributions and produce documents for employees or remind employers when they have to act. They might, for instance, have to re-register an employee who had previously opted out. It means employers can meet their obligations as easily as possible. And that means they have more time to concentrate on their business.

www.aviva.co.uk/auto-enrolment/

Priorities

In 2015 we will:

- Deliver simplicity and convenience for customers and contribute to the Group's cash flow
- Begin to integrate Friends Life, should the proposed acquisition complete
- Support our customers to take advantage of the Government's pension freedoms by providing a full suite of market leading retirement products
- Launch a new Direct-to-Consumer investment platform to provide customers with a digital online service with easy ready-made packaged solutions
- Build on our existing strengths in protection by launching an innovative product range and increasing our growing direct-to-consumer business
- Continue to manage capital, costs and retention in our back book more efficiently, unlocking value and improving cash flow.

> We aim to delight our customers, partners and shareholders by delivering innovative solutions.
>
> Chris Wei
> CEO, Global Life Insurance and Chairman, Asia

3 Including Ireland Life.
4 Comparatives have been restated to reflect the changes in MCEV methodology. Refer to the glossary for further details.
5 Protection ranking based on 9M14 APE obtained from the Association of British Insurers.

General insurance UK & Ireland and Canada

> Building on our leading position we will look to make the most of our unique opportunity as the leading UK composite insurer.
>
> Maurice Tulloch
> Chairman, Global General Insurance and CEO, Aviva UK & Ireland General Insurance

Our general insurance strategy

General insurance is integral to Aviva's strategy of becoming a True Customer Composite, meeting all customer needs across life, general and health insurance, and asset management. It is an important part of Aviva's diverse business model and contributes approximately 28% of the Group's operating profits, with general insurance operations in seven markets.

A critical component of our general insurance business is a focus on our general insurance fundamentals: underwriting, pricing, claims management, predictive analytics and cost efficiency.

In a rapidly changing world, fuelled by digital, it is critical to share best practice across our businesses. Our expertise and experience will enable Aviva to grow our general insurance business.

Our strategy is to ensure all the businesses within Aviva work closely to share their insight and innovations to provide better services to customers across their markets and deliver value to our shareholders.

UK & Ireland

Overview

We are a leading general insurer in both the UK and Ireland, with a market share of 10.5%[1] and 13.3%[2] respectively, providing a wide range of products to personal and business customers.

We have a multi-distribution network, providing our products and services directly to customers, via broker intermediaries and strategic partners. The quality of the service we provide to our customers was recognised through a number of awards in 2014, most notably the Insurance Times General Insurer of the Year, Digital Insurer of the Year and Insurer Innovation of the Year. We also received the Customer Experience Award Intermediary (Post magazine awards), and Best Car Insurance Provider.

Strategy

We aim to provide our customers with the products and quality of service they expect by ensuring our products meet evolving consumer needs and provide value. We leverage our extensive expertise in underwriting, pricing and analytics in the design process.

This will ultimately enable us to improve our cost efficiency, accelerate our automation and grow our operating earnings and so contribute to delivering the investment thesis of cash flow plus growth.

We will grow our UK business by focusing on our UK direct and broker channels, and we will make the most of the unique opportunity offered by being the leading UK composite insurer.

We aim to increase the average length of time our customers stay with us, while improving our analytics so we provide them with the products they want delivered how they want it.

The MyAviva app will continue to be at the heart of the digital services we offer our customers. We aim to deliver simpler digital solutions that make it easier for our customers to do business with us.

We will continue to take an industry lead on issues that increase costs for our customers, such as fraudulent whiplash claims.

1 Datamonitor UK Insurance Competitor Analytics 2014.
2 Irish Insurance Federation, 2013.

Financial performance

Financial performance for the year has been good, with improvement seen in most of the key financial metrics.

Our combined operating ratio improved 2.3 percentage points to 94.9%, with improvements in both the UK and Ireland. Operating profit for the UK & Ireland is marginally higher at £499 million (*2013: £489 million*), with higher underwriting profits partly offset by a reduction in investment return mainly as a result of reductions in the internal loan during the year. Operating expenses are 8% lower at £755 million, with continued focus on cost control in both our UK and Ireland businesses.

Cash remittances for the UK and Ireland of £294 million were down 15% as a result of the lower interest received following the reductions in the internal loan.

In the UK, the combined operating ratio improved 2.2 percentage points to 94.8%. A better commercial lines result - particularly in motor – was partly offset by lower personal lines profits, which declined primarily due to less favourable weather-related claims experience in 2014 than 2013. In Ireland, the general insurance COR improved 2.6 percentage points to 96.6%.

Operational highlights

In 2014 we:

- Improved our customers' satisfaction for both motor and home claims. We are the first insurer to publish how our customers rate our service on our website using the Defaqto star ratings
- Successfully launched multi-car products for existing customers in personal lines. Our UK Direct customers have rated us 4.5 out of 5 for motor insurance and 4.6 out of 5 for home insurance
- Performed strongly in commercial lines despite a highly competitive market. This was achieved through product breadth, brand and customer service
- Received high levels of customer satisfaction for the way in which we dealt with more than 50,000 weather-related claims over the 2013/14 winter period, the majority as a result of storm damage
- Drove forward our digital offer by rolling out the benefits of the MyAviva app for customers. MyAviva has now 1.3 million registered users
- Acted as an industry and customer champion. We have continued to campaign against fraudulent whiplash claims as part of our Road to Reform campaign
- Continued the turnaround of our business in Ireland by seizing the opportunities presented by the economic recovery, and the outstanding levels of brand awareness and relationships we enjoy

Performance indicators: UK & Ireland

£294m
(2013: £347m)
Cash remitted to Group

£499m
(2013: £489m)
General insurance and health operating profit

£755m
(2013: £818m)
Operating expenses

94.9%
(2013: 97.2%)
Combined Operating Ratio (COR)

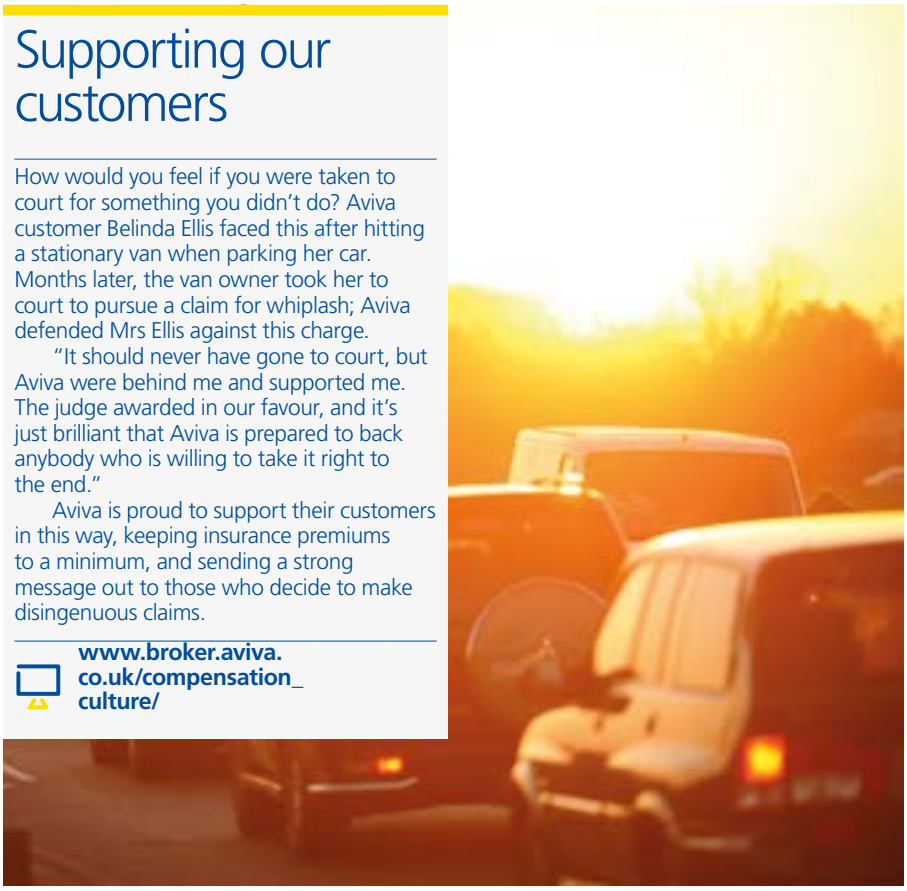
Supporting our customers

How would you feel if you were taken to court for something you didn't do? Aviva customer Belinda Ellis faced this after hitting a stationary van when parking her car. Months later, the van owner took her to court to pursue a claim for whiplash; Aviva defended Mrs Ellis against this charge.

"It should never have gone to court, but Aviva were behind me and supported me. The judge awarded in our favour, and it's just brilliant that Aviva is prepared to back anybody who is willing to take it right to the end."

Aviva is proud to support their customers in this way, keeping insurance premiums to a minimum, and sending a strong message out to those who decide to make disingenuous claims.

www.broker.aviva.co.uk/compensation_culture/



- Grew the market share in our Irish business for the first time in eight years, with a 9% increase in policy count and delivered market leading customer service satisfaction, including a 37% increase in our Relationship Net Promoter Score®
- Made key appointments to the Leadership team to guarantee an even greater focus on meeting our customers' needs, including Colm Holmes as Chief Financial Officer, Adam Kornick as Global Analytics Director and Lindsey Rix as Chief Operations Officer.

Market context and challenges

Market conditions for private motor and home insurance remain highly competitive and we expect this to continue. Customers are rightly price conscious and this will not change.

Customers have grown accustomed to price comparison websites in personal lines. We will respond to this challenge by developing market-leading direct products and services, and investing in digital to sharpen our competitive edge.

Increased insurance capacity in the Small and Medium-sized Enterprise (SME) sector will increase competition. We continue to succeed in this market

because of the quality of our service and relationship management of SMEs. Aviva is uniquely well placed to be a trusted advisor and offer a complete one-stop-shop for SMEs. Less complex products for commercial lines are increasingly transacted online. We will respond to this by further developing our FastTrade system, the online platform that allows brokers to trade SME business, to form the basis for the services we offer.

Priorities

In 2015 we will:

- Deliver market-leading customer service and products to increase average holdings per customer, as well as growing our business through new customers
- Enhance our predictive analytics, so we can better assess risk, behaviour and tailor products to our customers' needs
- Develop an iPad and Android tablet version of the MyAviva mobile app and work with Aviva's other businesses to roll out MyAviva
- Campaign on key industry initiatives that matter to our customers such as motor market reform, including fraudulent whiplash claims, industrial deafness claim management, and Flood Re
- Continue to build on our strong performance in Ireland with a tailwind from GDP growth and lower unemployment.

Canada

Overview

We are one of Canada's leading general insurers, with a 7.8%[3] market share. We provide personal, home and motor insurance; small and medium-size enterprise commercial insurance, (including motor, property, liability, boiler and machinery, and surety) and a range of niche personal insurance products.

Most of our business is intermediated, with our products sold through a network of independent broker partners.

Strategy

Our objectives are to build on our existing service to our customers, improve the ease of doing business with our distribution partners, diversify our geographic exposure and build our digital capability, including in telematics. Aviva Canada is a cash generator with a strong track record of delivering cash returns to the Group.

We are improving the service we offer our customers by creating more ways of accessing our products directly, including digital self-service. This will mean our customers can deal with us when, where and how they want.

We are specifically focusing on developing our direct digital capability, but are also supporting our broker partners to help them integrate digital technology, to better serve our customers and stay competitive.

We are also developing telematics technology, which provides customer analytics so we can offer motor insurance based on vehicle use. This customises pricing to reflect how customers drive and rewards good driving behaviour. Our first step is to offer a young drivers' solution in Ontario, distributed through our broker network.

We will continue to collaborate and share our expertise in underwriting and analytics with other general insurance businesses in the Group in order to benefit our customers.

> We are improving our services so our customers can deal with us when, where and how they want.
>
> Greg Somerville
> CEO Canada

Financial performance

During 2014 the Canadian dollar weakened by 13% (average rate) against sterling, significantly affecting all metrics from a Group perspective.

Cash remittances improved by 6% to £138 million (up 15% on a constant currency basis) and operating expenses were £316 million (*2013: £378 million*), down 16% or 6% lower on a constant currency basis.

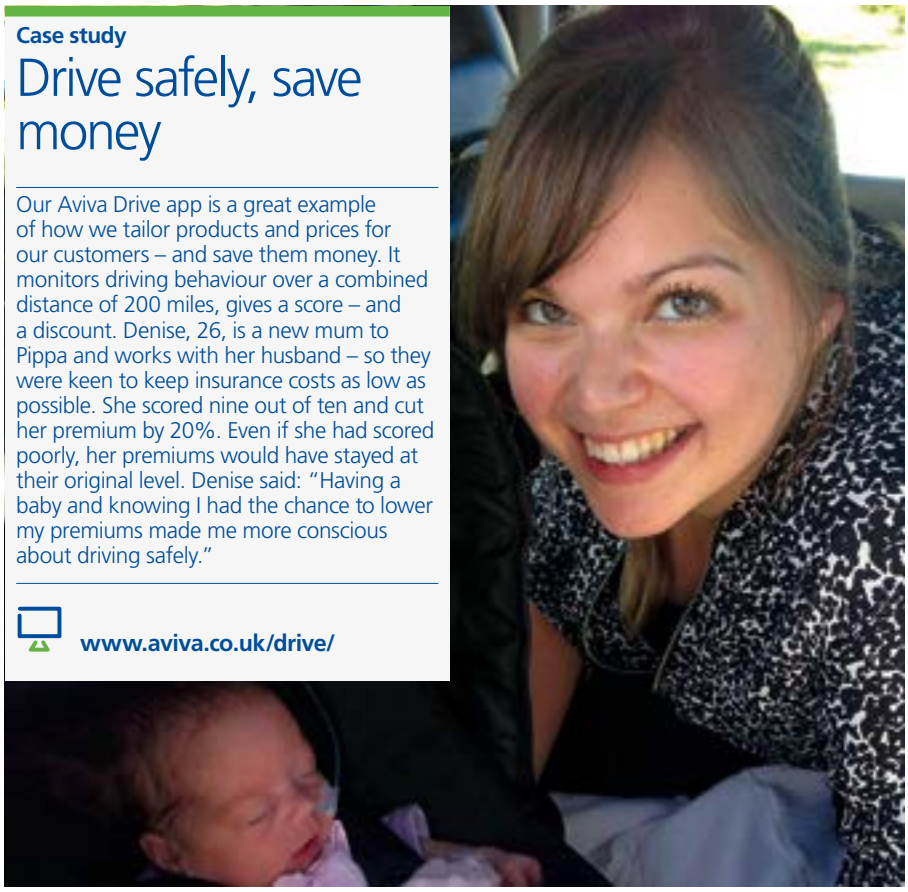
However, general insurance operating profit was 23% lower at £189 million (13% lower on a constant currency basis). The reduction in profits included lower underwriting profits of £83 million (*2013: £117 million*), reflecting higher large losses and lower prior year reserve releases partly offset by expense savings in all lines and an improvement in the underwriting result for commercial lines. In addition weather experience, although better than 2013, impacted profits, with a harsher winter in the first quarter of the year followed by hail storms in Alberta in August. As a result there has been a 1.5 percentage point deterioration in the combined operating ratio to 96.1%.

Case study

Drive safely, save money

Our Aviva Drive app is a great example of how we tailor products and prices for our customers – and save them money. It monitors driving behaviour over a combined distance of 200 miles, gives a score – and a discount. Denise, 26, is a new mum to Pippa and works with her husband – so they were keen to keep insurance costs as low as possible. She scored nine out of ten and cut her premium by 20%. Even if she had scored poorly, her premiums would have stayed at their original level. Denise said: "Having a baby and knowing I had the chance to lower my premiums made me more conscious about driving safely."

www.aviva.co.uk/drive/



3 MSA Research Inc., 2013 online database.

Longer term investment return was also lower at £112 million (down 17%) as a result of lower reinvestment yields.

Operational highlights

In 2014 we:

- Successfully executed our growth strategy in personal lines in Western Canada, increasing and diversifying our geographic exposure and increasing gross written premiums by 17%
- Responded to severe weather, which led to an increased frequency of claims (8.6% in 2014 versus 8.4% in 2013), including 1,300 households adversely impacted by the polar vortex, which caused an ice storm in Toronto
- Used technology to streamline our business processes in commercial lines. We have improved efficiency, underwriting, risk selection, and pricing sophistication, leading to a better service for brokers and customers
- Transformed how we deal with claims in personal lines, leading to a more efficient and cost effective process and better customer service
- Created innovative ways to combat insurance fraud using predictive analytics and anti-fraud capabilities. We continue to work closely with Aviva's UK general insurance business on building these capabilities. We are also improving our claims management and quality of customer service by embedding these capabilities in our underwriting processes
- Donated CAN$1 million to community projects through The Aviva Community Fund (ACF), now in its sixth year.

Market context and challenges

The industry as a whole faces challenges from the severity and frequency of the bad weather experienced over the last two years. We are responding to this by reassessing our exposure to risk, reviewing our products, pricing and our flood mapping.

We will also continue to work with the public authorities in Ontario to reduce claims costs and lower premiums to make car insurance more affordable and accessible in our largest market. We support the steps taken by the Ontario Government so far and will continue to ensure a sustainable and affordable solution for the people of Ontario.

Priorities

In 2015 we will:

- Make the most of the unique opportunity of being a composite insurer by expanding our range of offerings to include health and accident products. We will also introduce an Overland Water Coverage Option for home insurance, to provide water damage coverage for certain categories of claims not previously covered by the industry
- Broaden our distribution reach to customers, especially through digital
- Continue to invest in telematics and digital so our services and propositions are better for our broker partners and customers
- Serve our customers better by continuing to deliver improved automation in commercial lines
- Utilise new technology, such as the 'Real Time Gateway' (RTG), so we can offer customers a price based on a more sophisticated assessment of risk. This will improve operational efficiency, effectiveness and profitability
- Continue to simplify and streamline our processes, resulting in more customer-focused, efficient and effective ways for our customers to interact with us.

Performance indicators: Canada

£138m
(2013: £130m)
Cash remitted to Group

£189m
(2013: £246m)
General insurance operating profit

£316m
(2013: £378m)
Operating expenses

96.1%
(2013: 94.6%)
Combined Operating Ratio (COR)

Responding to extreme weather

The winter of 2013-14 was particularly harsh in Canada, with rarely-encountered weather conditions such as the polar vortex and frost quakes. Bitterly cold temperatures, plus snow and ice, dominated the weather from November to April. Aviva Canada helped 1,300 households impacted by the polar vortex which caused a devastating ice storm in Toronto. The damage cost the insurance industry over CAN$200 million. We're working with the Insurance Bureau of Canada and the industry to use technology to provide affordable insurance, help customers manage risk and prepare them for future risks.

Europe

> What excites me is the prospect of becoming a True Customer Composite insurer and developing state-of-the-art digital services for our customers.
>
> David McMillan
> Chairman, Global Health Insurance and CEO, Europe

Europe

Overview

We are focused on five markets in Europe: France, a mature cash-generating business, with excellent distribution and good prospects for further growth; Poland[1] and Turkey, two of the strongest growth markets in Europe, with relatively under-penetrated insurance sectors[2] where we are building long-term value; and Spain and Italy, our two turnaround businesses where we have been improving capital efficiency and cash generation.

Our European businesses enjoy strong market positions in life insurance and we are a composite in three markets, with general insurance businesses in France, Italy and Poland. We have around 10.5 million customers in Europe.

Our strategy

Our Europe-wide strategy is to deliver sustainable and reliable cash remittances to the Group. Over the last year we continued to reshape our portfolio, exiting sub-scale, unprofitable businesses and focusing on capital light products. We have made some progress in improving operating efficiencies, but we can still do more in this area.

Our European businesses have also delivered significant growth as a result of shifting our focus to more profitable products, such as unit-linked and zero per cent guarantee saving products in our developed markets, while continuing to profitably grow our business in Poland and Turkey.

Going forward, our priority is to capitalise on the potential of the composite model, build scale in protection and general insurance, and further strengthen our distribution, especially by developing our digital capability.

Market context and challenges

We expect stronger employment and disposable income to drive demand for life and savings products across the region. We are well positioned for a macro recovery in Europe but we are not dependent on it and have achieved growth despite the challenges in the Eurozone.

Digital will continue to be a key differentiator for insurers, as customers are increasingly looking for more efficient and customised service through new technologies and channels.

Financial performance

Our European businesses have delivered strongly on cash flow and growth. In particular, we have increased cash remittances by 17% to £454 million, grown VNB by 19% to £392 million and reduced operating expenses by 7% to £596 million.

Life operating profit of £852 million was broadly flat year-on-year, but improved by 5% on a constant currency basis primarily driven by France and Poland. Excluding Eurovita, Aseval and CxG, which have been sold, life operating profit grew 5% (11% in constant currency) with improvements across all markets.

General insurance operating profit of £113 million was also in line with 2013, but 4% up on a constant currency basis, driven mainly by improvements in Italy partly offset by adverse weather experience in France. Combined operating ratio in Europe improved to 97.7%.

1 Aviva's Polish business also has management responsibility for Aviva's operation in Lithuania.
2 Defined as total premiums as a proportion of GDP.
3 Restated to reflect the changes in MCEV methodology. Refer to the glossary for further details.

Performance indicators

£454m
(2013: £388m)
Cash remitted to Group

£852m
(2013: £851m)
Life operating profit

£113m
(2013: £112m)
General insurance and health operating profit

£596m
(2013: £644m)
Operating expenses

£392m
(2013: £329m restated[3])
Value of new business[4]

97.7%
(2013: 98.1%)
Combined Operating Ratio (COR)

France

Overview

Aviva France has been a stable cash-generating business, with a well diversified distribution network and good prospects for further growth.

We have more than three million customers in France and offer a full range of life, protection, pension, general insurance, health and asset management products.

We have significant strength in distribution, with half of our profits from channels we own or control. We have a tied agency network of over 900 agents and a majority stake in UFF, the largest IFA network in France.

We enjoy a longstanding and strong relationship with Association Française d'Epargne et de Retraite (AFER), the largest retirement savings association in France. We also have a strong direct business with 450,000 customers with Aviva Direct, the largest direct provider of funeral protection[5], and 200,000 with Eurofil, our non-life brand and the second largest direct general insurer in the market.

Our focus is on building on our existing strength in distribution and developing our digital and multi-access capability. We also have a significant opportunity to make the most of the composite model, by making all our products available to all customers through all channels.

Financial performance

France delivered profitable growth while continuing to increase cash remittances and operating profits, despite adverse weather affecting our general insurance business. Performance in the year improved across all five key financial metrics although the weakening of the Euro affected all metrics from a Group perspective.

Cash remittances were up 4% to £245 million and total operating profit increased 1% to £452 million (6% up in constant currency) driven by a strong performance in the life business. The combined operating ratio improved 0.2 percentage points to 96.9% despite the adverse weather experienced during the year. Operating expenses reduced 7% to £396 million.

VNB increased 19% to £205 million due to increased volumes and a continued shift in product mix towards more profitable unit-linked investments.

Operational highlights

In 2014 we:

- Increased the weight of unit-linked sales as a proportion of total saving products sales from 22% in 2013 to 28% in 2014
- Used Systems Thinking to simplify our processes, enabling us to improve operational efficiency and meet our customers' needs more effectively
- Improved our online presence, focusing on our product offering and providing quicker quotations
- Integrated our direct sales force network into UFF to improve efficiency.

Market context and challenges

France is a stable market with a large, well-developed insurance sector. We expect higher growth in protection and retirement sales as a result of demographic changes and decreased government provision.

Priorities

In 2015, we will:

- Build our multi-access capabilities, so that customers can interact with us how and when they want, at different stages of their engagement with us
- Increase our presence in the protection and creditor market
- Improve the profitability of our general insurance business
- Take further action on our back book and improve operating efficiencies.

Poland

Overview

Aviva Poland provides life and general insurance products, pensions and asset management. We are a well established leading financial institution in Poland in a market with strong potential for further growth. The Polish market is relatively under-developed, with insurance penetration of only 3.4%[6] (against a Europe-wide average of 6.8%[6]), but has a population with growing disposable income and consumption.

We have particular strengths in distribution through the country's largest life insurance direct sales network of more than 2,100 advisers and through our bancassurance agreement with BZ WBK, the third largest bank in Poland and part of the Santander Group.

We also operate a subsidiary in Lithuania, where we are the largest life insurer[7].

Financial performance

Aviva Poland delivered strong growth in VNB (25%) to £64 million benefiting from regulatory pension changes in Lithuania and an increase in sales of higher margin protection products. Operating profit of £192 million improved 4% (9% in constant currency), driven by the life business. Cash remittances increased 25% to £106 million.

Our selective underwriting approach in a highly competitive market led to a reduction in general insurance volumes with a combined operating ratio for the year of 96.0%.

4 Excludes Eurovita, Aseval and CxG.
5 Federation Francaise des Societies d'Assurance.
6 Swiss Re, Sigma, 2014.
7 Bank of Lithuania, http://www.lb.lt/monthly_statistics_1.

Operational highlights

In 2014 we:
- Further strengthened our distribution by rejuvenating our direct sales force, launching new initiatives to increase agents' activity and productivity
- Launched our New Network, Aviva financial centres offering financial products, including insurance, mortgages and loans. We have a physical presence in ten new branches and 100 advisors in large cities where we are under-represented
- Further enhanced our digital capability, including establishing our virtual branch.

Market context and challenges

Relatively low insurance penetration in Poland continues to represent a significant opportunity, especially around young and affluent segments of the population. Competitive pricing in general insurance will continue to put pressure on margins and efficiency. We expect to see our Polish business grow as the insurance sector matures.

Priorities

In 2015, we will:
- Invest in our existing distribution, building digital capabilities, improving remuneration and introducing new digital sales tools
- Further grow our bancassurance business with BZ WBK by offering innovative products and improving customer retention

Simplicity and convenience

Our Aviva Italia app lets our customers deal with us when and how they want. They can get access to our agents' contact details, find out more about our products, make a claim or report an incident and manage their policies in a secure client area. That delivers the simplicity and convenience our customers want.

www.avivaitalia.it/aviva-app

- Aim to become the most trusted financial services brand and the first choice insurer for key market segments, including middle income and affluent customers, and the family segment.

Turkey

Overview

AvivaSA is one of Turkey's leading private pension and life insurance companies, with nearly two million customers.

Our joint venture with Sabancı Group, one of Turkey's leading conglomerates, sells life and pensions products through banks and agents. Our main distribution channel is Akbank, one of Turkey's largest privately owned banks, with over 900 branches, and part of the Sabancı Group.

We also employ the largest life and pension direct sales force in Turkey, with over 600 people, and the fastest growing agency channel, with over 130 agencies. In addition, our corporate channel is ranked number one in employer sponsored group pension contracts[8].

Financial performance

Life operating profit of £10 million (*2013: £8 million*) reflects improved returns from our individual pension business.

VNB of £30 million is down 19% primarily due to adverse foreign exchange movements. On a constant currency basis, VNB is down 3%, mainly driven by a reduction in our share of the business following the partial IPO in November 2014.

Operational highlights

In 2014 we:
- Launched an initial public offering for a minority stake in AvivaSA, which valued our business at TL1.7 billion (£469 million) and realised £40 million in cash
- Extended our exclusive bancassurance agreement with Akbank for another seven years, until 2029
- Improved the productivity and profitability of our network of agents by launching new products.

Market context and challenges

Despite uncertainties, we believe this market offers strong long-term potential for profitable growth, with its young population, good economic growth and increasing demand for financial products. We are well-placed to make the most of the growth opportunities.

Priorities

In 2015 we will:
- Continue to grow our pensions and protection sales, focusing on maximising the value of our distribution agreement with Akbank
- Continue to build our retail network and improve its productivity
- Leverage the opportunity in affinity to access the substantial customer base of other Sabancı Group companies, working closely with some of the largest retailers in Turkey, in sectors such as electronics and energy supply.

Italy

Overview

We are a mid-sized composite insurer, offering life, general and health insurance. We are in the top four in the protection market[9] and have a growing position in the general insurance market.

We operate through strong bancassurance partnerships, with three of the five top banks in Italy – Banco Popolare, UBI Banca, and UniCredit. We also operate through a distribution network of around 600 agents and brokers.

We have made significant progress in restructuring our business and improving our performance. We remain focused on capital efficiency and delivering cash to the Group. We have moved from turning around the business to seizing strategic opportunities and maximising the potential of the composite model.

Financial performance

There has been good progress with improvements across all key financial metrics. During 2014 we delivered improved cash remittances of £32 million (*2013: £12 million*) and a 47% increase in VNB[10] to £63 million, which was due to increased volumes and improved margins on bonds and savings products.

Total operating profit marginally increased to £172 million (*2013: £169 million*). Life operating profits were stable at £142 million. Excluding Eurovita, life profits were up 13% (19% in constant currency) driven by improved product mix.

There was also a small increase in profits in our general insurance business, which led to a 1.2 percentage point improvement in the combined operating ratio to 94.0%.

8 Pension Monitoring Centre, Turkey.
9 IVAA - Istituto per la Vigilanza Sulle Assicurazioni.
10 Excludes Eurovita.

Operational highlights

In 2014 we:
- Made significant progress in transforming our business
- Simplified our holding company structure to improve cash flow and increase dividends
- Completed the sale of our stake in Eurovita to JC Flowers
- Simplified our life joint ventures and extended our bancassurance agreements with UBI Banca and UniCredit, prioritising protection and zero per cent guarantee products
- Invested in digital apps and portals for our customers and agents.

Market context and challenges

The Italian insurance market is expected to show signs of recovery.

The recent trend of general insurers adopting a more technical approach to pricing and focusing on operational efficiencies in Italy is expected to continue. We have taken pricing action in general insurance, deepened our use of analytics and made product changes to improve profitability.

In life insurance, customer demand for with-profit products will continue but the market is now becoming accustomed to lower/zero percent guarantee products. From July 2014 all new policies distributed are zero percent products. The protection market is expected to grow as the economy starts to recover.

Priorities

In 2015 we will:
- Deliver improved value from our extended life bancassurance agreements, focusing on the protection market
- Accelerate growth in our general insurance business, by building our retail distribution and enhancing our technical capabilities
- Invest in digital and position ourselves to make the most of opportunities in this space.

Spain

Overview

We provide life and pensions products through our bancassurance partners and our retail business and have around 1.1 million customers. We are sixth[11] in life premiums and fifth[11] in individual protection by market share.

In Spain we have strong bancassurance relationships, and operate a small but growing retail business. The business has shown resilience and we continue to make progress with our turnaround and are well positioned to take advantage of improving economic conditions.

Financial performance

The Spanish economy continues to present challenges to the business. Despite this, our key metrics demonstrate the progress we have made in our turnaround and that we are well positioned to take advantage of improving economic conditions.

During the year we have significantly improved cash remittances to the Group, which were up 33% to £68 million which includes a one-off dividend of £19 million.

VNB[12] has grown 20% to £30 million due to expense reductions and improved margins on with-profits business following management actions to reduce guarantees. Excluding Aseval and CxG, which were sold in April 2013 and December 2014 respectively, operating profit was broadly stable at £101 million (*2013: £102 million*) but up 5% in constant currency.

Operational highlights

In 2014 we:
- Successfully completed the sale of our stake in CxG to NCG Banco for £221 million, following a favourable award by the Spanish arbitration court
- Introduced new products, offering cover against specific conditions, such as breast or prostate cancer.

Market context and challenges

The restructuring of the banking sector is expected to complete in 2015, which will bring stability to the bancassurance sector. Lending conditions are expected to remain challenging, which will impact upon credit-linked insurance products.

Priorities

In 2015 we will:
- Consolidate our bancassurance franchise with key partners as the restructuring of the banking sector in Spain completes
- Continue to grow our retail business profitably and invest in digitising our operations and services
- Further improve customer retention rates to generate additional value from the back book
- Continue to promote debate on sustainable savings and help people understand their financial decisions, through the pioneering work of the Aviva Savings and Pensions Institute.

Supporting our deaf and hearing-impaired customers

There are around half a million deaf or hearing impaired people in France. Aviva Sourds is tailored for them. In 2014 we expanded this service, building on the pilot we set up in 2012. Now there's a dedicated team of agents, fluent in French sign language, who also provide information on our products through Skype, Elision (a web-based simultaneous interpreting service), email, SMS, video-calls and fax and, if customers are in the Paris area, face-to-face meetings. It's another example of Aviva serving customers how they want and when they want.

Find out more about our wider impact at **www.aviva.com/corporate-responsibility/**

11 ICEA - Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones, Q3 2013.
12 Excludes Aseval and CxG.

Asia

> The outlook for Aviva Asia is promising. By leveraging our strengths, the depth of our partnerships, our multi-distribution channels and shared expertise we can deliver significant growth in Asia.
>
> Chris Wei
> CEO, Global Life Insurance and Chairman Asia

Overview

We have a presence in Greater China (China, Hong Kong and Taiwan), South East Asia (Singapore, Indonesia and Vietnam) and India.

We offer savings, protection, accident and health insurance to individual and corporate customers, and in Singapore we offer motor, home and travel products, as well as a fund management platform, Navigator.

We have three million customers across our markets[1]. We have leading insurance operations in Singapore (where we are ranked fourth[2] in life business) and China (where we are a leading foreign insurer in seven of the 12 provinces in which we operate).

Hong Kong, Taiwan, Indonesia and Vietnam offer us attractive opportunities for growth.

Across Asia we operate a multi-distribution strategy which includes bancassurance, agents, financial advisers, telemarketing and a direct sales force. We are also investing in other channels such as direct marketing affinity and digital to differentiate ourselves from competitors.

Strategy

Our strategy is to continue to capitalise on the significant potential for growth in our selected markets. We will do this by providing an excellent service to customers through our distribution network, harnessing the potential of our local partners' brands and customer reach.

We will embrace the True Customer Composite model by delivering Aviva's strengths across life, health, general insurance and asset management.

We will strengthen our ability to achieve growth across the region by developing our capabilities in digital, analytics and customer marketing.

Financial performance

Performance in Asia has been encouraging, with cash remittances up 15% to £23 million and particular improvement in our key VNB metric.

We achieved a 23% increase in VNB in 2014 to £127 million, driven by growth in China and Singapore. China's VNB grew 94% to £31 million driven by a shift towards higher margin protection products, and Singapore's VNB increased 14% to £87 million benefiting from the inclusion of health business in VNB.

Life operating profits reduced by 9% to £87 million, mainly driven by the investment in implementing our joint venture in Indonesia (see below), as well as the sale of our business in South Korea and adverse foreign exchange movements. Operating expenses, 7% lower at £80 million, were stable on a constant currency basis.

General insurance COR improved to 97.8%, with the prior year impacted by a one-off increase in reserves in the Singapore motor book following a change in the reserving methodology.

Operational highlights

In 2014, we:

- Launched our joint venture with Astra International in Indonesia in November
- Shifted our product mix, emphasising value growth over pure volume growth, and improved distribution mix towards profitable channels

1 As at 31 December 2014.
2 LIA statistics, by Individual Life APE.

- Expanded our multi-distribution platforms in a disciplined manner – growing our agency channel in China and Vietnam, strengthening our bancassurance business in Singapore, Indonesia and Taiwan, growing our business through financial advisers in Singapore and China, and enhancing our direct distribution capabilities
- Continued to collaborate with our strong partners: COFCO in China; DBS in Singapore and Hong Kong; Astra and Bank Permata in Indonesia; First Financial Holding in Taiwan and Vietinbank in Vietnam
- Rolled out electronic applications on mobile tablets for new business for our bancassurance customers in Singapore, achieving an e-submission rate of 80%. This has also been rolled out in the agency channel in China
- Rolled out our "All-in-one" comprehensive protection product in China, which successfully met increasing customer demand for protection against cancer, illness and major diseases.

Market context and challenges

The Greater China and South East Asia markets are expected to deliver relatively good GDP growth in 2015. China is currently the fifth largest life insurance market in the world, and is expected to overtake Japan as Asia's largest market in the next decade[3].

Despite several years of healthy growth in new business, Singapore, Hong Kong and Taiwan still have large protection gaps and ageing populations, which provide considerable opportunities for health, retirement and protection product propositions.

Indonesia and Vietnam have large populations and growing consumer classes, but low insurance penetration which we expect to increase over the coming years.

The combination of favourable demographic trends, low insurance penetration and the region's rapidly expanding middle class makes Asia attractive to life insurance companies. Our challenge in this competitive environment is to differentiate ourselves with a compelling strategy, by offering unique value-adding customer propositions and delivering an efficient and seamless customer experience.

The regulatory landscape continues to evolve, with a focus on risk and solvency management, as well as greater interest in sales practices. All international insurers, like Aviva, benefit from being able to draw on their experience of other regulatory environments around the world to respond to these regulatory changes effectively.

Priorities

Our priorities are to:

- Continue to strengthen our multi-distribution platforms, including investing in direct marketing, affinity and digital
- Capitalise on the strong distribution strength and customer reach of our partners and further expand these partnerships in all markets
- Develop a comprehensive range of products spanning savings, protection, health and retirement to better meet customers' needs
- Capitalise on the potential of the composite model by further expanding our multi-line business in Singapore and seeking opportunities in other markets
- Put Digital First by launching digital sales applications across our Asian markets, starting with Singapore, China and Indonesia
- Strengthen our digital capabilities and invest in a regional digital lab to nurture collaboration and innovation.

Performance indicators

£23m
(2013: £20m)
Cash remitted to Group

£87m
(2013: £96m)
Life operating profit

£2m loss
(2013: £1m profit)
General insurance and health operating profit

£80m
(2013: £86m)
Operating expenses

£127m
(2013: £103m – restated[4])
Value of new business[5]

97.8%
(2013: 108.1%)
Combined Operating Ratio (COR)

Astra Aviva Life

Khor Hock Seng, CEO, Aviva Asia (pictured right), led the launch of Astra Aviva Life. He said: "In November, we launched our joint venture in Indonesia, Astra Aviva Life, with our partner, Astra, one of Indonesia's largest listed conglomerates. It provides high quality protection and investment products, drawing on the strength of both companies, in one of the world's fastest growing insurance markets. Our goal is to become a top five insurance provider in Indonesia. This exciting venture exemplifies our objective to be Not Everywhere, but in markets where we can make a major impact."

3 Swiss Re Sigma 2014.
4 Comparatives restated for the change in MCEV methodology. Refer to glossary for further details.
5 Excludes Malaysia (VNB in 2013 including Malaysia was £104 million).

Aviva Investors

> It's still early days in our efforts to transform Aviva Investors but the signs are extremely encouraging — maybe even better than we had anticipated.
>
> Euan Munro
> CEO, Aviva Investors

Overview

We are Aviva's investment management business, with £246 billion assets under management.

Strategy

Our ambition is to make Aviva Investors a world-leading asset manager in outcome oriented solutions. In doing so, we aim to make a greater contribution to the profits of the Aviva Group.

Aviva Investors' activities are core to the strategy of the Group as a whole, firstly in reaching our potential as a True Customer Composite by capitalising on the opportunities between asset management and Aviva's life insurance business.

Secondly, we aim to increase our contribution to the Group by utilising our expertise and skills managing Aviva's own funds and becoming a renowned manager of other investors' funds.

Our strategy revolves around putting our customers at the heart of everything we do. No matter who they are, customers want their asset manager to offer them simple financial products delivering specific outcomes. We believe that whether it is a pension scheme, corporation, financial adviser or individual saver, what matters to them is achieving reliable capital growth, securing a reliable income stream, obtaining a return that exceeds inflation or increasing the likelihood they will meet a specific future financial liability.

In serving our customers, we aim not to offer an à la carte menu of investment options, but investment outcomes that are created by bringing together our expertise and skills, global reach and best execution and as such deliver customers income and savings goals at a reasonable price.

The Aviva Investors Multi-Strategy (AIMS) fund range has been created with the aim of delivering these specific investment outcomes. We believe this will prove attractive to investors. As we are one of the few players in this segment of our industry, if our funds are successful we should be able to grow our assets under management significantly and in turn our contribution to Aviva's profits.

So far we have created the first two funds in our AIMS range. The first, which was launched in July 2014, aims to deliver steady capital growth. The second – launched in December – is designed to generate a reliable income stream. Both funds invest across a wide range of diversified asset classes and geographies, drawing on investment ideas from across our business.

To date, the AIMS Target Return Fund has performed impressively and this has already been recognised by clients. The AIMS fund range has now just over £1 billion of assets under management eight months after launch.

Moreover, we are confident assets under management are set to grow further in coming months. The fund has already achieved positive 'buy' ratings from several pension consultants. This is translating into business opportunities across the globe, as evidenced by recent inflows from the UK, France and Ireland. In January 2015, we entered into a strategic partnership with a major US distributor to retail clients, Virtus Investment Partners Inc. to bring our AIMS target return strategy to the United States retail marketplace. This marked an important step in our strategic priority for 2015 of entering new markets.

Performance indicators

£16m
(2013: £14m)
Cash remitted to Group

£63m profit
(2013: £26m loss)
Total operating profit comprising:

£79m (2013: £68m)
Fund management

£2m (2013: £2m)
Pooled pensions

£18m loss (2013: £96m loss)
Other operations

£298m
(2013: £290m)
Operating expenses

£246bn
(2013: £241bn)
Assets under management

Financial performance

Cash remittances were up 14% to £16 million. Fund management profits also improved, up 16% to £79 million, which included a £12 million contribution from the UK retail fund management business which transferred to Aviva Investors from UK Life in May 2014. Assets under management increased by 2% to £246 billion, with favourable market movements partly offset by net redemptions and the disposal of River Road Asset Management.

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 cost has been made and is fully reflected within the FY14 result. We ensured no customers were disadvantaged.

2013 operating profit included an adverse impact of £96 million, reflecting the compensation in respect of the breaches of the dealing policy and associated costs.

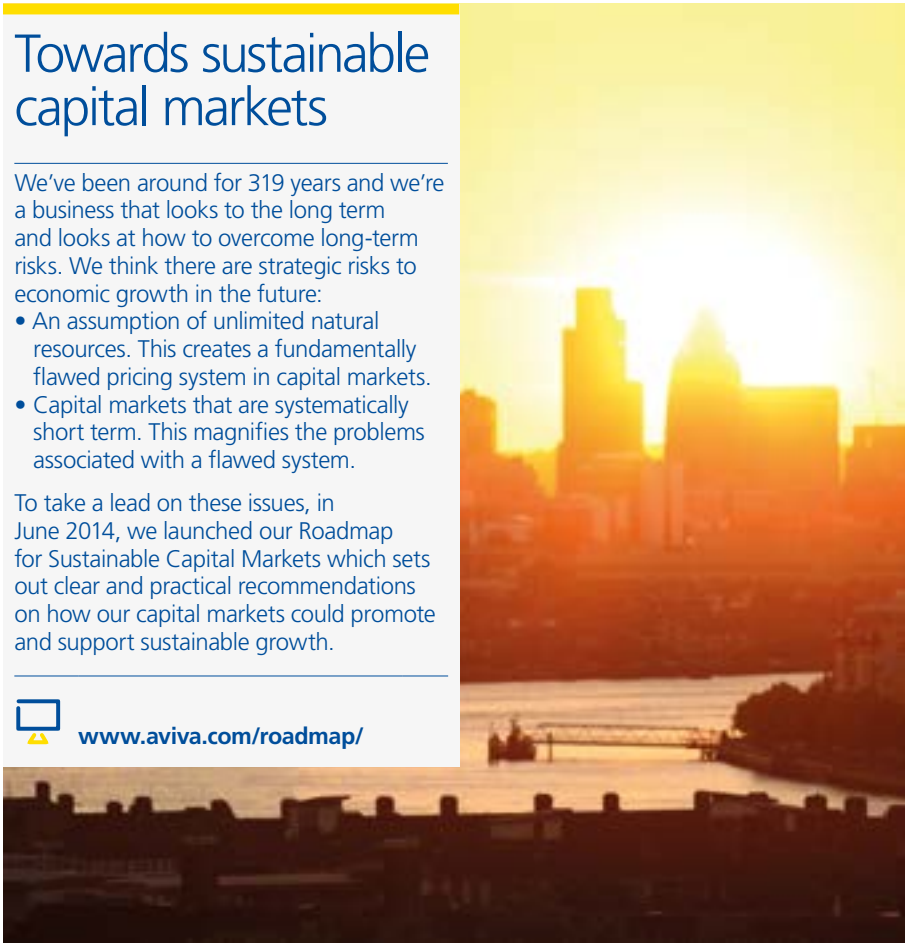
Towards sustainable capital markets

We've been around for 319 years and we're a business that looks to the long term and looks at how to overcome long-term risks. We think there are strategic risks to economic growth in the future:

- An assumption of unlimited natural resources. This creates a fundamentally flawed pricing system in capital markets.
- Capital markets that are systematically short term. This magnifies the problems associated with a flawed system.

To take a lead on these issues, in June 2014, we launched our Roadmap for Sustainable Capital Markets which sets out clear and practical recommendations on how our capital markets could promote and support sustainable growth.

www.aviva.com/roadmap/



Operational highlights

In 2014, aside from laying the foundations for becoming a global leader in outcome-orientated solutions, we:

- Significantly strengthened our risk and control team, with Steve Farrall appointed as our new Chief Risk Officer and Robin Mitchell as Global Head of Compliance
- Strengthened our executive team with the appointment of Mark Versey as Director of Client Solutions and Susan Ebenston as Chief Operating Officer. David Lis was promoted to the position of Chief Investment Officer, Equities and Multi-Assets, and Mark Connolly was appointed as Chief Investment Officer, Fixed Income
- Streamlined our business, for example we sold our Asia-Pacific real-estate funds business and River Road.

Market context and challenges

Aggressive action by central banks in lowering interest rates has led to suppressed market volatility and good performance across a wide range of asset classes. However with interest and bond rates already so low it is hard to be very optimistic about prospective returns. The low to non-existent returns available on the lowest risk assets has led to some increased risk appetite among institutional investors, however regulatory pressures are preventing this from going too far. We see this as presenting a very real opportunity for an asset manager like us to use our experience in risk management and investment insight across a broad range of asset classes to deliver the outcomes the institutional investor is looking for and which can no longer be achieved by the traditional approaches.

Priorities for 2015

We will:

- Continue to put our clients at the heart of everything we do
- Strengthen our relationship with Aviva Group businesses to make maximum use of Aviva's powerful brand and sales network
- Widen our distribution network, with products available through Aviva and third party platforms
- Enter new markets, such as the United States
- Operate as a globally integrated business in order to continue developing investment propositions that are relevant to our clients.
- Create a streamlined and simple business model that is able to harness scalability within the organisation.

Aviva Investors

AIMS for more

Our Aviva Investors Multi-Strategy (AIMS) range of funds is all about helping our customers to achieve the investment outcomes they are looking for, no matter how unpredictable the markets are. Each fund contains a variety of investment strategies which are designed to perform well in different circumstances because no-one can predict the future and we know that market conditions can change. The intention is to make sure each fund performs well in lots of different market environments.

The two funds we've launched to date – AIMS Target Return and AIMS Target Income – aim to deliver steady capital growth and generate a reliable income stream respectively. They are managed by an experienced team headed by Peter Fitzgerald (left), Head of Multi-Assets, and Dan James (right), Global Head of Rates.

Peter and Dan have combined investment experience of 39 years and have specialised in multi-asset and target-return investing throughout their careers. The whole process is overseen by Euan Munro, a pioneer of multi-strategy investing, who acts as strategic adviser to the fund and chairs the Strategic Investment Group, a Company-wide forum that provides the fund's managers with investment ideas.

www.aviva.com/aims/

> We aim to deliver simple and specific outcomes that clients will value.
>
> Euan Munro
> CEO, Aviva Investors

Building the future

This section sets out our strategy in relation to our people, the environment, climate change and sustainability, as well as social, community and human rights issues

26,364
Employees

65%
(2013: 56%)
2014 employee engagement

Silver award
DOW JONES
Sustainability Index

We are a Living Wage Employer

Stonewall TOP 100 EMPLOYERS 2015

Our people

Below we set out our people strategy:

Achievement
To drive performance, we will:
- Recognise exceptional performance and reward outcomes
- Ensure our goal-setting and reward systems drive improved performance year-on-year
- Constantly seek new knowledge and better ways of doing things
- Gain competitive advantage through our ability to execute brilliantly
- Provide clarity and enable accountability.

Potential
To reach our full potential, we will:
- Attract and develop people who are the envy of the industry
- Inspire our people to dream more, learn more, do more and become more
- Identify and invest in people who are critical to our future success
- Ensure our performance is improved by embracing people who think and act differently
- Value both leadership and technical expertise.

Collaboration
To encourage teamwork, we will:
- Invite challenge and ask fierce questions with the right intent
- Use a single set of global metrics
- Work and win together readily adopting good ideas from others
- Enable transparent and engaging conversations
- Ensure our office space and IT encourage teamwork.

Corporate responsibility

Below we set out our corporate responsibility strategy:

Environment and climate change
To reduce our impact on the environment and climate change, we will:
- Manage our environmental risks and help customers to adapt to climate change
- Work with policy makers and other stakeholders to tackle climate change
- Encourage our customers, suppliers and people to make sustainable choices.

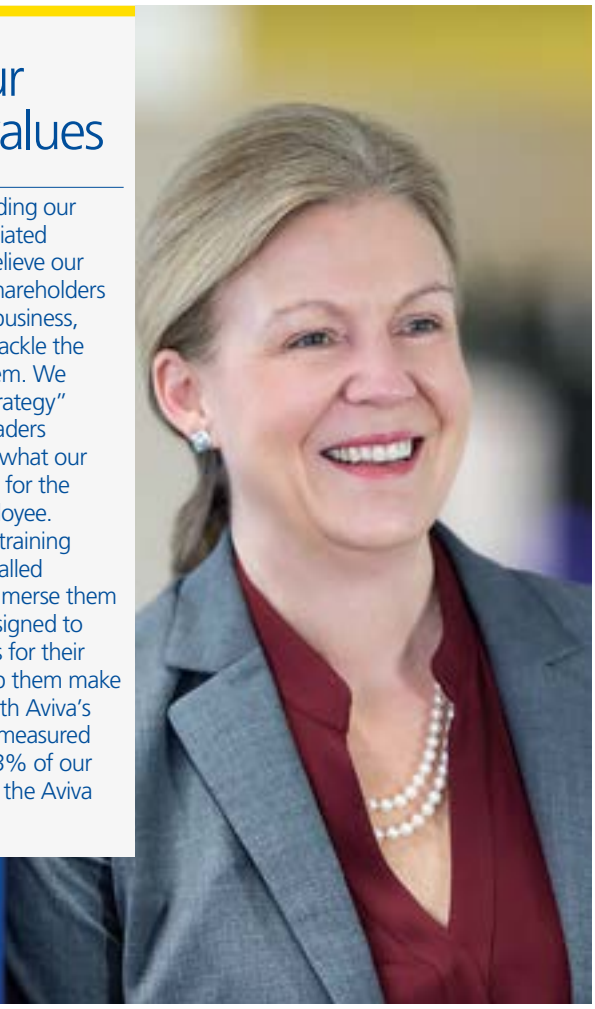
Trust and transparency
To build trust and be more transparent, we will:
- Strengthen Aviva's business and reputation by embedding our business ethics code
- Demonstrate our sustainability in products, services and procurement through clear and transparent reporting
- Engage with our stakeholders to build strategic relationships and evolve our strategy.

Community development
To best develop the communities we live and work in, we will:
- Act responsibly in our communities to extend our positive impact through expertise and partnership
- Partner with experts to use our insight and expertise as a catalyst to create positive social change
- Support our people with volunteering time and matched fundraising for causes that matter to them.

Our people in action

Embedding our purpose and values

In 2014 we focused on embedding our purpose, values and their associated behaviours across Aviva. We believe our customers, communities and shareholders will benefit as we simplify our business, challenge the status quo, and tackle the issues that are important to them. We started with a "Leading Our Strategy" event for all our 3,500 Aviva leaders globally to help them focus on what our purpose and values mean both for the organisation and for each employee. Those leaders then delivered a training programme to all employees, called "Exploring Our Strategy", to immerse them in Aviva's strategy. This was designed to support our people to set goals for their work and personal lives, to help them make a more personal connection with Aviva's values and strategy. When we measured progress at the end of 2014, 83% of our people agreed they know how the Aviva values apply to their role.



> We are changing our culture and supporting our people to achieve their potential, so they can best serve our customers and enable us to achieve outstanding performance.
>
> Christine Deputy
> Group HR Director
> (pictured left)

Our people

Our people strategy is about changing our culture and supporting our people to achieve their potential, so they can best serve our customers and enable us to achieve outstanding performance. Our people thesis sets out how we will be different to other employers.

Transforming our culture

In our 319 year history, the important things have never changed – people matter to us. There are a number of social and demographic trends affecting workplaces across the globe and these are having an impact upon our global workforce.

These include increased cultural diversity, ageing workforces and a scarcity of talent in some areas. Digital trends include the ubiquity of mobile technology and a culture of constant connectivity.

To meet these challenges, we need to continue recruiting talented colleagues, improving performance management and boosting employee engagement.

Engaging with our people

We want our people to feel valued and ensure they can help shape Aviva's future, so we encourage open, two-way conversations with our people. In 2014 we used new ways of engaging with our people through digital channels. This included a series of live events presented by members of the Group Executive team, who spoke informally about key elements of our strategy and answered employees' questions. Videos and transcripts of these events were made available to all employees via the intranet.

We have introduced quarterly surveys – called Snapshot – asking a randomly-selected group of employees for their direct feedback. These surveys give us insights which we have used to help make positive changes for our people.

We have taken the same approach into our annual, all-employee survey, 'Voice of Aviva'. This helps us to understand our people and identify what we need to keep doing and where we can improve. This year over 25,000 colleagues took part.

We measure progress in this area through levels of employee engagement. 2014 saw engagement improve 9% 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 3% points above the norm in the global financial services sector.

The survey told us that 87% of our employees feel informed about important events (26% points above global financial services' norms), 81% understand our business priorities, 92% understand what is expected of them, and 82% feel it is safe to challenge the way we do things.

The survey also identified areas where we need to make further progress. Only two in three employees say that they feel recognised, highlighting the importance of individual and team praise. Additionally our people asked for more practical opportunities to collaborate with colleagues to benefit customers.

Our people managers across the world held open conversations with their teams about the survey results, and agreed actions they can take together. Aviva's senior leaders spent time hosting 'town halls' and all-employee calls where they shared their response to results and announcements, and committed to actions they would take as leaders. We also held employee consultative forums in the UK and Europe to support further conversations about how we develop the business.

Our focus for 2015 and beyond will be on continuing our communication efforts, increasing transparency with our people and customers, building our leadership capability and creating a culture of collaboration and recognition.

Leadership development

In 2014, we transformed our approach to leadership development, focusing on achieving outstanding performance. We have developed a leadership model and a programme to build capability in our leaders, called 'Leading@Aviva'. This new approach has been developed in conjuction with the Group Executive team and senior leaders in each market, and we plan to deliver 'Leading@Aviva' to all 3,500 people managers globally in 2015. This will ensure that building our people's capability will become an everyday element of Aviva's leadership culture.

Learning and development

We are committed to providing an environment in which our people can continue to grow and thrive. We want our people to build careers at Aviva. We are therefore encouraged that 72% told us that in the previous six months they had the opportunity to develop their skills.

In addition to more traditional technical skills training (such as courses and computer-based training), our people like to work on projects which stretch and develop them in their current job. One of the ways in which we are delivering this is through Systems Thinking, a key differentiator for Aviva. We encourage employees to develop better ways of working and to make processes simpler for customers. We have extended the roll-out of Systems Thinking to all levels in some areas of Aviva's business. This is being supported by an immersive programme targeted at senior leaders to help them understand Systems Thinking. This has been delivered to 400 senior leaders in 2014, with more sessions planned in 2015.

Increasing diversity and inclusion

In 2014, we looked afresh at our Diversity and Inclusion strategy. Our core belief is that we will improve Aviva's performance by embracing people who think and act differently. As a result, alongside building an inclusive and engaging culture, our immediate aim is to increase our overall diversity across all levels in the organisation, with an initial focus on gender.

Half our employees and customers are women. Yet only 21% of our senior management team and subsidiary board members, 19% of our Group Executive and 18% of our Board are female.

We believe striking a gender balance will enrich and improve our decision-making and therefore business performance as a whole. To this end, in 2014 we signed up to the UK Government's 'Think, Act, Report' initiative which encourages companies to disclose progress on equal pay and gender equality.

We are committed to achieving, by the end of 2015, the recommendation of Lord Davies' Women on Boards Review that 25% of our Board membership should be female. In 2014, we put two new subsidiary board policies in place to increase board diversity in our Irish business and Aviva Investors.

In addition we focused on expanding and building the vibrancy of our employee-run women's networks, including introducing new networks in the UK and Canada.

2014 also saw our Aviva Pride network, focused on Lesbian, Gay, Bisexual and Transgender (LGBT) issues, grow its membership in the UK. The network is a powerful voice in Aviva on LGBT issues, and works with HR, Marketing and customers to make improvements. Aviva Pride also works in the community to raise funds for the Albert Kennedy Trust. Aviva was ranked 15th in the Stonewall Top 100 list of Britain's most gay-friendly workplaces.

Our fairness and equality policies in the UK, and their equivalent policies globally, ensure that Aviva fully supports employees who have a protected characteristic or who are from an under-represented group, ensuring no fear of bias for training, promotion or reward.

> "The restructure and overall growth of the business has been brilliant. Aviva is moving forward with the times and introducing more online services and fresh ideas."
>
> 'Voice of Aviva' employee comment

We are committed to ensuring we provide full and fair consideration to applications for employment from people with disabilities, as well as supporting employees who become disabled during their employment. We adapt the working environment and where we can, offer flexible working practices to ensure the retention of our employees, no matter what their personal circumstances.

Attracting and retaining talent

We continued to focus on attracting and retaining the best talent with a particular focus on attracting talent in digital, predictive analytics and actuarial to support our strategy. In 2015, we will launch a new global onboarding programme.

Safety and wellbeing

We carried out a "How we work" survey in 2014. This confirmed that our people wanted a more inspiring environment, with more thinking time and space to increase collaboration. We are responding to this, for example by incorporating new quiet working areas.

To help our people maintain a healthy working life, we offer a number of initiatives including flexible working hours, career breaks and employee assistance programmes. In 2014, we launched well-being training for all our people as part of our "Essential Learning" programme.

Corporate Responsibility

Our Corporate Responsibility (CR) strategy is underpinned by Aviva's purpose and values. It sets out our approach to the environment and climate change, sustainable and transparent business practices, and community development.

During 2014, we engaged with our stakeholders on the way we run our business. In 2015, we will launch our new strategy, responding to the evolving needs of our people, customers, shareholders and employees.

Our business standard is how we ensure we meet our CR commitments, and helps us deliver our strategy. CR is also embedded in our risk management framework.

Trust and transparency

We want all our stakeholders to trust us. We are committed to making sure that we communicate with our customers in a straightforward and transparent way. This commitment is reflected in our customer business standard.

Business ethics

We aim to uphold the highest ethical standards in managing our business. This commitment is set out in our business ethics code. In 2014, 96% of Aviva employees confirmed they had read, understood and accepted the code (*2013: 95%*).

Financial crime

We are responsible for managing the risks of financial crime so that the costs are not passed on to our customers. Our employees receive annual training on financial crime prevention. Our global confidential malpractice reporting service 'Right Call' provides the means to report employee fraud. All cases reported are referred for independent investigation. In 2014, 39 cases were received through 'Right Call'. 33 cases reached conclusion and six cases remain under investigation. There has been no material litigation arising from cases reported through our malpractice reporting service in 2014.

Leading public debate

Aviva continues to take a lead in tackling systemic environmental, social and governance issues relating to the financial services sector. Our strong partnerships with governments, regulators, companies, Non-Governmental Organisations (NGOs) and investors mean that we can play an important role in promoting responsible investment in markets around the world.

Last year we responded to a number of key policy consultations focusing on the UN's Post-2015 Sustainable Development Goals, the EU's 2020 Strategy and Flood Re (the UK scheme to make sure all households can get affordable flood insurance). This year we have encouraged policy makers to tackle the risks of climate change. We hosted the launch of the UK Government's vision for the 2015 UN Climate Negotiations, at which the Secretary of State for Energy and Climate Change spoke.

Human rights

Our respect for human rights is embedded in how we do business. For example, we do not insure tobacco, arms and munitions manufacturers and we do not invest our money in cluster munitions manufacturing. Aviva is committed to upholding globally accepted human rights principles which are reflected in the following:

- UN Universal Declaration of Human Rights (UNUDHR)
- UN Nations Guiding Principles for Business and Human Rights
- International Labour Organization (ILO) core labour standards
- UN Global Compact
- UN Women's Empowerment Principles.

As part of our work in embedding human rights into how we do business, we focus on five human rights stakeholder groups:

Employees

We manage our risks by delivering on our commitment to respect and promote fair reward, diversity and inclusion, equal opportunities, labour relations and freedom of association.

Supply chain

We ask our suppliers to disclose their human rights policies, and engage with them where necessary to address any concerns we have. Our procurement contracts require suppliers to commit to the ILO core labour standards and uphold the UNUDHR.

Customers

Our business ethics code requires us to conduct business in a way which respects human rights. This includes being clear in our communications and processing personal data responsibly.

Community

Our corporate responsibility, climate change and environmental practices are aligned to the UNUDHR, ILO core labour standards and UN Global Compact principles.

Investments

We embed the UN Principles of Responsible Investment across all asset classes. Where human rights risks are identified in our holdings, we engage with companies to address our concerns. We do not invest in companies which manufacture cluster munitions.

Community development

Aviva has a long history of investing in communities. By focusing on the issues that matter most to our customers and those that are most closely aligned to our expertise, we maximise the value of our investment.

We work with partners such as the Red Cross and Macmillan Cancer Support for our customers and communities. We also work to increase access to insurance. For example, we are the largest provider in the UK of social housing tenants' contents insurance.

This year our community development contribution was £6.3 million. This includes our contribution to supporting emergencies such as the Ebola epidemic.

Employee involvement

We encourage all our employees to take up to three days paid leave a year to volunteer. In 2014, 23% of employees volunteered 40,220 hours (*2013: 41,223 hours*).

We continue to encourage volunteering related to our people's skills across the business.

> Businesses which act in a sustainable and responsible manner are more likely to achieve long-term success.
>
> Steve Waygood
> Chief Responsible Investment Officer, Aviva Investors

Community fund

Since its launch in 2008, the Aviva Community Fund (ACF) in Canada has helped 91 community organisations and contributed CAN$4.5 million to local community projects. We have collaborated across the Group to replicate this model.

The UK Broker Fund has invested £300,000 since 2010 and in 2014 Aviva Poland launched its fund, which attracted over one million votes for community projects to support young families. In 2015 we will launch more funds in the UK, Europe & Asia.

Environment and climate change

We judge the importance of environmental issues based on the impact on our customers, our business and our stakeholders. Climate change is society's most pressing environmental challenge and the most directly relevant to our business. We have a commercial interest in making sure risks do not become uninsurable and in understanding the potential long-term impact on our investments.

Extreme weather events pose a serious risk to our business and customers, leading to potential fluctuations in claims and challenges to how we price risk. We are using our expertise as insurers, such as our knowledge of historical weather events and cutting-edge predictive modelling, to map future scenarios, and reduce the risk to our customers and our business.

We are also seeking to reduce our own environmental impact, including improving our energy efficiency, investing in the low-carbon economy and understanding our indirect impact, such as through our supply chain.

We are also building environmental benefits into our products and services, for example in the way in which we settle claims. In the UK, where possible, we now aim to clean and deodorise items damaged by fire on site rather than removing them and potentially replacing them. This means fewer goods go to waste.

Controlling our impact

We publish annual Group performance data for our CO_2e emissions, waste and water consumption. Our carbon footprint boundaries identify the scope of the data we monitor and the emissions we offset. We report on all of the Greenhouse Gas (GHG) emission sources on a carbon dioxide emissions equivalents basis (CO_2e) as required under the Companies Act 2006 (Strategic Report and Directors' Reports) 2013 Regulations.
Our reporting follows the GHG Protocol Corporate Accounting and Reporting Standard, and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014.

In line with this we report emissions which are within our organisational boundary. We therefore do not have responsibility for any emission sources that are not included in our business operations.

Case study

Street to School

Aviva's five-year global Street to School programme came to an end in December 2014. It has exceeded its goals. Having set out to help only 500,000 children, the programme helped over one million children globally. We are proud to be the leading corporate body supporting the campaign for street children to be recognised in the UN Convention on the Rights of the Child. This has helped put street children back on the UN policy agenda.

We are proud of what Street to School has achieved together with our partners, people and customers. Over the last five years our employees have volunteered over 95,000 hours of their time for Street to School, and raised more than £1.7 million.

Although the global partnership programme has come to an end, Aviva will continue to advocate on behalf of street children through our work with the Consortium for Street Children and the UN. Our longstanding work in parts of Asia will also continue for another two years.

Controlling our impacts:
Aviva's carbon footprint boundaries
Covering 100% employees
Reporting and offsetting

Scope 1 – Aviva controls directly

Greenhouse gases emitted directly from activities Aviva owns or part-owns

- Gas
- Fugitive emissions*
- Company car fleet

Scope 2 – Aviva controls indirectly

Greenhouse gases emitted indirectly from consumption of purchased electricity, heat or steam

- Electricity

Scope 3 – Aviva influences

Greenhouse gases emitted indirectly from all other sources

- All air travel
- Rail travel
- Grey fleet**
- Waste
- Water
- Rental cars

* Greenhouse gas leaks from air conditioning systems.
** Personal business mileage.

We have used the two most appropriate intensity measures to our business: tCO_2e per employee and tCO_2e per £ million Gross Written Premiums which are expressed in the table below.

Aviva plc – Global greenhouse gas emissions data

Tonnes CO_2e	2014	2013	2012
Scope 1	20,031	21,787	23,849
Scope 2	46,231	56,842	75,733
Scope 3	17,662	26,688*	13,181*
Absolute CO_2e footprint**	83,924	105,317*	112,763*
CO_2e tonnes per employee	2.4	2.8*	2.6*
CO_2e tonnes per £m GWP	3.87	4.78*	4.96*
Carbon offsetting***	(83,924)	(115,889)	(132,827)
Total net emissions	0	(10,572)	(20,064)

Scope 1 – operational emissions from owned sources e.g. gas, vehicle fleet as part of product/service.
Scope 2 – operational emissions from non-owned sources e.g. electricity.
Scope 3 – business activity emissions from non-owned sources – e.g. business travel.
* Restated.
** Limited assurance provided by PricewaterhouseCoopers LLP.
*** Carbon offsetting through the acquisition and surrender of emissions units on the voluntary market.

Aviva goes beyond the requirements of the 2013 Regulations and also reports on business travel and other scope three emissions.

We purchase 56% of our electricity from renewable sources round the world. However, the UK Government conversion factors require that the CO_2e element of UK renewable electricity should be reported as grid average. For our unavoidable remaining carbon emissions we offset these to the value of 100% through the acquisition and surrender of emission units on the voluntary carbon market (VERs).

We are liable under the Carbon Reduction Commitment Energy Efficiency Scheme whereby we reported total emissions of 97,323 tCO_2e costing £1.16 million. The boundaries of measurement and reporting differ from our global operations emissions, being restricted to the UK businesses emissions from building energy and including the property portfolio of our investment funds managed by Aviva Investors.

In 2014, we met our long term target to cut CO_2e emissions by 20% between 2010 and 2020 achieving a reduction of 32%. As we have reached our target ahead of schedule, we are developing a new more ambitious target as part of our new strategy. In 2014, we cut our emissions by 4% compared with 2013.

We have been rated by CDP as the lowest carbon intensive insurer in its global performance ranking.

We were the first carbon neutral insurer worldwide in 2006 and we continue to offset all operational emissions. Our offsetting projects have also impacted nearly 500,000 lives (in terms of improved health) since 2012.

Leading responsible investment

We believe that businesses which act in a sustainable and responsible manner are more likely to achieve long-term success, benefiting their customers and society as a whole.

Aviva is a founding signatory to the UN Principles for Responsible Investment. We were one of the first global fund managers to integrate environmental, social and governance (ESG) issues into our investment decision-making and to exercise our leverage as an institutional investor to drive changes in business practices, especially through voting at Annual General Meetings.

We exercise stewardship by encouraging greater transparency, more sustainable practices and better corporate governance. By doing so we shape new corporate behaviour that helps to reduce the risks for our clients.

We aim to challenge accepted practices and promote fresh debate in industries in which we invest. In doing so, we create shareholder value whilst building a legacy for our customers and communities.

In June, our Group CEO, Mark Wilson, launched Aviva's 'Roadmap for Sustainable Capital Markets', which sets out recommendations to regulators and policy makers for transforming and aligning incentives in order to create a more sustainable economy. We have championed these reforms within the UK and at the EU and UN.

Join the debate on responsible investment at www.aviva.com/roadmap/

Case study

Reducing carbon emissions and supporting communities

We have long taken responsibility for the environmental impacts of our business. In 2006, we were the first global insurance group to offset our total operational emissions and become carbon neutral.

In our offsetting process we make a measurable difference to people as well as the environment.

We have worked closely with ClimateCare to develop a new way to measure and report the impact of offsetting our carbon emissions based on the methodology we use to measure our community investment impact. Our support not only reduces carbon emissions but also has an impact on people's health, resilience and livelihoods. One of the projects we support, Lifestraw water filters, means people do not have to boil drinking water on open fires. This saves them money, reduces their exposure to toxic fumes and protects local forests.

So far, in just three years, we have made a measurable difference to the lives of just under 500,000 people in countries including Kenya, India and China.

32%

Progress against long-term CO_2e target

2.4

CO_2e tonnes per employee

FTSE4Good

CDP CLIMATE DISCLOSURE LEADER 2014

Lille, France

Support for social enterprises

The Social Entrepreneurship sector in France is booming. But these businesses often struggle to find the funding to support their continued development.

Aviva Impact Investing France, run by Aviva France and Le Comptoir de L'Innovation, makes pioneering investments over five to seven years to support French social enterprises in their take-off and growth phases.

In December 2014 they made their first investment in a recycling factory in Lille called Le Relais (shown right). It's the leader in France in the collection, sorting and recovery of second-hand clothing and textiles and has, since 1984, created 2,700 jobs.

Aviva's investment is in partnership with Minot Recyclage Textile (MRT). Clothes which can't be re-used get a new life as non-woven felts, geotextiles, cleaning cloths or as thermal or acoustic insulation material.

> We are delighted to invest in a sustainable business such as Le Relais – and contribute to creating a more sustainable future.
>
> Philippe Gravier
> CFO Aviva France

Risks and risk management

By focusing on four core business lines – life, general and health insurance and asset management – we have chosen to accept the risks inherent in these lines of business

We achieve significant diversification of risk through our scale, our multi-product offering to customers, the differing countries we choose to operate in and through the different distribution channels we use to sell products to our customers.

Our business is about protecting our customers from the impact of risk. We receive premiums which we invest in order to maximise risk-adjusted returns, so that we can fulfil our promises to customers while providing a return to our shareholders. In doing so, we accept the risks set out below:

Risks customers transfer to us	Risks from investments	Risks from our operations and other business risks
General insurance risk: Arising from loss events (fire, flooding, windstorms, accidents etc.). **Health insurance risk:** Healthcare costs and loss of earnings arising from morbidity risk (customers falling ill). **Life insurance risk:** Includes longevity risk (annuitants living longer than we expect), mortality risk (customers with life protection dying), expense risk (the amount it costs us to administer policies) and persistency risk (customers lapsing or surrendering their policies). Some of our life and savings contracts provide guaranteed minimum investment returns to customers, and as a result we accept from them investment type risks such as **credit** and **market risk** in order to offer upside potential but provide protection against the downside.	Uncertain returns on our investments as a result of **credit risk** (actual defaults and market expectation of defaults) and **market risks** (resulting from fluctuations in asset values, including equity prices, property prices, foreign exchange rates and interest rates) affect our ability to fund our promises to customers and other creditors, as well as pay a return to our shareholders. **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.	**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. Such operational failures may adversely impact customers directly or our reputation with the public, customers, agents and regulators, and impair our ability to attract new business. **Asset management risk** is the risk of customers redeeming funds, not investing with us or switching funds, resulting in reduced fee income. We manage funds on behalf of our customers, so they do not have to manage the credit, market and operational risks which otherwise they would have to manage themselves.

> The key is to understand the risk that you're taking and the reward that you get from it.
>
> John Lister
> Group Chief Risk Officer

How we manage our risks

Our core expertise is understanding and managing these risks, so that we can competitively price our products, deliver on our promises to customers and provide sustainable earnings growth to our shareholders.

We manage risk through our choice of business strategy, underpinned by our business culture and values, continuously seeking to identify opportunities to maximise risk-adjusted returns. Rigorous and consistent risk management is embedded across the Group through our risk management framework, which includes the following key elements:

1. Our risk appetite framework
2. Our risk management processes
3. Our risk governance

Our risk management framework

1. Our risk appetite framework

Our risk appetite framework comprises:

- **Overarching risk appetites:** Quantitative expressions of the level of risk we can support (e.g. capital we are prepared to put at risk)
- **Risk preferences:** Qualitative statements on the risks we believe we are capable of managing to generate a return, risks we can support but need to be controlled, and risks we seek to avoid or minimise
- **Operating risk limits and tolerances:** Quantify specific boundaries (e.g. limits on specific risks).

The Aviva Board has approved four risk appetite statements:

- **Economic capital:** Based on economic capital at risk in an extreme loss event over a one year time horizon
- **European Insurance Groups Directive (IGD) capital:** Based on maintaining an appropriate level of required regulatory solvency capital in a severe loss event
- **Liquidity:** Based on stressing one year forecast central liquid assets and cash inflows and outflows (covering Group centre costs, debt costs and dividends)
- **Franchise value:** Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, Aviva will not accept risks that materially impair the reputation of the Group and requires that customers are always treated with integrity.

Risk appetites are clearly defined, refreshed on a regular basis and form part of the planning process. Risk appetites exist in aggregate and by risk type.

2. Our risk management processes

The core business processes we use to identify, measure, manage, monitor and report (IMMMR) risks, delivered by our organisation and people, are set out below:

Identify and measure

Risk identification is carried out on a regular basis, including as part of the business planning process and any major business initiatives, and draws on a combination of internal and external data, covering both normal conditions and stressed environments. Risks are recorded on a business-wide key risk register.

We measure risks on the basis of economic capital (as well as other bases if appropriate) to determine their significance, relative to the potential return and to appropriately direct resources to their management.

Manage and monitor

Monitoring ensures that the risk management and mitigation approaches (accept, avoid, transfer, control) in place are effective. Monitoring may also identify risk-taking opportunities.

We regularly monitor our risk exposures against risk appetites, as well as key risk indicators against operating and financial risk limits and tolerances. Early warning indicators are monitored as triggers for management action, such as putting into effect pre-prepared contingency plans.

We monitor the effectiveness of controls in place to manage operational risks, including compliance with the Group's internal business standards.

Report

Risk reporting is dynamic, focused on:

- Material risks and trends
- Performance and the impact on the risk profile, historical and prospective
- Decisions, taking account of risk reward trade-offs
- Projections/forward-looking views
- Mitigating actions
- Risk vs. appetite

Supported by our organisation and people

Good risk management is supported by our staff having clear roles and responsibilities, the right skills and capabilities, and the right incentives and rewards. We strive to embed a risk-aware culture and values in our business through employee training and communications.

3. Our risk governance

Risk is governed through group-wide risk policies and business standards, risk oversight committees and clear roles, responsibilities and delegated authorities. The Aviva plc Board is responsible for setting the Group's risk appetite and establishing and operating controls to assess and manage the risks. The Board delegates 'day-to-day' risk management to the Group CEO, who delegates operational aspects to executives within the Group through delegated authority letters.

Line management in the business is accountable for risk management, which together with the risk function and internal audit form our 'three lines of defence' of risk management.

1st line

Functions (Product development/ Underwriting/ Sales & Distribution/ Customer service/Claims handling/ Finance & Capital/Investment/IT/HR/ Legal/Procurement)
Accountable for the management of all risks relevant to the business of the function.

2nd line

Risk (including regulatory compliance and actuarial oversight functions)
Accountable for providing objective challenge and oversight of the business' management of all risks and for developing and maintaining the risk management framework.

3rd line

Internal Audit
Accountable for providing reliable independent assessment and reporting to the Group and business unit Audit and Risk Committees, Board members and Executive Management of Aviva plc and its subsidiaries on the adequacy and effectiveness of the risk management and control frameworks operated by the 1st and 2nd lines of defence.

Principal risk types

The types of risk to which the Group is exposed, described in the table below, have not changed significantly over the year. The principal impact on the Group's risk profile of the planned acquisition of Friends Life, subject to successful completion, will be to increase our exposure to equity price risk and UK life insurance risks, in particular persistency risk. The operational risks of integration will also require close management.

Risk type	Risk preference	Mitigation
Credit risk • Credit spread and default ◆	We take on credit risk as we believe we have the expertise to manage it. As an insurer, we benefit from being able to invest for the long term due to the relative stability and predictability of our cash outflows.	• Risk appetites set to limit overall level of credit risk • Credit limit framework imposes limits on credit concentration by issuer, sector and type of instrument • Investment restrictions on sovereign and corporate exposure to some eurozone countries • Credit risk hedging • Specific asset de-risking
Market risk • Equity price ◆ • Property • Interest rate • Foreign exchange • Inflation	We actively seek some market risks as part of our investment and product strategy. We have a limited appetite for interest rate, foreign exchange and inflation risks as we do not believe that these are adequately rewarded.	• Risk appetites set to limit exposures to key market risks • Active asset management and hedging in business units • Scaleable Group-level equity and foreign exchange hedging programme • Pension fund de-risking • Asset and liability duration matching limits impact of interest rate changes and actions taken to manage guarantee risk, through product design
Life and health insurance risks • Longevity ◆ • Persistency • Mortality • Morbidity • Expenses • New business	We take measured amounts of life and health insurance risks where we have the appropriate core skills in underwriting. We like longevity and mortality risks as they diversify well (i.e. have little or no correlation) against other risks we retain.	• Risk appetites set to limit exposures to key life and health insurance risks • Risk selection and underwriting on acceptance of new business • Product design that ensures products and propositions meet customer needs • Use of reinsurance to mitigate mortality/morbidity risks • Staff pension scheme longevity swap covering approximately £5 billion of pensioner in payment liabilities
General insurance risk • GI catastrophe • GI reserving (latent and non-latent) • GI underwriting / new business	We take general insurance risk in measured amounts for explicit reward, in line with our core skills in underwriting and pricing. We have a preference for those risks that we understand well, that are intrinsically well managed and where there is a spread of risks in the same category. GI risk diverisifies well with our life insurance and other risks.	• Risk appetites set to limit exposures to key general insurance risks • Extensive use of data, financial models and analysis to improve pricing and risk selection • Underwriting limits linked to delegations of authority that govern underwriting decisions • Product development in management framework that ensures products and propositions meet customer needs • Documented claims management philosophies and procedures • Use of reinsurance to reduce the financial impact of a catastrophe and manage earnings volatility
Liquidity risk	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.	• Maintaining committed borrowing facilities (£1.55 billion)[1] from banks • Asset liability matching methodology develops optimal asset portfolio maturity structures in our businesses to ensure cash flows are sufficient to meet liabilities • Commercial paper issuance • Contingency Funding Plan in place to address liquidity funding requirements in a significant stress scenario
Asset management risk • Retention • New business • Expenses	Risks specific to asset management should generally be reduced to as low a level as is commercially sensible, on the basis that taking on these risks will rarely provide us with an upside.	• Product development and review process • Investment performance and risk management oversight and review process • Propositions based on customer needs • Client relationship teams managing client retention risk
Operational risk • Conduct & reputation • Legal & regulatory • People • Process • Data security • Technology	Operational risk should generally be reduced to as low a level as is commercially sensible, on the basis that taking operational risk will rarely provide us with an upside, and operational failures may adversely impact our reputation, impairing our ability to attract new business, or lead to poor customer outcomes.	• Application of enhanced business standards covering key processes • Monitoring of controls through assurance activity and information on the operation of the control environment from management, internal audit and risk functions, supported by operational risk and audit registers and first line control logs • Scenario based approach to determine appropriate level of capital for operational risks • Conduct risk management framework

◆ Aviva's top three risks ranked by economic capital at risk in a 1-200 year loss event over a one year time horizon.

1 As at 31 December 2014.

Emerging risks and causal factors

We also manage and monitor risks and causal factors which may impact our longer term profitability and viability, in particular our ability to write profitable new business. For example, such risks and factors include:

- **Climate change** – potentially resulting in higher than expected weather-related claims and inaccurate pricing of general insurance risk.
- **New technologies –** failure to understand and react to the impact of new technology and its effect on customer behaviour and how we distribute products could potentially result in our business model becoming obsolete.
- **Regulatory change** – our businesses face considerable regulatory change as a result of Solvency II, our designation by the Financial Stability Board as a Global systemically important insurer (G-SII) and developments in conduct regulation, which will affect how much capital we hold, how we operate and how we sell and distribute our products. While ongoing consultations on implementing standards and supervisory guidelines have reduced the level of uncertainty over the final capital impact on our business of Solvency II (effective 1 January 2016), some uncertainty remains, including over the outcome of the Group's application to use an internal model to calculate our capital requirements.
- **Political risk** – governments in the markets in which we operate incentivise long-term saving and private pension provision through tax benefits, while also providing an alternative through state provision. In some markets there are (or could be in the future) restrictions and controls on premium rates, rating factors and charges. Any change in public policy could influence the demand for, and profitability of, our products. For example, in March 2014 the UK Government announced the end of compulsory annuitisation, which has significantly reduced demand for individual annuities. The diversity of our product offering and the geographies in which we operate partly mitigates this risk.
- **Cyber crime** – criminals may attempt to access our IT systems to steal or utilise company and customer data, or plant malware viruses, in order to access customer or company funds, and/or damage our reputation and brand. While we have IT security and data encryption to prevent this happening, the increasing sophistication of criminals and the focus on digital automation as part of our strategy make this an increasing risk.

Case study

Being prepared for the worst

The Group and its businesses have contingency plans in place to ensure a swift and effective response in case risks crystallise into major loss events, including:

- **Financial Event Response Plans** – to ensure we can respond promptly to severe adverse financial events (e.g. equity market crash, sovereign default etc.) that may weaken the financial position of Aviva
- **Business Continuity Plans** – to ensure we can continue to operate and serve our customers in the event of terrorism, pandemic, cyber-attack or other events disrupting our operations
- **Major Incident Response Plans** – to ensure we can maintain our level of customer service in response to a spike in demand resulting from a major weather event (e.g. floods, windstorms) or other loss event.

We use 'war-gaming' to test the effectiveness of our plans in the event these risks crystallise.

- **Prolonged low interest rate environment** – if current low interest rates continue for a prolonged period it will adversely affect the 'spread' we can earn between the returns we can offer customers and the return we earn on our investments, as well as the attractiveness of the returns we can offer to new customers.
- **Macroeconomic growth** – the slowdown in economic growth in Asia, and re-emerging concerns over the economic performance of the eurozone, could precipitate a wider global economic slowdown, which could adversely impact our investments, customer retention and new business levels.
- **New and emerging latent claims** – new claims on policies written a long time in the past may arise as a result of future court judgements extending liability, new legislation, new historic evidence and interpretation, emerging medical science on health effects of long-term exposures to chemicals etc. Examples over the last 30 years include asbestosis, repetitive strain injury and industrial deafness.
- **Medical advances and healthier life styles** – medical advances and healthier life styles may increase life expectancy of our annuitants and thus future payments over their lifetime may be in excess of the amounts we currently expect. Historic examples include the positive impact on life expectancy of reduced rates of smoking over the last 40 years.
- **Pandemics, new diseases and antibiotic resistance** – the adverse impact on mortality could negatively impact the profitability of our life protection products, increase private health insurance claims, and even affect general insurance claims. A pandemic might also disrupt our operations.
- **Big Data** – failure to keep pace with the use of data to price more accurately and to detect insurance fraud could lead to loss of competitive advantage and financial losses.
- **Changes in customer behaviour** – changes in the legal environment or as a result of advances in technology may change the rates at which customers exercise options embedded in their contracts or enable them to take advantage of additional information available to them to exercise options in a way that is adverse to us.

See pages 18 and 52 on how we address the risks of new technologies and climate change through our business strategies and corporate responsibility respectively.

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Governance

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Dear shareholder

Your Board firmly believes that a sound governance framework is essential in supporting management in delivering the Group's strategy to drive business success

> Our governance responsibilities are particularly important when significant transactions are being considered
>
> John McFarlane
> Chairman

This ensures that your investment and the assets of the Company are protected. As a Board we take these governance responsibilities seriously and they are particularly important when significant or transformational transactions are being considered.

This is clearly the case in respect of the proposed acquisition of Friends Life. Given the materiality of the transaction, the Board as a whole carefully deliberated the merits of the transaction, ensured that a robust due diligence process was followed and fully considered the risks, mitigations and opportunities presented by the transaction. If the proposed acquisition completes successfully the Board will oversee the integration to ensure that robust systems of internal control and risk management are implemented throughout the enlarged Group to support its long-term success. I believe management has a clear plan to achieve the strategy agreed by the Board and this will continue to evolve as we integrate Friends Life if the proposed acquisition completes.

Key activities during 2014

Board

Reflecting on the results of the Board and committees' effectiveness evaluation conducted at the end of 2013, the Board considered the balance of skills, knowledge and experience on the Board and its committees. The committees were all considered effective, however the Board agreed there was merit in making some changes to the membership of some of the committees.

Governance Committee

We further refined the Governance Committee's remit during the year to include oversight responsibility for conduct risk, in particular in relation to those risks that may impact customer outcomes and have a potential reputational impact. This has been a key focus of the committee during the year with a push for consistent management information on conduct risk. The committee also became responsible for talent management and development programmes, and during the year implemented initiatives to ensure robust succession plans are in place and a sustainable future workforce is created.

Audit Committee

The Audit Committee continued to monitor the internal control environment and the nine key control topics identified by management (see the Audit Committee's report for further details). In particular, new protocols are being developed to improve oversight of the Group's joint ventures. The committee is also overseeing the rollout of the Integrated Assurance Framework (IAF) across the Group. In time this will provide a

central mechanism to further improve the monitoring and management of the Group's control environment.

The committee also continued to monitor the integrity of the Group's financial reporting, focussing on their fair presentation, the reasonableness of financial assumptions and judgement factors and the appropriate application of accounting policies.

In the 2013 Annual report and accounts we reported that we had identified controls failings in Aviva Investors that happened between August 2005 to June 2013. In February 2015, Aviva Investors reached a settlement with the FCA in relation to this and agreed to pay a fine of £17.6 million. Aviva Investors has committed significant resources to enhancing its control environment. Aviva Investors has fixed the issues, improved the systems and controls and made substantial changes to the management team.

Risk Committee

During the year the Risk Committee closely scrutinised the Group's work towards compliance with Solvency II (SII), reviewing and approving interim measures on the path to compliance, including an Internal Model Validation Business Standard and, later in the year, the methodology and assumptions for the Individual Capital Adequacy submission to be made in 2015.

With the Group's designation as a Global Systemically Important Insurer (GSII), it was important for the committee to scrutinise the GSII recovery and resolution plans. The committee also reviewed management plans to address potential future capital requirements that might be required as a result of either being classified as a GSII or the transition to Solvency II.

Remuneration Committee

As advised in last year's Annual report, during 2014 the Remuneration Committee undertook a strategic review of executive remuneration to ensure the Directors' remuneration policy remained fit for purpose, aligned to the achievement of strategy, competitive, consistent with good governance and regulatory practice and compliant with relevant regulation. It was recognised at the time that such a strategic review might require the Company to propose changes to the policy at the 2015 Annual General Meeting (2015 AGM). Details of the review process, consultation and conclusions reached by the committee can be found in the Directors' remuneration report, as can detail of the proposed revised policy. We are confident that we now have a fair and balanced set of policy changes, which align the interests of executives with the long term success of the Company, and hope you support these at this year's AGM.

Nomination Committee

The principal role of the Nomination Committee is to keep under review the composition of the Board to ensure that it has the right balance of skills, knowledge, experience and diversity. Increasing female representation on the Board to at least 25% remains our firm aim; however appointments will not be made on the basis of gender alone and will be made on merit and have regard to other criteria identified by the committee.

During the year, Scott Wheway chaired committee meetings to consider candidates to be appointed as Chairman upon my retirement following the 2015 AGM. Details regarding the process by which Sir Adrian Montague was recommended to the Board are set out in the Nomination Committee's report.

The proposed acquisition of Friends Life gave the committee an opportunity to consider the composition of the Board of the enlarged Group. As a result, the committee recommended to the Board that Andy Briggs and Sir Malcolm Williamson be appointed as directors of the Board following successful completion of the transaction.

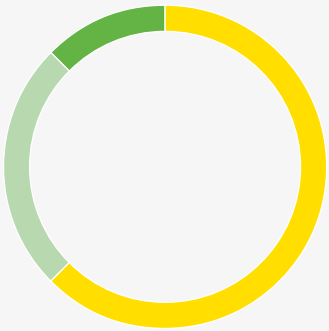
Having considered each Non-Executive Director's independence, each director's contribution to the Board, and their suitability for re-election, the committee supports the re-election of all Board members standing for re-election at the 2015 AGM.

UK Corporate Governance Code

During the year the Company has been compliant with all relevant provisions of the 2012 UK Corporate Governance Code (the Code). A new version of the Code was published in September 2014 and the Company intends to be compliant with all new relevant provisions in the timeframes dictated by the Code. We disclose details of how we comply with the Code throughout the Directors' and corporate governance report and the Directors' remuneration report in the Annual report and accounts.

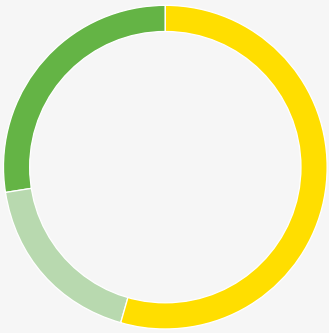
John McFarlane
Chairman
4 March 2015

Length of tenure of Non-Executive Directors



0-3 years	5
3-6 years	2
6-9 years	1
+9 years	0

Geographical mix



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Board of directors

We have a strong, experienced and diverse Board with a good balance of skills

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It will be a privilege to chair Aviva's Board.

Sir Adrian Montague, CBE

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01. John McFarlane
Chairman

02. Mark Wilson
Group Chief Executive Officer

03. Tom Stoddard
Chief Financial Officer

04. Sir Adrian Montague, CBE
Senior Independent Director

05. Glyn Barker
Independent Non-Executive Director

06. Patricia Cross
Independent Non-Executive Director

07. Michael Hawker, AM
Independent Non-Executive Director

08. Gay Huey Evans
Independent Non-Executive Director

09. Michael Mire
Independent Non-Executive Director

10. Bob Stein
Independent Non-Executive Director

11. Scott Wheway
Independent Non-Executive Director

John McFarlane
Chairman
b.1947

John was appointed to the Board in September 2011 and became Chairman on 1 July 2012. He chairs the Nomination Committee. He is Chairman of FirstGroup plc (transport operator), and is a Non-Executive Director of Barclays plc (banking), Westfield Corporation (retail mall developer and operator) and Old Oak Holdings Ltd (financial holding company).

Previously, John was Chief Executive Officer of Australia and New Zealand Banking Group Ltd (banking), Executive Director at Standard Chartered plc (banking), head of Citicorp Investment Bank Ltd and later head of Citicorp and Citibank in the United Kingdom and Ireland (banking). Formerly a Non-Executive Director of The Royal Bank of Scotland Group plc (banking) and Capital Radio plc (media) and a director and council member of the London Stock Exchange. He was also a Non-Executive Director of the Securities Association (UK securities regulator), the Auditing Practices Board (auditing regulator) and the Business Council of Australia. He has extensive experience in banking, including investment, corporate and retail banking, and in general management, insurance, strategy, risk and cultural change.

On 12 September 2014, it was announced that John McFarlane would step down as Chairman of the Aviva Group. John will remain as Chairman of the Aviva Group until the conclusion of the 2015 AGM, at which point Sir Adrian Montague will be appointed in his place, subject to his re-election.

Mark Wilson
Group Chief Executive Officer
b.1966

Mark joined the Board in December 2012 and became the Group Chief Executive Officer on 1 January 2013. He was formerly Chief Executive Officer and President of AIA Group (insurance) which he repositioned into the leading pan-Asian insurance company, improved its market valuation, successfully navigated the company through the global financial crisis and prepared it for an IPO. The company emerged as a stronger and significantly more valuable independent entity, leading to the largest IPO in corporate history in Hong Kong.

Mark was previously Chief Executive Officer of AXA China and Chief Executive Officer of AXA South East Asia (insurance). He also held a number of senior management positions at National Mutual (insurance) in New Zealand, where he progressed through many of the major business functions, gaining a deep and broad knowledge of the business.

Mark has over 25 years of operational and executive experience in the insurance industry across life assurance, general insurance and asset management, in both mature and growth markets. He has extensive experience of leading major international insurance companies and has an excellent track record as a focused and inspirational business leader.

Tom Stoddard
Chief Financial Officer
b.1966

Tom joined Aviva in April 2014 as Chief Financial Officer and a member of the Aviva Group Executive. He has worked primarily as an investment banker, including advising Aviva. He also has experience as a corporate lawyer and an asset based lender. From 2008 to 2014, Tom was Senior Managing Director, Head of Global Financial Institutions Advisory, at the investment and advisory firm Blackstone Advisory Partners LP with responsibility for successfully driving Blackstone's business of advising banks, insurers and other financial institutions globally on M&A and restructuring.

He also held senior investment banking positions at Donaldson, Lufkin & Jenrette (investment company) and its successor, Credit Suisse (financial services holding company), where he led the global insurance group as Managing Director. Tom also practiced corporate and securities law with Cravath, Swaine & Moore LLP (U.S. law firm) from 1992 to 1994.

Sir Adrian Montague, CBE
Senior Independent Director
b.1948

Sir Adrian was appointed to the Board in January 2013 and became Senior Independent Director in May 2013. He is a member of the Audit, Governance and Nomination Committees. He is currently Chairman of 3i Group plc (private equity), The Manchester Airport Group plc and The Point of Care Foundation (charity) and a Non-Executive Director of Skanska AB (construction) and Cellmark Holdings AB (forest products).

He was formerly Chairman of Anglian Water Group Ltd (utilities), Friends Provident plc (life insurance), British Energy Group plc (utilities), Michael Page International plc (recruitment), and Cross London Rail Links Ltd (Crossrail) and was formerly Deputy Chairman of Network Rail Ltd (railway network provider), Partnerships UK plc (public private partnership) and UK Green Investment Bank plc (investment bank).

He was also previously Chief Executive of the Treasury Taskforce and a trustee of Historic Royal Palaces. Sir Adrian has significant experience in the financial services industry and in government and regulatory circles. He is a qualified solicitor and was formerly a partner at Linklaters & Paines.

On 12 September 2014, it was announced that John McFarlane would step down as Chairman of the Aviva Group. John will remain as Chairman of the Aviva Group until the conclusion of the 2015 AGM, at which point Sir Adrian Montague will be appointed in his place, subject to his re-election.

Glyn Barker
Independent Non-Executive Director
b.1953

Glyn was appointed to the Board in February 2012 and is Chairman of the Audit Committee and a member of the Risk and Nomination Committees. He is currently Chairman of Irwin Mitchell (law firm), a Non-Executive Director of Transocean Limited (offshore drilling), Berkeley Group Holdings plc (construction) and a trustee of English National Opera. He was formerly Vice Chairman, UK of PricewaterhouseCoopers LLP with responsibility for leading the executive team for Europe, Middle East, Africa and India region following a long and successful career with the firm. Glyn has extensive experience as a business leader and a trusted adviser to FTSE100 companies and their boards on a wide variety of corporate and finance issues. He possesses a deep understanding of accounting and regulatory issues together with in-depth transactional and financial services experience.

Patricia Cross
Independent Non-Executive Director
b.1959

Patricia joined the Board in December 2013. She chairs the Remuneration Committee and is a member of the Audit and Nomination Committees. She is currently a Non-Executive Director of Macquarie Group Limited (banking) and Macquarie Bank Ltd (banking) and Chairman of the Commonwealth Superannuation Corporation (Federal Government pension fund).

She is a Director of the Grattan Institute (Australian think tank) and an Ambassador for the Australian Indigenous Education Foundation (charity). Patricia was formerly a Non-Executive Director of Qantas Airways Ltd (airline) and National Australia Bank Ltd (NAB) (financial services). She was a Non-Executive Director at Wesfarmers Ltd (conglomerate including insurance), Suncorp-Metway Ltd (insurance and banking) and AMP Ltd (wealth management and life insurance).

She was formerly Chairman of the Qantas Superannuation Fund (pension fund), Deputy Chairman of Victoria's Transport Accident Commission (statutory insurer, Australia) and served in honorary Australian

Government roles including the Australian Financial Centre Forum and the Financial Sector Advisory Council, as well as on numerous charities. She was also Executive General Manager, wholesale banking and finance at NAB, and held a number of senior executive positions at Chase Manhattan Bank and Banque Nationale de Paris (banking).

Patricia has significant experience as both an Executive and Non-Executive Director across a wide range of financial services and other regulated industries in the U.S., Europe and Australia.

Michael Hawker, AM

Independent Non-Executive Director
b.1959

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Michael was appointed to the Board in January 2010 and is Chairman of the Risk Committee and a member of the Audit and Nomination Committees. He is currently Non-Executive Director of Macquarie Group Limited, Macquarie Bank Limited (banking) and Washington H Soul Pattinson and Company Ltd (investment). Michael is Independent Non-Executive Chairman of the Australian Rugby Union, Non-Executive Director of SANZAR Pty Ltd and is Non-Executive of the International Rugby Board (rugby union). With respect to medical research, Michael is Chairman of The George Institute for Global Health (research institution). He was formerly Chief Executive and Managing Director of Insurance Australia Group (insurance), Group Chief Executive of business and consumer banking at Westpac Banking Corporation (banking) and Chairman of the Insurance Council of Australia (insurance representative body).

Michael brings to the Board a wealth of knowledge and experience gained over a long career in the banking and insurance industries, in both executive and non-executive roles in Europe, Asia and Australia.

Gay Huey Evans

Independent Non-Executive Director
b.1954

—

Gay was appointed to the Board in October 2011, is a member of the Risk, Remuneration and Nomination Committees, and chaired the Governance Committee until February 2014. She is currently a Non-Executive Director of ConocoPhillips (exploration and production), Bank Itau BBA International Ltd (banking), and the Financial Reporting Council.

Gay is also a member of the management board of the panel of finance experts of the Panel of Recognised International Market Experts in Finance and a Trustee of Wellbeing of Women (UK). She was formerly Vice Chairman of the Board of International Swaps and Derivatives Association, Inc. (ISDA), Vice Chairman, Investment Banking & Investment Management at Barclays Capital (banking), a Non-Executive Director of The London Stock Exchange Group plc (stock exchange) and a trustee of The Wigmore Hall Trust (charity). Prior to that, Gay held senior management positions at Citi Alternative Investments (investments) and Bankers Trust Company (banking).

Gay has over 30 years of experience within the financial services industry, having held key positions in government and in a number of global financial and banking institutions and the Financial Services Authority (regulatory predecessor to the PRA and FCA).

Gay will retire from the Board from the conclusion of the 2015 AGM.

Michael Mire

Independent Non-Executive Director
b.1948

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Michael was appointed to the Board in September 2013 and is a member of the Governance, Risk and Nomination Committees. He is currently the Senior Independent Director at the Care Quality Commission (the UK Government body which regulates the quality of health and adult social care and gives ratings to all hospitals, whether public or private, adult social care homes and services, and primary medical care practices).

Michael was a Senior Partner at McKinsey & Company (consultancy) where he worked for more than 30 years until July 2013. Initially an Associate in the financial services practice at McKinsey, he became a Partner in 1984 and Senior Partner in 1991 and his career focused on financial services, retail and transformation programmes.

He started his career at Rothschild (financial advisors) in 1970 as an Analyst and then a Foreign Exchange Dealer and spent three years seconded to the Central Policy Review Staff (now the Number 10 Policy Unit) to work on major initiatives including industrial policy and social security reform. Michael has extensive experience of advising companies on the implementation of transformation programmes and also has an in-depth understanding of the financial services sector.

Bob Stein

Independent Non-Executive Director
b.1949

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Bob was appointed to the Board in January 2013 and is a member of the Nomination, Risk and Remuneration Committees. He is currently a Non-Executive Director and Chair of the Audit Committee of Assurant, Inc (US specialty insurance), is a Director and Chair of the Audit Committee of Resolution Life Holdings, Inc. and is a trustee emeritus of the Board of trustees of the US Actuarial Foundation.

Bob spent most of his working life at Ernst & Young (accountancy) in the US, where he held a number of managing partner roles including actuarial, insurance and financial services practices in the US and globally, culminating in being Managing Partner, Global Actuarial Practice.

Bob brings significant accounting and financial services experience to the Board.

Scott Wheway

Independent Non-Executive Director
b.1966

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Scott was appointed to the Board in December 2007, is Chairman of the Governance Committee and is a member of the Audit and Nomination Committees. He is currently a Non-Executive Director of Santander UK plc (retail bank).

He was formerly Chief Executive Officer of Best Buy Europe (retail services), Director of The Boots Company plc (now known as The Boots Company Ltd) (pharmacy), Managing Director and Retail Director of Boots the Chemist at Alliance Boots plc and Director of the British Retail Consortium (trade association for the UK retail industry). He has previously held a number of senior executive positions at Tesco plc, including Chief Executive of Tesco in Japan.

Scott has a wealth of business experience in the retail sector and his understanding of customer priorities has been greatly beneficial in driving the customer agenda and excellence in customer service within the business.

Group executive

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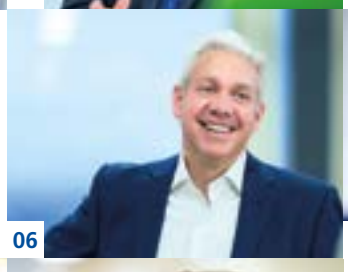
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01. Mark Wilson
Group Chief Executive Officer

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Go to page 66 to read Mark's biography.

02. Tom Stoddard
Chief Financial Officer

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Go to page 66 to read Tom's biography.

03. Nick Amin
Chief Operations and Transformation Officer

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Nick joined Aviva in 2013 and has a strong international background in consumer banking and insurance; and significant experience of general management, business operations and transformation projects over a 40 year career. Nick is responsible for driving the transformation programme across the Group, to improve profitability and efficiency.

04. David Barral
Chief Executive Officer, Aviva UK & Ireland Life Insurance

—

David joined Aviva in 1999 and has spearheaded the UK Life business' activities to champion the customer. He is a Board representative of the Association of British Insurers as well as chairman of the ABI Retirement and savings committee. In 2015, David's priorities include continuing to adapt to changes to the UK annuities market, launching a new retirement solutions direct to customer platform and maximising the opportunity of auto-enrolment.

05. Paul Boyle
Chief Audit Officer

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Paul joined Aviva in 2010 and leads the Internal Audit function which independently assesses the effectiveness of the Group's systems and controls for managing risk. Paul has been a catalyst for a number of improvements in those systems and controls. Paul is a Chartered Accountant and was previously Chief Executive of the Financial Reporting Council.

06. Andrew Brem
Chief Digital Officer

—

Andrew joined Aviva in late 2014 and is accountable for Aviva's digital product innovation and transformation as our customers increasingly choose digital as their preferred way of dealing with us. Andrew has held significant e-commerce and digital leadership roles in international and retail consumer businesses.

07. Kirstine Cooper
Group General Counsel and Company Secretary

—

Kirstine joined Aviva in 1991 and is the Group General Counsel and Company Secretary. She is responsible for providing legal and company secretarial services to the Board and Group; legal risk management; corporate responsibility and public policy. She has held a number of legal roles across the Group.

08. Christine Deputy
Group HR Director

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Christine joined Aviva in 2013 and is responsible for Human Resources and communications. She aims to support employees to reach their full potential, to better serve our customers and to enable Aviva to achieve outstanding performance. Christine has a proven track record of leading HR functions and delivering cultural change programmes.

09. Khor Hock Seng
Chief Executive Officer, Aviva Asia

—

Khor joined Aviva in 2013 and is responsible for Aviva's Asian businesses including our new joint venture in Indonesia, Astra Aviva Life. He has over 30 years of experience within the insurance market in Asia and uses his deep business understanding and extensive knowledge of the Asian market and culture to drive Aviva's success in the region.

10. John Lister
Group Chief Risk Officer

—

John joined Aviva in 1986 and leads Aviva's Risk function, regulatory compliance and Solvency II implementation. The function challenges and oversees the Group's management of risks, and develops and maintains the risk management framework. A qualified fellow of the Institute of Actuaries, he has held a number of senior roles in the UK Life business, including Finance Director.

11. David McMillan
Chairman Global Health Insurance and Chief Executive Officer, Aviva Europe

—

David joined Aviva in 2002 and is responsible for Aviva's European and Indian businesses and oversees all Health businesses across the Group – a key growth area and part of our composite offering. David recently led the restructuring of our Italian business as well as the IPO of Aviva's Turkish Life joint venture. He has held a number of senior roles at Aviva.

12. Euan Munro
Chief Executive Officer, Aviva Investors

—

Euan joined Aviva in early 2014 and recently launched a multi-strategy funds range. In 2015 he aims to widen Aviva Investors' distribution network, harness scalability within the organisation and develop investment propositions for customers. Prior to joining Aviva in January 2014, Euan held a number of senior leadership roles at Standard Life, with responsibility for fixed income and multi-asset management.

13. Monique Shivanandan
Chief Information Officer

—

Monique joined Aviva in 2014. To achieve the Digital First strategy her priorities are to transform the Group's IT estate, ensure that the Group maximises digital capability and that our customers' digital experience is in a secure environment. She has held senior technology positions in both the telecommunications and banking sectors.

14. Maurice Tulloch
Chairman Global General Insurance and Chief Executive Officer, Aviva UK & Ireland General Insurance

—

Maurice joined Aviva in 1992 and oversees the general insurance businesses globally, and leads the UK & Ireland General Insurance business. He is at the forefront of change to the industry and is Chairman of the Association of British Insurers' General Insurance Management Committee. He was formerly Chief Executive Officer of Aviva Canada.

15. Chris Wei
CEO Global Life Insurance and Chairman Asia

—

Chris joined Aviva in October 2014 and is responsible for the overall growth and profitability of Aviva's Life Insurance businesses. He aims to achieve this by providing excellent customer service and expanding our multi-distribution platforms. Prior to joining Aviva Chris was Group CEO of Great Eastern Holdings Ltd, a leading insurance company in Asia.

16. Jason Windsor
Chief Capital and Investments Officer

—

Jason joined Aviva in 2010 and is responsible for capital management and allocation, investments, treasury and reinsurance. His aim is to achieve better returns on capital and investments across the Group, consistent with the strategic anchor and risk appetite. He was previously a Managing Director in the Financial Institutions Group at Morgan Stanley.

Directors' and corporate governance report

This report sets out the role and activities of the Board and explains how the Group is governed.

The UK Corporate Governance Code

As a UK premium listed company, Aviva seeks to comply with the UK Corporate Governance Code 2012 (the Code). The 2014 version of the Code will apply to Aviva's 2015 financial year and work is underway to ensure full compliance with the new requirements.

Further details of how the Company applied the Code principles and complied with its provisions, are set out in this report and the Directors' remuneration report.

Further information on the Code can be found on the Financial Reporting Council's website at www.frc.org.uk.

The Board's view is that the Company was fully compliant throughout the accounting period with the relevant provisions of the Code.

The Board

The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board believes that a strong system of governance throughout the Group is essential in ensuring that the business runs smoothly, to aid effective decision making and support the achievement of the Group's objectives.

The Board is responsible to shareholders for promoting the long-term success of the Company and, in particular, for setting the Group's strategic aims, monitoring management's performance against those strategic aims, setting the Group's risk appetite, ensuring the Group is adequately resourced, and that effective controls are in place. The Board also sets the values and supports the culture of the Group.

The specific duties of the Board are clearly set out in its terms of reference which address a wide range of corporate governance matters and list those items that are specifically reserved for decision by the Board. Matters reserved for Board approval include:

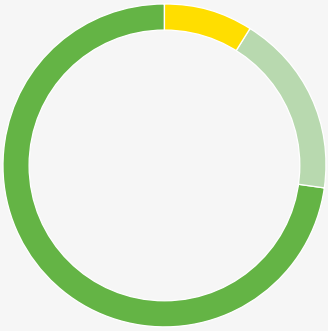
- Group strategy and business plans
- Financial reporting and controls, capital structure and dividend policy
- Group risk appetite and framework
- Remuneration policy
- Significant transactions and expenditure
- Corporate governance issues (e.g. appointment and removal of the Group Company Secretary and Chief Risk Officer (CRO), Board and committee succession planning and the constitution of Board committees)

The Board's Terms of Reference also set out those matters that must be reported to the Board, such as senior leadership changes, significant litigation or material regulatory breaches, and explain how matters that arise between scheduled meetings should be dealt with.

The directors

As at the date of this report the Board comprised the Chairman, Group Chief Executive Officer (Group CEO), Chief Financial Officer (CFO) and eight Independent Non-Executive Directors (NEDs). A number of changes to the Board are due to take place after the 2015 AGM, some of which are subject to the successful completion of the proposed acquisition of Friends Life. This will result in the Board comprising the Chairman, three executive directors and seven NEDs and the Board will still have a sufficient balance between executive and non-executives. The following charts show the balance of the Board between executive and non-executive representation, length of tenure and the diversity of the Board in terms of gender and nationality.

Balance of Executive and Non-Executive Directors

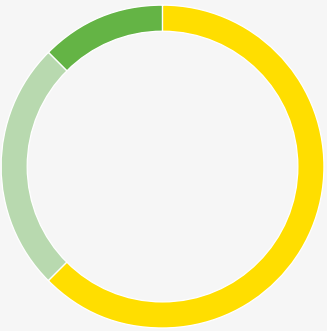


Chairman	1
Executive Directors	2
Non-Executive Directors	8

Gender split of directors

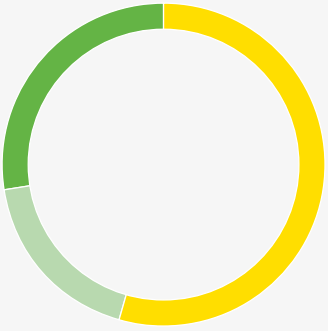
Male	9
Female	2

Length of tenure of Non-Executive Directors



0-3 years	5
3-6 years	2
6-9 years	1
+9 years	0

Geographical mix



UK	6
US	2
Australasian	3

The Board's policy is to appoint and retain NEDs who can apply their wider business knowledge and experiences to their oversight of the Group and to review and progressively refresh the skills on the Board. The report of the Nomination Committee sets out the work carried out during the year on succession planning for the Board. Committee membership is also regularly refreshed.

NEDs are required to be able to present objective, rigorous and constructive challenge to management, drawing on their wider experiences to question assumptions and viewpoints and, where necessary, defend a given position. The NEDs should also assist management in the development of the Company's strategy. To be effective, it is our view that the majority of our NEDs should have a sound understanding of the insurance industry so as to be able to evaluate properly the information provided.

All of the current directors were subject to a formal performance evaluation in respect of 2014. The Board, having considered the matter carefully, is of the opinion that all of the current NEDs remain

independent and free from any relationship or circumstances that could affect, or appear to affect, their independent judgement. Scott Wheway, who has served on the Board for seven years, was subject to a particularly rigorous review of his independence and the Board was satisfied that he remains independent and that his presence on the Board provides continuity given the number of changes to the Board during the previous two years. He makes a considerable contribution to the Board, through his knowledge of the Company and wide skill set.

Accordingly, over half of the Board members, excluding the Chairman, are independent NEDs. Biographical details including a summary of the skills and experience the directors bring to the Board are set out in their biographies above.

Each NED must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively. On average, the NEDs spend at least 72 days a year on Company business, with the Chairmen of the Audit, Risk, Governance and Remuneration Committees spending substantially more time. This is significantly higher than previous years due to consideration of the proposed acquisition of Friends Life. The Chairman has recently resigned as Chairman of the Group and Sir Adrian Montague, the current Senior Independent Director, will become Chairman from the conclusion of the 2015 AGM, subject to re-election by shareholders. The Nomination Committee reviewed the time commitment required for the role and Sir Adrian's significant other commitments and noted that Sir Adrian intended to reduce his external commitments to give him sufficient time to dedicate to the role. In light of this the Nomination Committee supported his appointment and Sir Adrian has since retired as Chairman of Anglian Water Group Ltd and intends to further reduce his external commitments during 2015 including retiring from Skanska AB.

In connection with the proposed acquisition of Friends Life, Sir Malcolm Williamson and Andy Briggs, respectively the current Chairman and CEO of Friends Life, will join the Board following the 2015 AGM (subject to regulatory approval and successful completion of the acquisition). Sir Malcolm will replace Sir Adrian as Senior Independent Director and Andy Briggs will become CEO of the enlarged UK & Ireland Life business. This will provide continuity to the enlarged business. The Board considers Sir Malcolm to be independent as he was considered independent upon his appointment as Chairman of Friends Life and is independent in character and judgement and meets the Code criteria. Gay Huey Evans will also be retiring from the Board from the conclusion of the 2015 AGM.

The Chairman and Group CEO

Role profiles are in place for the Chairman and the Group CEO which clearly set out the duties of each role. The Chairman's priority is to lead the Board and ensure its effectiveness; the Group CEO's priority is the management of the Group. The Board has delegated the day-to-day running of the Group to the Group CEO within certain limits, above which matters must be escalated to the Board for determination.

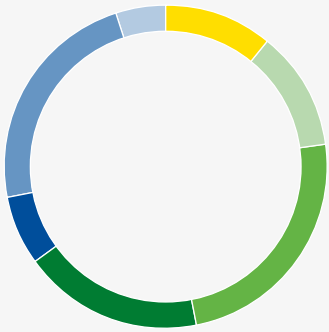
Senior Independent Director

The Senior Independent Director's role is to act as a sounding board for the Chairman, to serve as an intermediary for the other directors where necessary and to be available to shareholders should they have concerns that they have been unable to resolve through normal channels, or when such channels would be inappropriate. During the year the NEDs, led by Sir Adrian Montague, met several times without the Chairman present and Sir Adrian Montague led the review of the Chairman's performance during the year.

Board activities during 2014

The work of the Board follows an agreed annual work plan and the following chart shows how the Board allocated its time during 2014.

Allocation of Board agenda time



Succession planning, Board composition and effectiveness	11%
Group strategy, business plans and performance monitoring	12%
Financial reporting and controls, capital structure and dividend policy	24%
Corporate governance	18%
Group risk management policies, risk appetite and framework	7%
Transactions	23%
Other	5%

The Board monitored the performance of the Group and its compliance with the governance framework described below through regular:

- Group CEO reports, which included updates on the implementation of the Group's strategy and theses; updates on ongoing corporate transactions and disposals; reports on financial performance; changes in senior management; regulatory developments; and the control environment
- CFO reports, which included the financial results and forecasts; reports on the operational plan and performance; competitor results; treasury activities; and progress against Solvency II (SII)
- Reports from the CRO on the Group's significant risks and regulatory issues; risk appetite; and compliance with business standards and controls
- Reports from the Chief Capital & Investments Officer on the Group's capital and liquidity position
- Reports and recommendations from each Board committee
- Presentations and reports from business units and functions

As part of its annual work plan, the Board reviewed and approved all financial results announcements, the Annual report and accounts, the operational plan and dividend payments, all changes to the composition of the Board and its committees, and received regular updates on progress against the Group's strategy.

In addition, the Board undertook the following specific activities during the year:

- Approved the restructure of the Group's Italian Life Insurance joint ventures with UBI Banca and Unicredit to simplify the structure and facilitate cash remittances
- Approved the redemption of three hybrid debt instruments and the re-financing of one of these instruments as part of the Group's deleveraging plans
- Approved a proposal that significantly reduced the Group's exposure to longevity through the transfer of payment funding basis liabilities in the Aviva Staff Pension Scheme to external reinsurers resulting in less volatility in the Aviva Staff Pension Scheme
- Discussed and reviewed the impact of the pension legislation changes in the UK on the UK annuities market
- Approved the use of a Group entity as a captive reinsurer for the Group
- Approved a proposal to launch an initial public offering of 20% of the shares in the Group's life and pensions joint venture in Turkey
- Approved the Group's recovery plan and liquidity risk management plan required due to its status as a GSII
- Considered the results of the employee engagement survey – Voice of Aviva
- Considered and approved the proposed acquisition of Friends Life

The Board held one meeting in Italy during the year to gain a deeper understanding of the operations of the Italian business.

Proposed acquisition of Friends Life
Following careful consideration of the potential benefits and risks of the transaction and reviewing the due diligence, the Board approved the proposed acquisition of Friends Life and on 19 January 2015 the Company published a prospectus and circular in relation to the recommended all share acquisition of Friends Life Group Limited by the Company as announced on 2 December 2014. It is proposed that up to 1,105,000,000 new ordinary shares of 25 pence each will be issued by the Company in connection with the proposed acquisition of the entire issued and to be issued ordinary share capital of Friends Life. The proposed acquisition will be implemented by way of a scheme of arrangement under Part VIII of the Companies (Guernsey) Law 2008.

Board effectiveness
The effectiveness of the Board is vital to the success of the Group and the Company undertakes a rigorous evaluation review each year in order to assess how well the Board, its committees, the directors and the Chairman are performing. The aim is to continually improve the Board's effectiveness and the Group's overall performance. For the 2014 evaluation an internal review was conducted with the use of questionnaires and the responses analysed and results discussed by the Board and each of the committees and actions agreed. Overall the Board was found to function well with a collaborative and professional atmosphere around the board table. The Board agreed that its priorities for 2015 should include closely monitoring any risks associated with the completion of the proposed acquisition of Friends Life and its integration into the business; capital and liquidity strength; conduct risk oversight; monitoring global economic risks; and assessing the changing customer preferences for the Group's products. The focus for the Board committees in 2015 are detailed in each committee's report.

Independent Board Evaluation conducted an external and independent valuation in 2013 and is carrying out a follow up review in 2015, the results of which will be published in the 2015 Annual report.

The review of the performance of the Chairman, led by the Senior Independent Director, concluded that the Chairman continued to operate to a high level, exhibiting positive leadership and ensuring that the necessary conditions for effective discussion both on an individual, and at Board level, were met.

The Chairman and Senior Independent Director assessed the performance of the NEDs and the Executive Directors in their capacity as directors. The Chairman concluded that each director contributes effectively and demonstrates full commitment to his/her duties. To assess the Group CEO in respect of his executive duties a separate process was carried out by the Chairman and in respect of the CFO, by the Group CEO. The process involved measuring performance against each Executive Director's role objectives.

Induction, training and development
The Board and the Chairman believe strongly in the development of all of its employees and directors and it is a requirement of each director's appointment that they commit to continuing their professional development.

During the year, directors attended a number of internal training sessions, including sessions on various aspects of SII, Aviva's UK defined benefit pension scheme, remuneration, Aviva's investment process and asset portfolio, and information security. Training sessions have been built into the Board's and committees' work plans for 2015.

The Chairman ensures that all new directors receive a comprehensive induction programme tailored to their particular needs and which consists of several separate training sessions over a number of months. These include presentations from key members of senior management, visits to the Group's main operating businesses and functions, and meetings with the external auditor and one of the Company's corporate brokers.

Further or follow-up meetings are arranged where a director requires a deeper understanding of a particular issue. All new directors also receive induction materials, which include, but are not limited to, the current strategic and operational plan; recent Board and committee minutes and meeting packs; organisation structure charts; role profiles; a history of the Group; and relevant policies, procedures and governance material. Any knowledge or skills gaps identified during the director's approved person application process are also addressed through their induction programme.

Directors' attendance
The Company requires directors to attend all meetings of the Board and the committees on which they serve and to devote sufficient time to the Company in order to effectively perform their duties. The attendance of the directors at the Board meetings held in 2014 is shown in the following table and the attendance at committee meetings is shown in the committee reports.

Board attendance 2014

Director	Number of meetings attended	Percentage Attendance[1]
Glyn Barker	14	100%
Patricia Cross	14	100%
Michael Hawker	14	100%
Gay Huey Evans	14	100%
John McFarlane	14	100%
Michael Mire	14	100%
Sir Adrian Montague[2]	12	92%
Patrick Regan[3]	2	67%
Bob Stein	14	100%
Tom Stoddard[4]	10	100%
Scott Wheway	14	100%
Mark Wilson	14	100%

1 This shows the percentage of meetings which the director attended during the year whilst a member of the Board.
2 Sir Adrian did not attend one meeting where the agenda was to approve his appointment as Chairman. There was also one ad hoc meeting that he was unable to attend due to technological difficulties but he did receive the papers for the meeting.
3 Pat Regan resigned with effect from 28 March 2014. He did not attend one meeting which was called at short notice to discuss plans for his succession.
4 Tom Stoddard was appointed on 28 April 2014.

During 2014, 14 Board meetings were held, of which, nine were scheduled Board meetings and five were additional Board meetings called at short notice. In addition the Board delegated responsibility for certain items, such as giving final approval to proposals broadly agreed by the full Board, to specially created committees of the Board which met 14 times during 2014.

The Chairman and the NEDs met several times in the absence of the executive directors and the NEDs met in the absence of the Chairman, including one meeting chaired by the Senior Independent Director to appraise the Chairman's performance. Members of senior management regularly attend Board meetings to present items of business.

Conflicts of interest
In line with the Companies Act 2006, the Company's Articles of Association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. The decision to authorise a conflict of interest can only be made by non-conflicted directors (those who have no interest in the matter being considered) and in making such a decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success for the benefit of its shareholders as a whole. The Board's procedure to regularly review and approve actual and potential conflicts of interest as they arise, and prior to the appointment of new directors, operated effectively during the year.

Governance structure

The Board is responsible for promoting the long-term success of the Company for the benefit of shareholders. This includes ensuring that an appropriate system of governance is in place throughout the Group. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model and reserves to itself the setting of the Group's risk appetite.

In-depth monitoring of the establishment and operation of prudent and effective controls in order to assess and manage risks associated with the Group's operations is delegated to the Audit, Risk and Governance Committees which report regularly to the Board. However, the Board retains ultimate responsibility for the Group's systems of internal control and risk management and their effectiveness and has carried out a review of the systems during the year.

These frameworks play a key role in the management of risks that may impact the fulfillment of the Board's objectives. They are designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or losses. These frameworks are regularly reviewed and comply with the Financial Reporting Council's Internal Control: Revised Guidance for Directors.

Risk Management Framework

The Risk Management Framework (RMF) is designed to identify, measure, manage, monitor and report the significant risks to the achievement of the Group's business objectives and is embedded throughout the Group. The RMF has been in place for the year under review and up to the date of approval of the Annual report and accounts. It is codified through risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Group's worldwide operations. Further detail is in note 58.

Internal controls

Internal controls facilitate effective and efficient business operations, the development of robust and reliable internal reporting and compliance with laws and regulations.

A Group reporting manual including International Financial Reporting Standards (IFRS) requirements and a Financial Reporting Control Framework (FRCF) are in place across the Group. FRCF relates to the preparation of reliable financial reporting and preparation of local and consolidated financial statements in accordance with applicable accounting standards and with the requirements of the Sarbanes-Oxley Act of 2002. The FRCF process follows a risk-based approach, with management identification, assessment (documentation and testing), remediation (as required), reporting and certification over key financial reporting-related controls. Management regularly undertakes quality assurance procedures over the application of the FRCF process and FRCF controls.

The Board delegates to the Group CEO the day-to-day management of the Company and approval of specific issues up to set financial limits, including limits on revenue and capital expenditure, reinsurance spend and the settlement of claims. In turn the Group CEO delegates some of his authority to his direct reports. There is a similar delegated authority framework in place throughout the Group.

First line

Management are responsible for the application of the RMF, for implementing and monitoring the operation of the system of internal control and for providing assurance to the Audit Committee, the Risk Committee, the Governance Committee and the Board.

The Group Executive members and each business unit Chief Executive Officer are responsible for the implementation of Group strategies, plans and policies, the monitoring of operational and financial performance, the assessment and control of financial, business and operational risks and the maintenance and ongoing development of a robust control framework and environment in their areas of responsibility. Chaired by the Chief Risk Officer (CRO), the Asset Liability Committee (ALCO) assists the CFO with the discharge of his responsibilities in relation to management of the Group's Balance Sheet within risk appetite and provides financial and insurance risk management oversight.

The Operational Risk Committee is also chaired by the CRO. It supports the first line owners of key operations and franchise risks in the discharge of their responsibilities in relation to operational risk management.

The Disclosure Committee is chaired by the CFO and reports to the Audit Committee. It oversees the design and effectiveness of the Group's disclosure controls, for both financial and non-financial information, evaluates the Group's disclosure controls and reviews and endorses the Group's key periodic external reports, including the consolidated financial statements. The results of the FRCF process are signed off by business unit Chief Executive Officers and Chief Financial Officers and compliance with the FRCF is reported to the Disclosure and the Audit Committees.

Second line

The Risk function is accountable for the quantitative and qualitative oversight and challenge of the identification, measurement, monitoring and reporting of significant risks and for developing the RMF.

As the business responds to changing market conditions and customer needs, the Risk function regularly monitors the appropriateness of the Company's risk policies and the RMF to ensure they remain up to date. This helps to provide assurance to the various risk oversight committees that there are appropriate controls in place for all core business activities, and that the processes for managing risk are understood and followed consistently across the Group.

The second line Risk function as a whole also includes the Compliance and Actuarial functions. The Actuarial function is accountable for Group wide actuarial methodology, reporting to the relevant governing body on the adequacy of reserves and capital requirements, and on the adequacy of underwriting and reinsurance arrangements. The Compliance function supports and advises the business on the identification, measurement and management of its regulatory, financial crime and conduct risks. It is accountable for maintaining the compliance standards and framework within which the Group operates, and monitoring and reporting on its compliance risk profile.

Third line

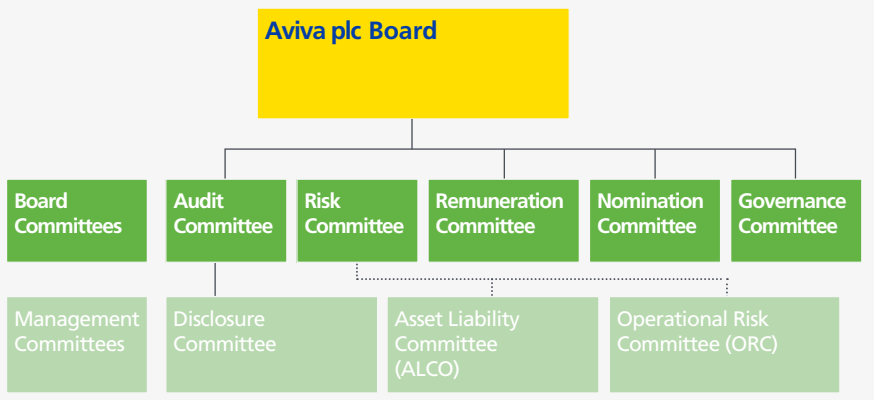
The Internal Audit function provides independent and objective assessment on the robustness of the RMF and the appropriateness and effectiveness of internal control to the Audit, Governance and Risk Committees, business unit Audit Committees and the Board. Further information on the activities of the Internal Audit function is contained within the Audit Committee Report.

Board oversight

The Risk Committee assists the Board in its oversight of risk and risk management across the Group and makes recommendations on risk appetite to the Board. The responsibilities and activities of the Risk Committee are set out in the Risk Committee Report.

The Audit Committee, working closely with the Risk Committee, is responsible for assisting the Board in discharging its responsibilities for the integrity of the Company's financial statements, the effectiveness of the system of internal financial controls and for monitoring the effectiveness, performance and objectivity of the internal and external auditors. The responsibilities and activities of the Audit Committee are set out in the Audit Committee Report.

Board and committee structure



The Governance Committee also works closely with the Risk Committee and is responsible for assisting the Board in its oversight of operational risk across the Group, particularly in respect of the risk of not delivering good customer outcomes.

The Audit, Governance and Risk Committees report regularly to the Board on their activities and make recommendations and escalate significant risk exposures to the Board as appropriate. They ensure that mitigating actions are taken when risks are, or are expected to move, out of appetite.

The chart below shows the Board and committee structure that oversees the Company's frameworks for risk management and internal control.

Further details on procedures for the management of risk operated by the Group are given in note 58.

Effectiveness of controls

To support an assessment of the effectiveness of the Group's governance, internal control and risk management requirements, the chief executive officer of each business unit is required to certify that:

- There are sound risk management and internal control systems that are effective and fit for purpose in place across the business
- Material existing or emerging risks within the business have been identified and assessed and the business operates in a manner which conforms to the minimum requirements outlined in Group risk policies and business standards

The Chief Risk Officer of each business unit must certify that:

- The Risk function has reviewed and challenged the process supporting the business unit Chief Executive Officer's certification and is satisfied that it can provide reasonable assurance of the material accuracy and completeness of the business unit Chief Executive Officer's assessment
- No material gaps exist in the RMF, as it applies to the business unit

Any material risks not previously identified, control weaknesses or non-compliance with the Group's risk policies and business standards or local delegations of authority, must be highlighted as part of this process. This is then supplemented by investigations carried out at Group level and ultimately a Group CEO and CRO certification for Aviva plc.

The effectiveness assessment also draws on the regular cycle of assurance activity carried out during the year. The results of the certification process and details of any significant failings or weaknesses are reported to the Audit Committee and the Board annually to enable them to carry out an effectiveness assessment.

The Audit Committee, working closely with the Risk Committee, on behalf of the Board, last carried out a review of the effectiveness of the systems of internal control and risk management in March 2015, covering all material controls, including financial, operational and compliance controls and the RMF and processes. The necessary actions have been or are being taken to remedy any significant failings and weaknesses identified from these reviews.

Communication with shareholders

The Company places considerable importance on communication with shareholders and engages with them on a wide range of issues.

The directors have an ongoing dialogue and a programme of meetings with institutional investors, fund managers and analysts which are managed by the Company's investor relations function. At these meetings a wide range of issues are discussed including strategy, financial performance, management, remuneration and governance, within the constraints of information already made public, to understand any issues of concern to investors. Shareholders' views are regularly shared with the Board through the Group CEO's and CFO's reports and the Company's corporate brokers also periodically brief the Board on investor views.

During the year, the Chairman and the Senior Independent Director met with the Company's major institutional investors. This included consultation on the appointment of Sir Adrian Montague as Chairman and in respect of the proposed Friends Life acquisition. In addition, the Senior Independent Director was available to meet with major investors to discuss any areas of concern that could not be resolved through normal channels of investor communication.

The AGM also provides a valuable opportunity for the Board to communicate with private shareholders. All serving directors attended the 2014 AGM. There is a dedicated email address which shareholders can use to ask questions on the business of the AGM at aviva.shareholders@aviva.com. This address is included in the shareholder information section of the Notice of AGM. A presentation on the Group's performance is given at the AGM and is made available on the Company's website after the meeting at www.aviva.com/agm. Whenever possible, all directors attend the AGM and shareholders are invited to ask questions related to the business of the meeting at the AGM and have an opportunity to meet with the directors following the conclusion of the meeting.

The Company is also holding a General Meeting on 26 March 2015 to request shareholder approval for the proposed acquisition of Friends Life. Further details are available on the Company's website at www.aviva.com/friendsoffer and the results of the vote will be published after the meeting.

Nomination Committee report

John McFarlane
Chair of the Nomination Committee

In this, my final report to you as Chairman of the Nomination Committee, I am pleased to report on how the committee has continued to undertake its role during 2014. The principal purpose of the committee is to monitor the balance of skills, knowledge, experience and diversity on the Board and recommend any changes to the composition of the Board. The committee has focused on ensuring that your Board has strong and responsible leadership together with a wide range of skills, knowledge and experience, which are critical to creating long-term shareholder value and business success.

As previously reported, I will be stepping down as both Chairman of the Board and of the committee following the Group's AGM in April 2015. I am delighted that Sir Adrian Montague will replace me in both capacities. Further details regarding his appointment follow later in this report.

Committee role and responsibilities

The committee assists the Board by regularly reviewing the composition of the Board and conducting a rigorous and transparent process when recommending or renewing the appointment of directors to the Board. The main responsibilities of the committee are to:

- Evaluate and review the structure, size and composition of the Board including the balance of skills, knowledge, experience and diversity of the Board, taking into account the Company's risk appetite and strategy
- Identify and nominate suitable candidates for appointment to the Board, including chairmanship of the Board and its committees, and appointment of the Senior Independent Director, against a specification of the role and capabilities required for the position, including relevant financial experience for Audit Committee members
- Assess the independence of each of the NEDs
- Assess directors' conflicts of interest as they arise
- Review the external interests and time commitments of the directors to ensure that each has sufficient time to undertake his/her duties to the Company
- Monitor succession plans for the appointment of executive directors and NEDs to the Board
- Approve a report on the committee's activities for inclusion in the Company's Annual report and accounts

Revised committee Terms of Reference were adopted in February 2015 following an annual refresh. Oversight responsibility for talent management and development programmes, now lies with the Governance Committee. The full Terms of Reference for the committee can be found on the Company's website at www.aviva.com/terms-of-reference and are also available from the Group Company Secretary.

Committee membership and attendance

The committee comprises the Chairman and all the Company's NEDs. The table below shows the committee members during the year and their attendance at committee meetings:

Membership and attendance

Committee member	Number of meetings attended	Percentage attendance[1]
John McFarlane (Chairman)[2]	3	75%
Glyn Barker	4	100%
Patricia Cross	4	100%
Michael Hawker	4	100%
Gay Huey Evans	4	100%
Michael Mire	4	100%
Sir Adrian Montague[3]	3	75%
Bob Stein	4	100%
Scott Wheway	4	100%

1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 John McFarlane did not attend a meeting at which his retirement from the Board and as Chairman, and consequential succession planning, was the only agenda item. Scott Wheway chaired this meeting.
3 Sir Adrian Montague did not attend a meeting at which the only agenda item was the process for identifying and shortlisting candidates for the role of Chairman.

The committee met on four occasions in 2014, of which three were ad hoc meetings called at short notice to consider the Chairman's succession and possible new Board appointments following the successful completion of the Friends Life acquisition. During the year the committee also recommended for approval by the Board changes to the membership of the Risk, Audit, Governance and Remuneration Committees, and the appointment of a new Chairman to each of the Governance and Remuneration Committees.

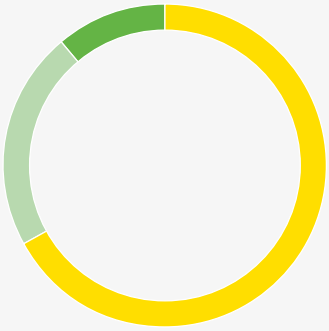
The Group Company Secretary acts as the Secretary to the committee. Members of the committee took no part in any discussions concerning their own membership of the Board, but were involved in the recommendation on committee membership changes. The Chairman of the committee reported to subsequent meetings of the Board on the committee's work and the Board received a copy of the agenda and the minutes of each meeting of the committee.

Committee activities during 2014

During 2014 the committee continued its focus on maintaining an appropriate balance of skills, knowledge and experience on the Board. The work of the committee evolved throughout the year in response to the retirement plans of the Chairman and to the proposed acquisition of Friends Life. These issues are discussed in detail below. The Group Company Secretary assisted the committee chairman in planning the committee's work, and ensured that the committee received information and papers in a timely manner.

The chart below shows how the committee allocated its time during 2014.

Nomination Committee – allocation of agenda time



Board and committee succession planning	67%
Independence and conflicts	22%
Other (including governance)	11%

Chairman succession

On being advised that John McFarlane would be stepping down as Chairman and retiring from the Board of the Company, the committee agreed to form a sub-committee led by Scott Wheway, Chairman of the Governance Committee, and comprising Gay Huey Evans and Glyn Barker, to manage the process of identifying and recommending a successor to the Board.

Sir Adrian Montague had indicated his interest in the appointment and his candidature was considered alongside a high level review of potential external candidates. The sub-committee also took account of the succession planning that had been put in place for the role of Chairman which also identified Sir Adrian as a suitable candidate. Taking into consideration the job specification, capabilities, experience and

time commitments required for the role, and the results of the review of external candidates, the committee concluded that Sir Adrian Montague had the requisite skills and capabilities to undertake the role of Chairman, was the best candidate for the role and recommended his appointment to the Board subject to Sir Adrian reducing his external time commitments during 2015. In particular, an internal appointment provides continuity and stability to the Board. His appointment has received approval from the PRA and FCA. Given the well developed succession plan in place the Committee decided not to use an external search consultancy or open advertising on this occasion.

Board appointments and diversity

The committee led the process to find a new CFO following Pat Regan's resignation and appointed Spencer Stuart to assist in the search process. A role profile was agreed by the committee and a shortlist of internal and external candidates considered. The final candidates were interviewed by Spencer Stuart, the Chairman, Group CEO, HR Director, Group General Counsel & Company Secretary and members of the committee and the committee then met to review feedback and, after due consideration, recommended to the Board that Tom Stoddard was the best candidate and that he be appointed to the Board as CFO. Spencer Stuart is a signatory to the Voluntary Code for Executive Search Firms and is also used by the Group for other senior executive searches.

In connection with the proposed acquisition of Friends Life, discussions were held with the current Chairman and Group Chief Executive of Friends Life and it was proposed that Andy Briggs, the current Group Chief Executive of Friends Life, join the Board and be appointed as CEO of the Group's combined UK & Ireland Life business. The committee discussed this proposal and its potential impact and after due consideration recommended to the Board that Andy Briggs be appointed as an Executive Director of the Board. The committee also considered whether any of the Friends Life Non-Executive Directors would be suitable for appointment to the Board given their experience and knowledge of the Friends Life group, which would be invaluable in integrating the Friends Life business into the Group following the completion of the proposed acquisition. After due consideration, the committee recommended to the Board that Sir Malcolm Williamson, current Chairman of Friends Life, be appointed as a Non-Executive Director of the Board and that he become the Company's Senior Independent Director once Sir Adrian Montague becomes Chairman. These appointments are subject to regulatory approval and the successful completion of the proposed acquisition. Due to the circumstances surrounding these appointments it was not appropriate to use an external search consultancy or open advertising for these appointments. The committee considered Sir Malcolm to be independent as he was considered independent upon his appointment as Chairman of Friends Life and is independent in character and judgement and meets the Code criteria.

The Board approved these appointments and intend that they will become effective following the 2015 AGM subject to regulatory approval and successful completion of the proposed acquisition. The new directors would stand for election by shareholders at the 2016 AGM. The Company Secretary will implement induction plans for the new directors.

All appointments to the Board are made on merit, against the criteria identified by the committee, having regard to the benefits of diversity on the Board, including gender. The committee strongly believes that diversity throughout the Group and at Board and senior management level is a driver of business success. Diversity brings a broader, more rounded perspective to decision-making and risk management, making the Board and senior management more effective.

Whilst the Board is currently below its target of 25% female representation at 18% it remains committed to achieving that goal as soon as possible.

At the date of this Report, 19% (2013: 21%) of Group Executive members and 21% (2013: 21%) of senior executives in the Company were female. It is the Company's intention to increase this number as it is recognised that a greater number of women in senior management positions will create a stronger talent pipeline and is better for business. Further details on diversity can be found in the 'Engaging with our people' section of the Strategic report.

Other activities

During the year the committee reviewed the composition of the Board's committees and recommended changes to the Board for approval.

The committee also reviewed the independence of each NED; carried out an annual review of each director's conflicts of interest and the balance of skills, knowledge, experience and diversity on the Board. In doing so, the committee noted that a member of Glyn Barker's family works for the Company's External Auditor, but that this person did not have any involvement in work carried out for the Group; and the cross-directorships of Michael Hawker and Patricia Cross on Macquarie Group Limited and Macquarie Bank Limited. Consideration of Glyn's former employment by PwC is considered in the Audit Committee report. Scott Wheway has served on the Board for seven years and the committee was satisfied that he remains independent. His presence on the Board provides continuity given the number of changes to the Board during the previous two years and he makes a considerable contribution to the Board, through his knowledge of the Company and wide skill set. Over the last year the Chairman's external commitments have increased with appointments to FirstGroup, Westfield Corporation and Barclays plc. The Chairman has commenced an orderly handover of his duties to Sir Adrian Montague and the committee was therefore satisfied that Mr McFarlane continued to devote sufficient time to fulfil his role at Aviva.

Following consideration of these issues the committee concluded that it considered each NED to be independent in character and judgement and that there are no circumstances that are likely to affect their judgement and recommended that each NED standing for re-election at the 2015 AGM be re-elected.

Taking into account the time commitments and any potential conflicts involved, the committee reviewed and recommended that the Board agree the appointments of Glyn Barker as a Non-Executive Director of Auctus Industries plc, Gay Huey Evans as Deputy Chairman of the Financial Reporting Council and Bob Stein as a director of Resolution Life Holdings Inc in the US, in advance of such appointments being taken up.

Committee performance and effectiveness

The Board undertook an annual review of the committee's performance and effectiveness as part of the Board effectiveness review and the results of the review will be incorporated into the committee's processes and activities for 2015. In particular it was agreed that the committee would review its processes for recommending appointments to the Board and hold additional meetings on succession planning for Executive Directors.

Audit Committee report

Glyn Barker
Chair of the Audit Committee

I am pleased to present the Audit Committee's report for the year ended 31 December 2014.

The principal purpose of the committee is to assist the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements. In addition, we review the adequacy and effectiveness of the Group's systems of internal control and monitor the effectiveness, performance and objectivity of the internal and external auditors.

During the year the committee welcomed Scott Wheway as a member and the committee is now comprised of five independent NEDs. I have been Chairman of the committee since May 2013.

Committee responsibilities

The committee acts independently of management, to ensure that the interests of shareholders are properly protected in relation to the financial reporting and the effectiveness of the Group's systems of internal control.

The main responsibilities of the committee are to:

- Review the significant issues and judgements of management, and the methodology and assumptions used in relation to the Group's financial statements and formal announcements on the Group's financial performance, including the reserving position relating to the Group's life assurance and general insurance operations
- Review the Group's going concern assumptions
- Assess the effectiveness of the Group's systems of internal control, including financial reporting, financial controls and the Internal Audit function
- Consider and review the performance of the Chief Audit Officer (CAO), and agree his remuneration
- Consider and make recommendations to the Board on the appointment, reappointment, dismissal or resignation, effectiveness and remuneration of the external auditor
- Assess the independence and objectivity of the External Auditor
- Approve and monitor the application of the External Auditor Business Standard
- Approve and monitor the application of the Internal Audit Charter and Business Standard

Revised committee Terms of Reference were adopted in February 2015 following an annual refresh. The full Terms of Reference for the committee can be found on the Company's website at www.aviva.com/terms-of-reference, and are also available from the Group Company Secretary.

Committee membership and attendance

The table below shows the committee members during the year and their attendance at committee meetings.

Membership and attendance

Committee member	Number of meetings attended	Percentage attendance[1]
Glyn Barker (Chairman)	11	100%
Patricia Cross[2]	10	91%
Michael Hawker	11	100%
Sir Adrian Montague[3]	10	91%
Scott Wheway[4]	7	78%

1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 Patricia Cross was unable to attend one meeting called at short notice due to a prior commitment.
3 Sir Adrian was unable to attend one ad hoc meeting due to technological difficulties but did receive the papers for the meeting.
3 Scott Wheway joined the committee on 20 February 2014 and had prior commitments which prevented him being able to attend meetings in late March and April 2014.

The committee met on 11 occasions in 2014 of which one meeting was called at short notice. The Chairman of the Company, Group CEO, CFO, CAO, the Chief Accounting Officer and a representative of the external auditor regularly attended committee meetings. Other members of senior management were also invited to attend as appropriate to present reports. During the year the committee regularly held private sessions to discuss issues to be raised with management in the main meeting, and met separately with senior management, the CAO and the external auditor without management present. The Group Company Secretary acted as the Secretary to the committee.

The committee Chairman reported to subsequent meetings of the Board on the committee's work and the Board received a copy of the agenda and the minutes of each meeting of the committee.

There is cross-membership between each of the Board committees to ensure that audit issues were appropriately communicated and taken into account in the decisions of each committee.

In performing its duties, the committee had access to the services of the CAO, the Group Company Secretary, senior financial management and external professional advisers.

During the year committee members attended meetings of business unit Audit Committees in Poland, France and Spain.

In November 2014, the committee Chairman together with the Chairmen of the Risk and Governance Committees co-hosted a two-day conference for the Chairmen of the Board, Risk, Governance and Audit Committees of the Group's principal subsidiaries, their Chief Risk Officers, Chief Audit Officers and Chief Financial Officers. In addition the Non-Executive Directors of the Company were invited, together with representatives of the External Auditor. The agenda included discussions on Aviva's strategy; Aviva's control environment and the role of Internal Audit; Aviva's 'Digital First' strategy; and the Integrated Assurance Implementation (IAI) programme.

Committee expertise and independence

The Board is satisfied that Glyn Barker, Michael Hawker and Patricia Cross each meet the US requirements to be an audit committee financial expert.

Glyn Barker is a chartered accountant and has held a number of senior positions at PricewaterhouseCoopers LLP (PwC) where, most recently, he was UK-Vice Chairman. The committee is satisfied that Glyn Barker meets the US Securities and Exchange Commission's and Auditing Practices Board's Ethical Standards on auditor independence. In addition the Board is satisfied that he has recent and relevant financial experience in accordance with the Code and satisfies the requirements for competence in accounting and/or auditing under the Disclosure and Transparency Rules.

Michael Hawker, a senior fellow of the Financial Services Institute of Australasia, is a former Chief Executive Officer and Managing Director of Insurance Australia Group, and therefore has the necessary financial expertise to meet the US requirements.

Patricia Cross has financial experience gained through a number of senior executive roles at National Australia Bank, Chase Manhattan Bank and Banque Nationale de Paris and non-executive roles at a number of financial services companies. She has also held honorary roles on the Australian Financial Centre Forum and Financial Sector Advisory Council and meets the US financial expertise requirements.

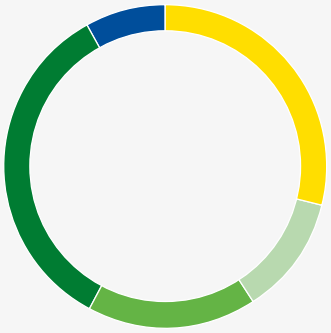
Sir Adrian Montague has significant financial services industry experience through his former roles as Chairman of Friends Provident plc and Deputy Chairman of UK Green Investment Bank plc.

Scott Wheway was appointed to the committee during 2014, is currently a Non-Executive Director of Santander UK plc and has held a number of senior roles at Best Buy Europe, Boots Company plc, the British Retail Consortium and Tesco plc.

Committee activities during 2014

The work of the committee followed an agreed annual work plan and fell under four main areas: financial statements and accounting policies, internal controls, oversight of the internal audit function and oversight of external audit. The committee's work in each of these areas is described below. The chart below shows how the committee allocated its time during 2014.

Audit Committee – allocation of agenda time



Financial statements and accounting policies	29%
External audit, auditor engagement and policy	12%
Internal audit	17%
Internal controls, including financial reporting control framework and financial reporting developments	34%
Other	8%

Financial statements and accounting policies

The committee reviewed the Group's financial announcements, the Annual report and accounts and associated documentation, the half year results and the interim management statements, and the going concern assumptions in relation to the Annual report and accounts and half year results. The committee placed particular emphasis on their fair presentation, the reasonableness of the judgement factors applied and the appropriateness of significant accounting policies used in their preparation.

The committee considered a number of significant issues in relation to the financial statements which are described in more detail below.

Key Financial Assumptions

The committee reviewed the key assumptions used in calculating long-term business contract liabilities, including the annuitant mortality assumptions and credit default allowance on the corporate bond portfolio adopted by the UK Life business. For annuitant mortality and corporate bond credit default, an external benchmarking exercise indicated that Aviva's assumptions were within a reasonable range relative to its peers. The committee was satisfied with management's review of these assumptions.

During the year the committee challenged the assumption for credit default in respect of UK commercial mortgages and was satisfied with management's review at Full Year 2014 that the allowance was appropriate.

An ad hoc meeting was held in December 2014 at the request of the committee to give further insight into the judgements for the demographic assumptions and economic methodology adopted by the Aviva UK & Ireland Life business for the Full Year 2014.

The committee also reviewed the prudence requirements around the margins on IFRS assumptions for the life and pensions business.

The Group's general insurance reserves were reviewed including understanding the key developments, risks and uncertainties and providing appropriate challenge. The committee was satisfied with management's analysis and that the methodology and assumptions applied in calculating the year end liabilities are appropriate.

The committee considered a change in the model used to value equity release mortgage loans held by the UK Life Annuity business. The new methodology incorporates more explicit assumptions for property growth and the risk around future cash flows. The committee was satisfied with the change including the valuation at Full Year 2014.

Other matters

The Group adopted amendments to IAS 32 Financial Instruments: Presentation regarding the offsetting of financial assets and financial liabilities during the year. The committee was satisfied that the restated presentation of the financial position for the Full Year 2013 was appropriate.

The committee considered management's best estimate for the completion adjustments relating to the sale of Aviva USA.

The committee considered the carrying value of the goodwill in the Group's Spanish business and was satisfied with the impairment testing. The committee also considered the held for sale classification of a number of businesses.

With regard to the Group's accounts prepared on a Market Consistent Embedded Value basis, the committee considered and challenged the key assumptions presented by management.

In the 2013 Annual report and accounts we reported that we had identified controls failings in Aviva Investors that happened between August 2005 to June 2013. In February 2015, Aviva Investors reached a settlement with the FCA in relation to this and agreed to pay a fine of £17.6 million. Aviva Investors has committed significant resources to enhancing its control environment. Aviva Investors has fixed the issues, improved the systems and controls and made substantial changes to the management team.

Other significant issues

The committee considered the impact of a number of changes in legal and regulatory requirements on the Group, including: the UK Government's 2014 budget announcements on annuities; the introduction of the Strategic report and the requirement for the directors to state that the Group's financial statements are fair, balanced and understandable for the Group's 2013 financial statements onwards.

The committee reviewed the impact of the launch of the initial phase of a project to use Aviva International Insurance Limited as the primary reinsurance vehicle for the Group.

Internal control

The committee received quarterly updates on the effectiveness of the FRCF framework and discussed rectification of any deficiencies in controls. The committee continued to challenge management to improve the quality of the overall control environment across the Group and re-emphasised management's role in identifying and addressing control issues. In this context, management identified the following nine major control improvement topics requiring focus in 2014, each topic being sponsored by a member of the Group Executive: IT security; underwriting risk accumulation for the General Insurance business; data governance/protection; Aviva Investors (including Group oversight); UK Commercial Finance; fraud management; second line effectiveness; Turkey Life and governance arrangements for business units that have been identified for disposal. Management reported to the committee throughout the year on their progress in addressing the major control improvement topics and Internal Audit provided their view of management's assessment. Whilst progress has been made in addressing the nine topics, further work remains to be completed. Two new topics have also been added to monitor in 2015; disaster recovery in the UK data centres and outsourcing. The committee will continue to monitor progress in addressing all these topics in 2015. The committee considered the potential impact on the control environment by the proposed acquisition of Friends Life and will monitor this during integration should the transaction complete.

The roll out of the Integrated Assurance Implementation (IAI) programme has continued during the year. The IAI provides

a basis for a common understanding of the respective responsibilities of first, second and third lines of defence for controls and a common approach to identifying, documenting and testing the key controls in the Group. Progress has been made to embed the IAF into the Group. The IAF is a mechanism to bring together all the information on the operation of the control environment from management, Internal Audit and the Risk function; to provide a holistic view of the status and quality of controls and identify common themes and expedite action to remediate deficiencies.

The committee reported to the Board regarding the effectiveness of the Group's overall risk management and internal control systems including the risk management system in relation to the financial reporting process. The committee worked closely with the Risk Committee in its overall review of the Company's systems of risk management and internal controls.

The systems of internal control extend to the Group's business units, each of which has an Audit Committee that provides an oversight role for its business. Membership of these business unit Audit Committees is largely comprised of Non-Executive Directors of subsidiary companies. The CAO attended business unit Audit Committee meetings throughout the year and reported back on their effectiveness to the committee.

The committee's Terms of Reference require it to establish and monitor procedures for dealing with complaints from employees in relation to accounting issues. The committee reviews the procedures annually and received regular updates from the CAO however, no significant complaints were received during the year. A description of the Company's systems of internal control and the Group's risk management framework is included on pages 73 to 74.

Regular reports were provided to the committee of any malpractice reported through the Group's malpractice reporting service. None of the reports lodged in 2014 made allegations of financial malpractice.

Internal audit

The Internal Audit function reports to the Board (primarily via the committee), and to management on the effectiveness of the Group's systems of internal control and the adequacy of these systems to manage business risks and to safeguard the Group's assets and resources.

Internal Audit Charter and Business Standard

The Charter sets out the purpose, functions, scope and responsibilities of the Internal Audit function and how it maintains independence from the first and second line management of the Group. The four main functions of Internal Audit are to:

- Assess and report on the effectiveness of the design and operation of the framework of controls which enable risk to be assessed and managed
- Assess and report on the effectiveness of management actions to address deficiencies in the framework of controls
- Investigate and report on cases of suspected financial crime and employee fraud and malpractice
- Undertake designated advisory projects for management provided that they do not threaten the function's actual or perceived independence from management

The Internal Audit Business Standard sets out the requirements for management across the Group to support Internal Audit in achieving its objectives. It requires businesses to design and operate processes and controls to satisfy the mandatory requirements in the standard based on the size and complexity of the business and the nature of the risks and challenges it faces. Any breaches of the Standard must be reported to the CAO and others as appropriate. The committee reviewed and approved the updated Internal Audit Charter and Business Standard in late 2014.

Annual plan and focus of reviews in 2014

The Internal Audit Plan for 2014 was reviewed and approved by the committee on a half-yearly basis in January and July 2014. Planned reviews reflected the priorities in the Group's 2014-2016 Operational Plan and were prioritised following a risk-based assessment of the business and a review against the Group's risk policies. The reviews carried out covered an extensive sample of controls over all risk types, business units and regulated entities and covered 'business as usual' activities and an assessment of change programmes. The plan covered the implementation of corporate and commercial decisions; maintenance of adequate financial strength and resilience; the effectiveness of governance, decision making and risk management; legal and regulatory obligations; the availability, security and recoverability of IT systems; management of relationships with key partners and the effectiveness of oversight of risk management in the Group's joint ventures and investments. The committee received quarterly reports from the CAO on audit reviews carried out, management's response to the findings and progress in addressing identified issues. In November the committee considered and approved the Internal Audit Functional Plan for the period 2015 to 2017.

Effectiveness of the internal audit function

The function made significant progress in implementing the recommendations to improve effectiveness which were made as part of the independent review of the function commissioned in the previous year. As a result the audit planning process was enhanced to increase management involvement and a significantly more structured approach to assessing and communicating audit coverage was introduced. Audit reporting was enhanced to assess and recognise management awareness of risk and control issues and reinforce first and second line responsibility. The approach to stakeholder management was strengthened through the development of a stakeholder management tool, together with a range of resources to help manage stakeholders and promote the function across the Group. The reward approach was reviewed to ensure that it was in line with industry and regulatory developments and the function successfully achieved a high level of movement of staff both into and from other parts of the Group. Work was also completed to improve efficiency through developing and implementing a range of initiatives, in particular through increasing the effectiveness of the function's data analytics capabilities. In addition, an annual programme of internal quality assurance was completed and actions arising were implemented to continue to improve the effectiveness of the function.

Chief Audit Officer

The CAO had direct access to the Board Chairman, the committee Chairman and the committee members. The committee worked with the Group CEO to determine the CAO's objectives and evaluate his levels of achievement, and to approve the CAO's remuneration. His annual performance related bonus was unconnected to the Group's financial performance. The CAO reported to the Group CEO during the year.

Although he is a member of the Group Executive, the committee is satisfied that the CAO's independence has been maintained as adequate safeguards are in place to maintain his independence, authority and standing. The committee remained satisfied that the Internal Audit function had sufficient resources during the year to undertake its duties.

External Auditor

PwC was appointed as the Group's External Auditor (Auditor) in 2012 following a formal tender process. The external audit contract will be put out to tender at least once every ten years.

The committee performed its annual review of the independence, effectiveness and objectivity of the Auditor. The process was conducted by means of a questionnaire, completed Group-wide by members of senior management and members of the Group's finance community and the committee. The questionnaire

sought opinions on the importance of certain criteria and the performance of the Auditor against those criteria. Based on this review, the committee concluded that the audit service of PwC was fit for purpose although some efficiencies were identified in relation to the audit process which were fully addressed during the year.

The Company has an External Auditor Business Standard in place which is aimed at safeguarding and supporting the independence and objectivity of the Auditor. The Standard is in full compliance with all UK, US and International Federation of Accountants (IFAC) rules and takes into account the Auditing Practices Board Ethical Standards for Auditors.

The Standard regulates the appointment of former audit employees to senior finance positions in the Group and sets out the approach to be taken by the Group when using the non-audit services of the principal Auditor. It distinguishes between (i) those services where an independent view is required and services that should be performed by the Auditor (such as statutory and non-statutory audit and assurance work); (ii) prohibited services where the independence of the Auditor could be threatened and the Auditor must not be used; and (iii) other non-audit services where the Auditor may be used. Non-audit services where the external auditor may be used include: non-recurring internal controls (such as the work commissioned in relation to Aviva Investors referred to below) and risk management reviews (excluding outsourcing of internal audit work), advice on financial reporting and regulatory matters, due diligence on acquisitions and disposals, project assurance and advice, tax compliance services, and employee tax services. During the year the committee received quarterly reports of compliance against the Standard.

The Group paid £14.7 million to PwC for audit and audit-related assurance services in 2014, relating to the statutory audit of the Group and Company's financial statements, the audit of Group subsidiaries, additional fees relating to the prior year audit of Group subsidiaries and audit-related assurance services *(2013: £16.6 million)*.

The fees for other services, which are in compliance with applicable UK, US and International Federation of Accountants independence rules, included MCEV supplementary reporting, advice on accounting risk and regulatory matters, reporting on internal controls, reporting on the Group's Individual Capital Assessment and Economic Capital and work in relation to preparing the business for SII implementation, were £11.5 million (*2013: £7.6* million), giving a total fee to PwC of £26.2 million (*2013: £24.2* million). The SII assurance fees included in this were £6.4 million *(2013: £1.5 million)*. SII implementation is a major project requiring substantial model validation assurance that the Company believes is most appropriately performed by the principal Auditor. In view of the significance and scale of this work, the committee specifically assessed the suitability of PwC to provide this service.

In addition the Group paid PwC £0.2 million (*2013: £0.2 million*) in relation to the audit of Group occupational pension schemes.

The Group paid £1.5 million to PwC in relation to other non-audit services. This included £0.5 million relating to a controls review at Aviva Investors and £1.0 million for a number of other, individually smaller services. In line with the External Auditor Business Standard, the committee satisfied itself that for these engagements, robust controls (including appropriate levels of review) were in place to ensure that PwC's objectivity and independence was safeguarded, and concluded that it was in the interests of the Company to purchase these services from PwC due to their specific expertise. Further details are provided in note 13.

Committee performance and effectiveness

The committee undertook an annual review of its performance and effectiveness which concluded that overall the committee was effective in carrying out its duties. The committee agreed that its priorities for 2015 should include: monitoring implementation of compliance with the requirements of SII; continuing to monitor improvements in the control environment; and increasing the level of reporting from business unit Audit Committees.

Risk Committee report

Michael Hawker
Chair of the Risk Committee

As Chairman of the committee, I am pleased to present the Risk Committee's report for the year ended 31 December 2014.

The principal purpose of the committee is to assist the Board in its oversight of risk within the Group, with particular focus on the Group's risk appetite, risk profile and the effectiveness of the Group's RMF. We review the risks inherent in both our investment portfolios and in the insurance products we offer our clients. In addition to the risks inherent in investing and in providing assurance, we review the strength of our capital base and our liquidity position, the level of our operational risk, and the significant ongoing changes to the regulatory framework. The capital implications of SII and the Group's GSII status pose risks to the Group and the committee has monitored development of these issues closely during the year and will continue to do so throughout 2015. The committee ensures that due diligence appraisals are carried out on strategic or material transactions, and also works with the Remuneration Committee to ensure that risk management is properly considered in setting the Group's Remuneration Policy.

During the year the committee welcomed Gay Huey Evans as a member and the committee is now comprised of five independent NEDs. I have been Chairman of the Committee since September 2011.

Committee responsibilities

The committee oversees all aspects of risk management in the Group, save for conduct and financial crime risk, and brand and reputation risk (oversight responsibility for which lies with the Governance Committee). Consequently the committee's particular focus is on market, credit, liquidity, insurance and operational risk, and in considering their impact on both the financial and non-financial goals of the Group.

The key responsibilities of the committee are to:

- Review the Group's future risk strategy and its risk appetite, particularly in relation to capital and liquidity and to make recommendations on risk appetite to the Board
- Review the implementation of management actions and strategic decisions required to meet the capital implications of the new SII and GSII regulations
- Review the Group's investment risk strategy, credit limit framework and approve individual counterparty exposures in excess of limits
- Review the design, completeness and effectiveness of the RMF relative to the Group's activities and to assess the adequacy and quality of the risk management function and effectiveness of risk reporting within the Group
- Review the methodology and assumptions used in the Group's model for determining its economic and regulatory capital requirements and satisfy itself that the assumptions and calibrations used reflect the Group's forward-looking risk profile
- Review and approve risk policies and any relevant Group business standards, and to monitor compliance with these and management's actions to remedy any breaches
- Satisfy itself that risks to the Group's business plan and any capital implications are adequately identified and assessed by management through appropriate stress-testing, and that mitigating actions are implemented
- Satisfy itself that risk-based information is used effectively by management
- Ensure that a due diligence appraisal of strategic or significant transactions due to be proposed to the Board is undertaken before the Board takes a decision on whether to proceed
- Review the effectiveness of operational controls
- Work with the Remuneration Committee to ensure that risk is considered in setting the overall remuneration policy for the Group
- Review relationships with prudential regulatory authorities in relevant jurisdictions and developments in the prudential regulatory environment, and review significant actual or potential breaches of prudential regulation and actions being taken to address these
- Review and recommend to the Board for approval any material regulatory filings
- Review the security and resilience of the IT infrastructure of the Group

Revised committee Terms of Reference were adopted in February 2015 following an annual refresh. The full Terms of Reference for the committee can be found on the Company's website at www.aviva.com/terms-of-reference, and are also available from the Group Company Secretary.

Committee membership and attendance

The table below shows the committee members during the year and their attendance at committee meetings.

Membership and attendance

Committee member	Number of meetings attended	Percentage attendance[1]
Michael Hawker (Chairman)	6	100%
Glyn Barker	6	100%
Gay Huey Evans[2]	5	100%
Michael Mire	6	100%
Bob Stein	6	100%

1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 Gay Huey Evans joined the committee on 19 February 2014.

The committee met on 6 occasions in 2014. The Chairman of the Company, Group CEO, CRO, CFO and the CAO regularly attended committee meetings. Other members of senior management were also invited to attend as appropriate to present reports. The committee holds regular private sessions with the CRO and the CAO to enable them to raise any matters of concern to them without any other members of management present. The Group Company Secretary acted as the secretary to the committee.

The Chairman of the committee reported to subsequent meetings of the Board on the committee's work and the Board received a copy of the CRO's report, the meeting agenda and the minutes of each meeting of the committee. Throughout the year both the committee Chairman and Glyn Barker were also members of the Audit Committee (the latter as chairman of the Audit Committee), ensuring that risk considerations were appropriately communicated and taken into account in the decisions of that committee.

There is cross-membership between each of the Board committees to ensure that risk issues were appropriately communicated and taken into account in the decisions of each committee.

In performing its duties, the committee had access to the services of the CRO, CAO, the Group Company Secretary and external professional advisers.

The Chairman followed a programme of attending meetings in Canada, France, Spain, Poland and Turkey.

In November 2014, the Chairman of the committee together with the Chairmen of the Governance and Audit Committees co-hosted a two-day conference for the chairmen of the Board, Risk, Governance and Audit Committees of the Group's principal subsidiaries, their Chief Risk Officers, Chief Audit officers and Chief Financial Officers.

The committee Chairman, with the CRO, holds a series of semi-annual conference calls with the major subsidiary board risk committee chairmen and their Chief Risk Officers, to ensure that there are no significant risks occurring in the business that have not been raised through normal reporting routes.

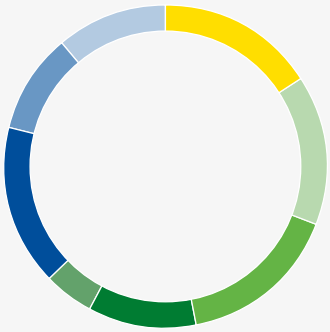
Committee activities during 2014

The work of the committee followed an agreed annual work plan, which evolved throughout the year in response to the changing macro-economic and regulatory environment and changes in the Company's strategy. The committee appraised all strategic or significant transactions due to be proposed to the Board, prior to the Board's consideration of such transactions, to ensure that sufficient due diligence had been carried out and any risks identified and mitigated so far as possible or sufficient explanation given as to why a risk should be accepted. These are discussed in more detail below.

Given the materiality of the transaction, the due diligence carried out, and risks in relation to, the proposed acquisition of Friends Life was discussed as a full Board and more detail can be found in the Directors' and corporate governance report on page 72. The Group Company Secretary and the CRO assisted the committee Chairman in planning the committee's work, and ensured that the committee received information and papers in a timely manner.

The chart below shows how the committee allocated its time during 2014.

Risk Committee – allocation of agenda time



Risk appetite, risk management and risk reporting	16%
Group capital, liquidity management and stress testing	15%
Solvency II/Global Systemically Important Insurer	16%
Business unit and functional updates	11%
Risk review of Group Plan	5%
Regulatory and governance	16%
Asset Portfolio monitoring	10%
Other (including internal audit)	11%

During the year the committee focused on the following areas:

Risk appetite monitoring

The committee received regular detailed reports on key risk exposures, emerging and potential risks, and the drivers of risk throughout the Group. It assessed and challenged the appropriateness of the Group's overall risk appetite. The committee monitored the Group's exposure against this appetite, particularly in relation to the liquidity appetite, the Individual Capital Adequacy (ICA) and Group Regulatory Capital (IGD) surplus, and how the Group's business plan affects the Group's capital position over time. In December 2014 the committee reviewed the Group's Business Plan for 2015-2017 and the Capital and Liquidity Plan for the same period and challenged management on a number of areas, particularly in relation to growth targets, and to ensure that further proposed expense reductions were achieved without compromising the control environment and in conjunction with re-engineering business processes to deliver efficiencies. The plans were recommended to the Board for approval with a number of items for consideration and it was noted that the plans had been prepared on the basis of the current Group and would be re-worked following the successful completion of the proposed acquisition of Friends Life.

Capital and liquidity management

Throughout the year the committee closely monitored and stress tested the Group's economic capital and liquidity positions against risk appetite and targets for the Group and for material subsidiaries. The Group's liquidity position and ICA and IGD surplus has increased due to a programme of strategic, economic and operational actions, approved by the committee and the Board, designed to strengthen and provide greater resilience to the Group's capital and liquidity position.

Actions taken by the committee included a detailed review of vulnerability of the Group's liquidity position to certain stress event scenarios and an assessment of management's mitigation proposals. The committee considered the transformation of Aviva International Insurance Limited into a Group internal captive reinsurer and challenged managements' assumptions of the benefits that it would bring. The committee continues to monitor the progress of the second phase of this project and the interaction with relevant regulators in the UK and overseas. The Committee reviewed management's proposal to redeem £200 million and €50 million lower tier two hybrid debt instruments and the Group's plans to reduce leverage.

The committee received regular liquidity forecasts and closely monitored the Group's ability to satisfy the 2013 final, 2014 interim and 2014 final dividends.

The committee reviewed management's plan to address potential future capital requirements and the impacts associated with being classified as a GSII and the transition to SII, as well as the contingent actions that could or should be taken.

Solvency II

The Group continues to work towards compliance with the requirements of the SII Directive based on currently available guidance from the European Insurance and Occupational Pensions Authority. As it is strategically important for Aviva to have a view of its businesses on an economic capital basis to inform business decisions, the Group intends to move to an enhanced economic capital model ahead of SII implementation. The committee has received regular updates on the progress of the Group's internal model application and is required to approve any material changes to the internal model. The committee has also approved an Internal Model Validation Business Standard and received regular reports on the external work carried out on the internal model to ensure that it is robust and fit for purpose. This work has been supported by both the Auditor and Internal Audit. The Board has received tailored training on SII with the committee members receiving more detailed training on specific areas. In late 2014 the committee considered and approved the methodology and assumptions for the 2015 ICA submission.

Risk management and governance
The committee has an ongoing programme of receiving reports from local risk committee Chairmen or Chief Executive Officers on the risk environment and issues arising in the Group's businesses and in respect of particular product lines. During the year, the committee received reports on the UK and Ireland General Insurance and Aviva Investors businesses, as well as a detailed review of the business in Canada.

IT risks are increasingly high profile and, following the appointment of a new Chief Information Officer during the year, the committee received detailed updates on IT, data and cyber security issues and the committee endorsed management's proposed actions to reduce risk in these areas.

The committee reviewed and recommended to the Board a proposal that significantly reduced the Group's exposure to longevity through the transfer of payment funding basis liabilities in the Aviva Staff Pension Scheme to external reinsurers. This transaction also resulted in less volatility in the Aviva Staff Pension Scheme, enabling the trustees to de-risk the Scheme and provide greater certainty in respect of future pension contributions. The committee received regular reports from the CRO and monitored the effectiveness of the Company's RMF which is described in more detail in the Directors' and corporate governance report and in note 58.

During the year the committee, in conjunction with the Governance Committee, reviewed their respective roles and responsibilities and agreed changes to each committee's Terms of Reference including moving oversight of conduct risk from the Risk Committee to the Governance Committee.

The committee reviewed how businesses across the Group had performed against risk objectives set for 2014.

Regulatory oversight
The committee monitored the regulatory environment and relationship with the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA) as well as the relationship with regulators across the Group and discussed the specific management actions identified to address or mitigate issues which arose during the year. As discussed above, the Company has been designated as a GSII which will have a number of implications for the Group if it is still classified as a GSII in 2017. As a GSII, the Group has been required to draft a number of additional risk management plans covering liquidity risk management, recovery, and systemic risk management and the PRA is drafting the requirements for a resolution plan. The purpose of these plans is to ensure that the Group has credible plans to recover from financial stress, but, if those plans were to fail, that regulators have the tools to resolve the Group's issues in a way that reduces recourse to taxpayer funds and limits the impact on the financial system. The plans would only come into effect in a severe stress scenario. The committee continues to monitor management's plans to meet potential capital requirements and will regularly review the plans, particularly in light of becoming an enlarged Group if the proposed acquisition of Friends Life is completed successfully.

Asset portfolio review
Throughout the year the committee carried out a review of the Group's asset and investment portfolio to gain a more detailed understanding of the Group's asset portfolio and the adequacy of the investment decision process, in the context of the RMF, asset allocation framework and relevant risk policies. The committee further scrutinised the processes and controls in place for investment in new asset classes and exposure to new country risks. The committee also received regular updates on Aviva Investors' view of the global economic outlook in the short and medium term and the actions that could be taken to protect the Group's and clients' asset portfolios in different scenarios such as Eurozone deflation; the impact of the world's ageing population; and political instability in Russia and Ukraine and the potential impact on other Eastern European countries.

Risk and remuneration
The committee approved the CRO's objectives for 2014 and reviewed his performance against his 2013 objectives. The committee also assessed senior management's performance against the agreed common risk objective and considered the appropriateness of the risk metrics when setting senior management remuneration policy.

Internal controls
Working with the Audit Committee, the committee monitored the adequacy of the RMF. During the year an updated RMF policy with associated revised Business Standards was reviewed and recommended for approval by the Board.

Throughout the year, the Group's Internal Audit function continued to provide the committee with independent and objective reports on the appropriateness, effectiveness and sustainability of the Company's system of internal controls. Key control issues reported by Internal Audit to management and to the committee members were monitored on a quarterly basis until the related risk exposures had been properly mitigated. These reports include summaries of any whistle-blowing allegations and the progress of investigations into such claims.

More detail on the management of risk is contained in note 58.

Committee performance and effectiveness

The committee undertook an annual review of its performance and effectiveness which concluded that overall the committee was effective in carrying out its duties.

In addition to undertaking its agreed annual programme of activities, the committee agreed that its priorities for 2015 should be to continue monitoring the Group's preparedness for SII; monitor the risks associated with completion of the proposed acquisition of Friends Life and its integration into the Group; capital and liquidity strength; IT security and resilience, and reviewing risks associated with different product lines.

Governance Committee report

Scott Wheway
Chair of the Governance Committee

As Chairman of the committee, I am pleased to present the Governance Committee's report for the year ended 31 December 2014.

The Board strongly believes that good governance and strong, responsible, balanced leadership by the Board are critical to creating long-term shareholder value and business success. Our role as a committee is to assist the Board in shaping the culture and ethical values of the Group through overseeing and advising on conduct, reputation, community, people and financial crime matters.

Following the separation of the Financial Services Authority into the PRA and the FCA, the committee reviewed its responsibilities and terms of reference. All aspects of conduct risk which impact on customer outcomes (including marketing and competition issues) or are covered by the FCA's remit, now form part of this committee's Terms of Reference. Accordingly the committee's activities in 2014 were heavily focused on conduct-related matters.

This report provides details of the role of the Governance Committee and the work it has undertaken during the year.

Committee responsibilities

The key responsibilities of the committee are to:

- Take a leadership role in shaping the corporate governance principles, culture and ethical values of the Group in line with the Group's strategic priorities
- Set the Group's conduct and financial crime risk appetites and oversee the Group's profile against them
- Oversee the brand and reputation of the Group, ensuring that reputational risk is consistent with the risk appetite approved by the Board and the creation of long term shareholder value
- Oversee the Group's conduct in relation to its corporate and societal obligations, including setting the guidance, direction and policies for the Group's customer and corporate responsibility (CR) agenda and related activities and advising the Board and management on these matters
- Review employee talent management and development programmes ensuring they take into account diversity, including gender
- Monitor talent management and development programmes.

The full Terms of Reference of the committee can be found on the Company's website at www.aviva.com/terms-of-reference and are also available from the Group Company Secretary.

Committee membership and attendance

The committee comprises independent NEDs only. On 19 February 2014, Gay Huey Evans stepped down as a member and Chairman of the committee and Scott Wheway was appointed as Chairman. The table below shows the committee members during the year and their attendance at committee meetings.

Membership and attendance

Committee member	Number of meetings attended	Percentage attendance[1]
Scott Wheway (Chairman)[2]	6	100%
Gay Huey Evans[3]	1	100%
Michael Mire	6	100%
Sir Adrian Montague	6	100%

1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 Scott Wheway was appointed as Chairman of the committee on 19 February 2014.
3 Gay Huey Evans stepped down as a member and Chairman of the committee on 19 February 2014.

The committee met on six occasions in 2014. The Group Company Secretary or her nominee acted as the Secretary to the committee.

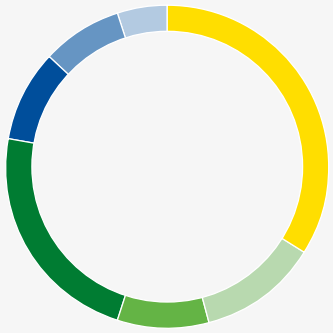
The Chairman of the Board, Group Chief Executive Officer and members of senior management attended meetings by invitation, where appropriate, or to present reports. The Chairman of the committee reported to subsequent meetings of the Board on the committee's work and the Board received a copy of the agenda and the minutes of each meeting of the committee. There is cross-membership between each of the Board committees to ensure that governance issues were appropriately communicated and taken into account in the decisions of each committee.

Committee activities during 2014

Whilst they are not mutually exclusive, the following categories have been developed for the committee meeting agendas to ensure that sufficient coverage is given to each element of the committee's remit: conduct; governance; regulatory and financial crime; reputation; customer; people and CR.

The following chart shows how the committee allocated its time during 2014, with key activities set out below:

Governance Committee – allocation of agenda time



Governance	34%
Regulatory and financial crime	12%
Reputation	9%
Conduct	23%
Customer	9%
People	8%
Corporate responsibility	5%

Conduct

The committee reviewed conduct issues which had the potential to have a material impact on the Group and the management responses and actions in response to these.

Following the extension of its remit, the committee now has oversight of those aspects of conduct risk which impact customer outcomes, including marketing and competition issues. A comprehensive review of the Group's compliance with regulatory conduct issues was undertaken and a new conduct risk policy and conduct risk appetite were approved and a Group-wide framework for the consistent management and reporting of conduct risk was implemented.

The committee requested that certain material subsidiaries establish separate conduct committees to ensure sufficient board time is given to this area and received updates from those committees on the implementation of the new conduct risk framework.

Governance

The committee continued to focus on strengthening the Group's subsidiary board framework to ensure implementation of best practice corporate governance throughout the Group, being mindful of local laws, regulations and customs. This included presentations from Business Units on their governance structures and approving template Terms of Reference for subsidiary boards.

The committee also maintained oversight of appointments of NEDs and succession planning for material company subsidiary boards and received copies of the board effectiveness reviews undertaken by

its subsidiaries and the actions implemented as a result of these reviews. In addition, committee members attended several subsidiary board meetings in Spain, Poland and Turkey.

The committee received a regular summary of the Group's legal issues and litigation which had the potential to impact the reputation of the Group. Updates on corporate governance developments were also provided and, where appropriate, actions were considered and implemented.

Regulatory and financial crime
The committee received regular updates on regulatory developments which had the potential to materially impact the Group and reviewed and advised on management's responses and actions in response to regulatory issues. The committee also ensured that the FCA was updated on the new conduct risk framework and maintained an overview of the Group's relationships with regulatory authorities in the UK and in other jurisdictions where the Group has a significant presence. The committee considered the Group's annual report on financial crime (which included a report from the Money Laundering Reporting Officer) and maintained oversight of actions being taken to mitigate the Group's exposure to financial crime, including implementation of the new Group-wide framework for reporting financial crime and conduct risks.

Reputation
The committee received regular reports concerning reputational, brand and franchise risks affecting the Group and considered issues arising from developments in the media and in areas of public policy which could potentially impact the Group.

Customer
The committee continues to have oversight over the Group's treatment of its customers and the impact of its products on its customer base. The committee initiated a detailed review of conduct issues arising from particular product lines, including annuities, protection, equity release and investment business, and considered actions which could be taken to mitigate these risks and improve the Group's products for its customers.

The committee received a regular report on the Group's key customer metrics relating to customer retention, complaints, conduct and values.

People
Throughout the year the committee reviewed progress with regard to embedding Aviva's values, the engagement of our people and the cultural development of Aviva, including employee diversity. In early 2015, the committee's remit was extended to include employee talent management and development programmes including reviewing proposals from management to create a sustainable future workforce to meet current and projected business needs.

The committee also continues to oversee the implementation of the People Thesis and the work in relation to the culture and values programme and received a summary of the 2014 Voice of Aviva employee survey results. Further details on this area can be found in the 'Our people and communities' section of the Strategic report.

Corporate Responsibility
The committee continued to oversee the Group's conduct in relation to its corporate and societal obligations. The committee reviewed and approved the Group's community, social, human rights, environmental and employee-related information for inclusion in the Strategic report.

The committee received progress reports on all the Group's corporate responsibility key performance indicators and received an in-depth review of the business ethics code completion rates across all markets.

The committee also received a report on the Group's cluster munition and anti-personnel mines policy and approved actions to be taken in relation to the application of this policy. The committee received and considered updates on health and safety issues within the Group and on the issue of stranded assets.

Assurance
In respect of the 2014 reporting year, independent assurance on the Group's CR and related activities and reporting was provided to the committee by PwC. Members of the committee were interviewed as part of the external assurance process and management's resultant action plan were reviewed by the committee to assist in strengthening and setting the future direction of the CR programme.

Corporate responsibility report
The committee approved the Group's CR non-financial metrics that can be found in the Strategic report and the Company's full CR report that can be found at www.aviva.com/corporate-responsibility/reports.

Committee performance and effectiveness

The committee undertook an annual review of its performance and effectiveness which concluded that overall the committee was effective in carrying out its duties.

The committee agreed a number of actions including: to refine its remit to remove any potential overlap with the Risk Committee's responsibilities; to provide clearer guidance to subsidiaries on the standards of governance expected; and to further build relationships with subsidiary Chairmen.

Other statutory information

The directors submit their Annual report and accounts for Aviva plc, together with the consolidated financial statements of the Aviva group of companies, for the year ended 31 December 2014.

The directors' report required under the Companies Act 2006 comprises this Directors' and corporate governance report; the Directors' remuneration report; the following disclosures in the 'Our people and communities' section of the Strategic report:

- Environment and climate change for disclosure of our greenhouse gas emissions
- Increasing diversity and inclusion for details of our policy on employment of disabled persons
- Engaging with our people for details of employee involvement

Details of our policy on hedging are in note 59 and details of likely future developments are throughout the Strategic report.

The management report required under Disclosure and Transparency Rule 4.1.5R comprises the Strategic report, Shareholder information (which includes the risks relating to our business), and details of material acquisitions and disposals made by the Group during the year in note 4. This Director's and corporate governance report fulfills the requirements of the corporate governance statement under Disclosure and Transparency Rule 7.2.1.

Results

The Group's results for the year are shown in the consolidated income statement.

Dividends

The directors are recommending a final dividend of 12.25 pence per ordinary share (*2013: 9.4 pence*), which, together with the interim dividend of 5.85 pence per ordinary share paid on 17 November 2014 (*2013: 5.6 pence*), produces a total dividend for the year of 18.1 pence per ordinary share (*2013: 15.00 pence*). The total cost of ordinary dividends paid in 2014 was £449 million *(2013: £429 million)*. Subject to shareholder approval at the 2015 AGM, the final dividend for 2014 will become due and payable on 15 May 2015 to all holders of ordinary shares on the Register of Members at the close of business on 9 April 2015 (approximately five business days later for holders of the Company's American Depositary Receipts). Details of any dividend waivers are disclosed in note 33.

Share capital and control

The issued ordinary share capital of the Company was increased by 3,547,718 ordinary shares during the year which were allotted under the Group's employee share and incentive plans. At 31 December 2014 the issued ordinary share capital totalled 2,950,487,340 shares of 25 pence each and the issued preference share capital totalled 200,000,000 shares of £1 each. Accordingly, the issued and paid-up ordinary share capital constituted 79% of the Company's total issued share capital and the issued preference share capital constituted 21% of the Company's total issued share capital at 31 December 2014. All the Company's shares in issue are fully paid up and the ordinary and preference shares have a Premium and Standard listing respectively on the London Stock Exchange. The Company is listed on the New York Stock Exchange (NYSE) in the form of American Depositary Shares, referenced to ordinary shares, under a depositary agreement with Citibank. Details of the Company's share capital and shares under option at 31 December 2014 and shares issued during the year are given in notes 31 to 34.

The rights and obligations attaching to the Company's ordinary shares and preference shares, together with the powers of the Company's directors, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House and the Company's website at www.aviva.com/investor-relations/corporate-governance/articles-of-association, or by writing to the Group Company Secretary. The powers of the Company's directors are subject to relevant legislation and, in certain circumstances (including in relation to the issue or buying back by the Company of its shares), are subject to authority being given to the directors by shareholders in General Meeting.

A General Meeting will be held on 26 March 2015 to approve the proposed acquisition of Friends Life. At this meeting shareholders will be asked to authorise the directors to allot ordinary shares of 25 pence each up to an aggregate nominal amount of £276,250,000 in relation to the acquisition. Details are contained in the Notice of General Meeting.

At the 2015 AGM, shareholders will be asked to renew the directors' authority to allot new securities. Details are contained in the 2015 Notice of Annual General Meeting (Notice of AGM).

With the exception of restrictions on the transfer of ordinary shares under the Company's employee share incentive plans, whilst the shares are subject to the rules of the plans, there are no restrictions on the transfer rights attaching to the Company's ordinary shares or the transfer of securities in the Company.

Where, under an employee share incentive plan operated by the Company, participants are the beneficial owners of shares but not the registered owners, the voting rights are normally exercised at the discretion of the participants. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts and joint venture agreements. None are considered to be significant in terms of their potential impact on the business of the Group as a whole. All of the Company's employee share incentive plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions and pro rata reduction as may be applicable under the rules of the employee share incentive plans.

Authority to purchase own shares

At the Company's 2014 AGM, shareholders renewed the Company's authorities to make market purchases of up to 294 million ordinary shares, up to 100 million 8¾% preference shares and up to 100 million 8⅜% preference shares. These authorities were not used during the year or up to the date of this report. At the 2015 AGM, shareholders will be asked to renew these authorities for another year and the resolution will once again propose a maximum aggregate number of ordinary shares which the Company can purchase of less than 10% of the issued ordinary share capital. Details are contained in the Notice of AGM. The Company held no treasury shares during the year or up to the date of this report.

Major shareholdings

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules as at 31 December 2014 and 3 March 2015.

Shareholding interest

	At 31 December 2014		At 3 March 2015	
Shareholder	Notified holdings	Nature of holding	Notified holdings	Nature of holding
BlackRock, Inc[1]	Above 5%	Indirect	Above 5%	Indirect

1 Holding includes holdings of subsidiaries.

Directors

The directors as at the date of this report are shown together with their biographical details above. During the year and up to the date of this report, the following Board appointments, resignations and retirements occurred:

- Tom Stoddard – appointed Group CFO on 28 April 2014
- Patrick Regan – resigned as Group CFO with effect from 28 March 2014.

The Chairman and Gay Huey Evans have also tendered their resignation which will take effect from the conclusion of the AGM on 29 April 2015.

Under the Company's Articles of Association, the Board can appoint additional directors or appoint a director to fill a casual vacancy. The new director must retire at the first AGM following their appointment and can only continue as a director if they are elected by shareholders at the AGM. The Board has announced its intention to appoint Andy Briggs as an Executive Director and Sir Malcolm Williamson as Senior Independent Non-Executive Director following the successful completion of the proposed acquisition of Friends Life and subject to regulatory approval. Their appointment is expected to commence after the 2015 AGM and they will therefore first stand for election by shareholders at the 2016 AGM.

Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than an indemnity provision between each director and the Company and employment contracts between each executive director and a Group company. The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The Company has also executed deeds of indemnity for the benefit of each director of the Company, and each person who was a director of the Company during the year, in respect of liabilities that may attach to them in their capacity as directors of the Company or of associated companies. The Articles of Associationallow such indemnities to be granted.

These indemnities were granted at different times according to the law in place at the time and where relevant are qualifying third-party indemnity provisions as defined by section 234 of the Companies Act 2006. These indemnities were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts, employment contracts and interests in the shares of the Company are set out in the Directors' remuneration report. There is no arrangement or understanding with any shareholder, customer, supplier, or any other external party, to appoint a director or a member of the Group Executive (save in connection with the proposed acquisition of Friends Life).

Financial instruments

Group companies use financial instruments to manage certain types of risks, including those relating to credit, foreign currency exchange, cash flow, liquidity, interest rates, and equity and property prices. Details of the objectives and management of these instruments are contained in the Risk and Capital management section, the Shareholder information section and an companies to such risks is contained in note 58.

Political donations

At the 2014 AGM, shareholders passed a resolution, on a precautionary basis, to authorise the Company and its subsidiaries to make political donations and/or incur political expenditure (as such terms are defined in sections 362 to 379 of the Companies Act 2006), in each case in amounts not exceeding £100,000 in aggregate. As the authority granted will expire at the 2015 AGM, renewal of this authority will be sought at this year's AGM. Further details are available in the Notice of AGM. The definitions of political donations and political expenditure used in the Companies Act 2006 are broad in nature and this authority is sought to ensure that any activities undertaken throughout the Group, which could otherwise be construed to fall within these provisions, can be undertaken without inadvertently infringing the rules. It is not the policy of the Company to make donations to EU political organisations or to incur any other political expenditure.

Aviva did not make any political donations during 2014.

Disclosure of information to the auditor

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditor, PwC, is unaware and each director has taken all reasonable steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that PwC is aware of that information.

Annual General Meeting

The 2015 AGM of the Company will be held on Wednesday, 29 April 2015 at the Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11 am. The Notice of AGM convening the meeting describes the business to be conducted thereat. Further details can be found in the Shareholder services section.

Related party transactions

Details of related party transactions are disclosed in note 61 which is incorporated into this report by reference.

Articles of Association

Unless expressly stated to the contrary in the Article of Association, the Company's Articles of Association may only be amended by special resolution of the shareholders. The Company's current Articles of Association were adopted on 3 May 2012. Shareholders will be asked to adopt new Articles of Association at the 2015 AGM and further details can be found in the Notice of AGM.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. The performance review includes the Risk and capital management section. In addition, the financial statements sections include notes on the Group's borrowings (note 50); its contingent liabilities and other risk factors (note 53); its capital structure and position (note 55); management of its risks including market, credit and liquidity risk (note 58); and derivative financial instruments (note 59).

The Group has considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

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

Post Balance Sheet events

Details of significant events that occurred subsequent to 31 December 2014 are disclosed in notes 4 and 63.

Fair, balanced and understandable

To support the directors' statement below that the Annual report and accounts, taken as a whole, is fair, balanced and understandable, the Board considered the process followed to draft the Annual report and accounts:

- each section of the Annual report and accounts is prepared by a member of management with appropriate knowledge, seniority and experience. Each

preparer receives guidance on the requirement for content included in the Annual report and accounts to be fair, balanced and understandable
- the overall co-ordination of the production of the Annual report and accounts is overseen by the Chief Accounting Officer to ensure consistency across the document
- an extensive verification process is undertaken to ensure factual accuracy
- comprehensive reviews of drafts of the Annual report and accounts are undertaken by members of the Group Executive and, other members of senior management, external legal advisers and the external auditor
- an advanced draft is considered and reviewed by the Disclosure Committee and legal advisers
- the final draft is reviewed by the Audit Committee prior to consideration by the Board
- our Board members also receive drafts of the Annual report and accounts in sufficient time to facilitate their review and input. This includes the opportunity to discuss the draft Annual report and accounts with both management and the external auditor and where appropriate challenging and disclosures as appropriate

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with IFRSs as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Directors' and corporate governance report confirm that, to the best of their knowledge:
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the Strategic report and the Directors' and corporate governance report in this Annual report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board on 4 March 2015.

Mark Wilson
Group Chief Executive Officer

Tom Stoddard
Chief Financial Officer

New York Stock Exchange listing requirements

The Company's ordinary shares are admitted to the NYSE and are traded as American Depositary Shares. As a foreign company listed on the NYSE, the Company is required to comply with the NYSE corporate governance rules to the extent that these rules apply to foreign private issuers. As a foreign private issuer, the Company is therefore required to comply with NYSE Rule 303A.11 by making a disclosure of the differences between the Company's corporate governance practices and NYSE corporate governance rules applicable to US companies listed on NYSE. The Company complied with the Code in respect of its 2014 financial year and other relevant best practice principles and guidelines. The main differences between UK and US requirements are summarised below together with Aviva's approach to compliance:

NYSE Listing Rules	UK Corporate Governance Code	Aviva approach
Independence criteria for directors		
Independent directors must form the majority of the board of directors. A director cannot qualify as independent unless the Board affirmatively determines that the director has no material relationship with the company. NYSE rules prescribe a list of specific factors and tests that US -listed companies must use for determining independence.	At least half the Board, excluding the Chairman, should comprise independent Non-Executive Directors, as determined by the Board. The Code sets out its own criteria that may be relevant to the independence determination, but the Board is permitted to conclude affirmative independence notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, so long as it states its reasons.	The majority of the Board comprises independent Non-Executive Directors who are deemed independent under the Code and meet the independence criteria in the NYSE rules.
Non-executive director meetings		
Non-management directors of each listed company must meet at regularly scheduled executive sessions without management and, if that group includes directors who are not independent, listed companies should at least once a year schedule an executive session including only independent directors.	The Chairman should hold meetings with the Non-Executive Directors without the Executive Directors present.	The independent Non-Executive Directors meet without Executive Directors present at least once annually.
Committees		
US companies are required to have a Nominating/Corporate Governance Committee comprised of independent directors. In addition to identifying individuals qualified to become Board members, this committee must develop and recommend to the Board a set of corporate governance principles and oversee the evaluation of the Board and management.	The Company is required to have a Nomination Committee but not a Corporate Governance Committee. A majority of the members of the Nomination Committee should be independent NEDs. The Board is required to undertake a formal and rigorous annual appraisal of its own performance.	The Company has a Nomination Committee and a Governance Committee, each of which are comprised of Independent NEDs. The Governance Committee assists the Board in shaping the culture and values of the Group, however the Board as a whole is ultimately responsible for the corporate governance of the Group and oversees this through reports to the Board and its committees. The Board conducts an annual appraisal of its own performance, as well as the performance of each of its committees and of individual directors.
US companies are required to have a Compensation Committee made up entirely of independent directors.	The Company is required to have a Remuneration Committee and under the Companies Act 2006 is required to obtain shareholder approval of the remuneration policy for Executive Directors. The Committee should be comprised of independent NEDs.	The Company has a Remuneration Committee comprised of independent NEDs which covers all NYSE and Code requirements and recommends the remuneration policy for Executive Directors to the Board and shareholders for approval.
US companies are required to have an audit committee comprised of independent directors and that one member must meet the requirements to be an Audit Committee financial expert. The Audit Committee should also cover risk matters.	The Company must have an Audit Committee and at least one member must have recent and relevant financial experience. The Committee should be comprised of independent NEDs.	The Company has an Audit Committee comprised of independent NEDs and at least one member meets both the NYSE and Code requirements on financial experience. The Audit Committee does not review risk management as this is covered by the Risk and Governance Committees.
Code of business conduct and ethics		
Companies are required to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	Not required under the Code.	The Company has adopted a Business Ethics Code to which all employees are bound and a Code of Ethics for senior management, which complies with the Sarbanes-Oxley Act of 2002.
Shareholder approval of equity-compensation plans		
Shareholders must be given the opportunity to vote on all equity-compensation plans and 'material revisions' to those plans, with limited exceptions. Detailed definitions of 'material revisions' are provided by NYSE.	Shareholder approval is necessary for certain equity-compensation plans and 'significant changes' thereto, subject to certain exceptions. The Code does not provide a detailed definition or explanation of what are considered to be 'significant changes'.	All new equity-compensation plans or amendments to existing plans that are required to be approved by shareholders under the Code are put to shareholders for approval.

By order of the Board

John McFarlane
Chairman
4 March 2015

Dear Shareholder

On behalf of the Board, the Remuneration Committee is pleased to present the Directors' Remuneration Report (DRR) for the year ended 31 December 2014.

Remuneration policy and Strategic Reward Review (SRR) undertaken in 2014

Last year, in presenting our remuneration policy, we committed to undertake a strategic review during 2014 of our remuneration framework, policies and practices.

This review has given us the opportunity to consider the continuously changing regulatory environment, and to have extensive dialogue with shareholders and governance advisory bodies.

The remuneration policy now being presented in the DRR, if approved, is to apply from the conclusion of the 2015 Annual General Meeting (AGM), and it incorporates a number of changes that we believe improves its effectiveness as a core pillar of good governance, an enabler for Aviva's challenging strategic agenda and as a driver of reward outcomes that are fair for both shareholders and executives.

Reward objectives

The creation of long-term wealth for our shareholders is the guiding principle that underpins the work and decisions of the committee, and the policy we are proposing here for the next three years.

A clear Group strategy has been defined to achieve long-term sustainable growth, based on the three anchors of:

- True Customer Composite
- Digital First; and
- Not Everywhere

Delivery against this strategy should result in deeper and even more valued relationships with our customers as well as benefits in terms of the experience of shareholders.

For the Company - it is important to have a reward framework that supports and enables this – and which protects against the risk of not having people with the talent needed to maintain momentum and deliver on the plans.

For the participants – it is important that reward outcomes are fair in view of the results achieved and of the effective and constructive commitment of the individual.

There is also a strong and evolving regulatory element that mandates aspects of governance concerning how remuneration policies should operate. It is assumed in our remuneration policy that, as a company, we will comply with the spirit and requirements of regulation on pay, and maintain a strong governance focus - but it is also a critical part of our reward approach that we identify, recognise and reward behaviours and performance that are consistent with the Aviva values of:

- Care more
- Kill complexity
- Never rest
- Create legacy

Proposed changes

The dialogue we have had with many key stakeholders over the past year concerning the SRR has been consistently constructive. The response overall to the combination of changes we have proposed has been very supportive.

The key changes we are proposing to the remuneration policy are:

- **Clawback** – Implementation of "clawback" provisions to apply to vested annual bonus or Aviva Long Term Incentive Plan 2011 (LTIP) awards made after the approval of this policy (this is additional to the current "malus" provisions that already apply to unvested awards)
- **Shareholding requirement** – Increase requirement from 200% to 300% of basic salary for the Group Chief Executive Officer (Group CEO)
- **Annual bonus** – Three changes to the existing approach are proposed. They relate to:
  - Bonus opportunity;
  - The addition of a quality of earnings assessment in determining outcomes; and
  - The disclosure of performance targets

    Bonus opportunity – An increase is proposed in the "at target" opportunity - from 75% to 100% of basic salary for all Executive Directors (EDs), as well as an increase in the maximum opportunity from 150% to 200% of basic salary for the Group CEO only. This is intended to recognise outstanding execution against annual business objectives and also exemplary leadership and demonstration of the Aviva values in circumstances where these occur to the benefit of shareholders.

    It is not the intention to "pay more for the same performance" – it is about proper calibration of the reward opportunity to the increasingly stretching year-on-year challenges required to deliver on our strategy.

    Quality of earnings assessment – The committee this year implemented a "checkpoint" step focusing on quality of earnings in the assessment it undertakes of performance against the financial targets. This is intended to provide further assurance that the performance assessment reflects sustainable value for shareholders. It could, for example, involve the identification and exclusion of extraordinary gains in earnings attributable to matters beyond the direct control of management.

    Disclosure of performance targets – The disclosure of annual bonus targets was discussed in depth in various shareholder consultation sessions.

    The committee considers that meaningful disclosure of targets is a key feature of good reward governance, and that it is in the interests of shareholders that these should be disclosed retrospectively, and at the earliest time when considerations of commercial sensitivity make it prudent to do so.

    For Aviva, the financial Key Performance Indicators (KPIs) used in the reward plans will usually be the same measures that are critical to managing the business – and there is a genuine possibility that disclosing the targets used individually and in combination to drive performance for the most recently completed period could be detrimental to Aviva and its shareholders.

    Certain non-financial targets (e.g. customer and some employee targets) may have continuing commercial sensitivity which makes disclosure against the interests of the Company.

    The committee believes, therefore that the appropriate and balanced approach for Aviva is to disclose the financial targets with a one year delay in relation to the reward outcomes that are being reported, i.e. this year, reward outcomes are being reported for the 2014 annual bonus, and financial targets are being disclosed for 2013.

- **Long Term Incentive Plan** – Extend the plan with the addition of a two year compulsory holding period after vesting. Along with the existing three year

performance period, the LTIP will now have five years' duration.

The LTIP vesting process was made more rigorous during 2014, so that once the financial return performance is determined (at end of year three), that vesting calculation is now subject to a further structured assessment to ensure that vesting levels are not inflated by windfall items or outcomes of accounting treatment that are clearly not a result of management performance.

Shareholder approval

The Remuneration Committee is seeking approval from shareholders for the remuneration policy that will result from these changes set out in the DRR at pages 100 to110. If approved, the new policy will be effective for three years from the conclusion of the 2015 AGM.

In combination, the changes are intended to:

- Extend the period over which reward is delivered;
- Provide appropriate incentive and retention during a critical time strategically for Aviva;
- Reflect the commitment required of the EDs as Aviva's leaders; and
- Demonstrate the level of alignment with shareholders and of concern for shareholder outcomes that the committee considers appropriate.

We consider that the new policy achieves a good balance between rewarding success and demonstrating good governance, and we seek the support of shareholders for it.

Remuneration outcomes for 2014

The outcomes for 2014 (detailed on pages 102 to 106 of the Company's Annual Report and accounts for the financial year ended 31 December 2014 (Annual report) have been determined under the existing remuneration policy – and the current annual bonus opportunities and incentive plan conditions.

- **Basic salary –** No change in basic salary is proposed for either of the EDs. This may be reviewed later in 2015 following the outcome of the proposed Friends Life Group Limited ("Friends Life") transaction.
- **2014 Annual bonus –** The 2014 annual bonus awards for the EDs reflect strong financial performance by Aviva for 2014, with 142.42% achievement overall against the annual bonus financial targets.

  This was achieved in a year of great challenges in the general insurance business and the UK life business that are discussed in detail earlier in the Annual report, and at a time that a major strategic and transformational agenda is being undertaken.

  For both the Group CEO and Group Chief Financial Officer (CFO) this achievement against financial targets translated to a bonus award of 106.8% of basic salary (i.e. against the current "at target" bonus level of 75% of basic salary).

  The annual bonus is not awarded against financial targets alone, and the other performance factors defined under the plan structure were then also considered, i.e. customer, employee, risk and personal performance.

  Whereas last year the bonus awards were impacted by disappointing results on the customer and employee measures, 2014 saw stronger performance on both. In 2013, the employee target scores were missed, so 0% was achieved on that measure and a lower bonus was awarded as a result. By contrast, in 2014 the employee engagement target was substantially exceeded and this has been a key factor in a higher bonus being awarded.

  For the Group CEO, whose achievements in 2014 were a continuation of the turnaround in performance and strategic direction he has led since commencing with Aviva in 2013, the committee awarded a bonus of 130% of basic salary.

  For the Group CFO, who joined in April 2014 and who since arriving has played a critical role in embedding the investment thesis and ensuring alignment of Aviva's strategic and capital efficiency objectives, a bonus of 115% of basic salary was awarded.

  In making its decision on the annual bonuses, the committee also considered:

  - The increase in shareholder wealth that occurred during 2014;
  - The quality of earnings that were achieved;
  - Significant progress made on the strategic agenda, reflected in progress on the Digital First strategy, and in the pursuit of the Friends Life transaction;
  - Outstanding leadership and demonstration of the Aviva values – in terms of taking the business forward, and as reflected in the significant turnaround in the employee engagement scores in 2014.

  These decisions are detailed on page 103 of the 2014 Annual report.

- **LTIP**

  Neither of the current EDs were participants in the 2012 LTIP. Both, however, will participate in the 2015 LTIP, and it is proposed to make awards of 350% of basic salary to the Group CEO; and 250% of basic salary to the CFO.
  The award to the Group CEO for this year is at the maximum for LTIP awards under the existing policy (and also under the proposed policy).

  While this represents an increase from his 2014 grant, the decision to offer an increased opportunity was taken to recognise the level of achievement being displayed against the Group's agenda and to help with retention during this critical time, strategically and in relation to the objectives of the proposed Friends Life transaction. It is the view of the committee that providing a substantial but "at risk" reward opportunity through the LTIP in this situation means there is a clear link to longer-term shareholder outcomes (i.e. via the relative total shareholder return performance measure and the five year time horizon for the award).

  The award for the CFO of 250% of basic salary also represents an increase against the prior year grant (225%) but is less than the maximum that can be awarded (350%).

Use of judgment and discretion by the committee in 2014

While judgment was applied by the committee in determining achievement against the non-financial objectives under the annual bonus, the committee did not exercise the discretions available to it to increase or reduce reward outcomes outside of the normal operation of the relevant incentive plan rules.

The committee did, however, carefully assess the outcomes under both the 2014 annual bonus and the 2012 LTIP before finalising its decisions on each. The committee considers that these earnings assessments, which it has now implemented, are an important safeguard against reward outcomes that might otherwise be unreasonable and inconsistent with shareholder experience.

Patricia Cross
Chairman, Remuneration Committee

Directors' remuneration policy

This section sets out Aviva's remuneration policy for directors, in accordance with the requirements of the Companies Act 2006 (as amended) and the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The policy approach set out in this section incorporates changes proposed as part of our SRR.

It is intended that this policy will formally apply from the date of Aviva's 2015 AGM, for a duration of three years, subject to shareholders approving this policy at that meeting.

Alignment of Group strategy with executive remuneration

The committee considers alignment between Group strategy and the remuneration of its EDs is critical. Our remuneration policy provides market competitive remuneration, and incentivises EDs to achieve both the annual business plan and the longer term strategic objectives of the Group. Significant levels of deferral and an aggregate shareholding requirement align EDs' interests with those of shareholders and aid retention of key personnel. As well as rewarding the achievement of objectives, variable remuneration can be zero if performance thresholds are not met.

Table 1 below provides an overview of our proposed remuneration policy for EDs. For an overview of the remuneration policy for Non-Executive Directors (NEDs) see table 4.

Table 1: Remuneration policy for Executive Directors – overview

Element	Purpose and link to strategy	Operation and recovery provisions (if applicable)	Maximum opportunity	Performance measures
Basic salary	To provide core market related pay to attract and retain the required level of talent.	Annual review, with changes normally taking effect from 1 April each year. The review is informed by: • Relevant pay data including market practice among relevant FTSE listed companies of comparable size to Aviva in terms of market capitalisation, large European and global insurers; and UK financial services companies • Levels of increase for the broader UK employee population • Individual and business performance	Current basic salaries are disclosed on page 106. There is no maximum increase within the policy. However, basic salary increases take account of the average basic salary increase awarded to UK employees. Different levels of increase may be agreed in certain circumstances at the committee's discretion, such as: • An increase in job scope and responsibility • Development of the individual in the role • A significant increase in the size, value or complexity of the Group	Any movement in basic salary takes account of performance of the individual and the Group.
Annual bonus	To incentivise EDs to achieve the annual business plan. To reward EDs who achieve the Company's strategic objectives and demonstrate the Aviva values and behaviours. Deferral provides alignment with shareholder interests and aids retention of key personnel.	Awards are based on performance in the year. Targets are set annually and pay-out levels are determined by the committee based on performance against those targets. Two-thirds of any bonus awarded is deferred into shares which vest after three years. Additional shares are awarded at vesting in lieu of dividends paid on the deferred shares. Cash and deferred awards are subject to malus and clawback. Details of when these may be applied are set out in the notes below. The committee retains discretion to amend annual bonus pay-outs for a range of factors, including financial, market and other considerations. The committee will exercise its discretion to reduce otherwise unreasonable reward outcomes. If extraordinary circumstances were to arise where the committee felt an adjustment upwards is warranted, it would consult with major stakeholders before making any adjustment. Any exceptional adjustment would not exceed the stated maximum.	Maximum bonus opportunity for the Group CEO is 200% of basic salary with 100% of basic salary payable for performance in line with target. Maximum bonus opportunity for other EDs is 150% of basic salary with 100% of basic salary payable for performance in line with target. Threshold performance would result in a bonus payment of no more than 25% of basic salary. Performance below threshold would result in no bonus being paid.	Performance is assessed against a range of relevant financial, employee, customer and risk targets designed to incentivise the achievement of our strategy, as well as individual strategic objectives as set by the committee. Although financial performance is the major factor in considering overall expenditure on bonuses, performance against non-financial measures including behaviours in line with our values will also be taken into consideration.

Table 1: Remuneration policy for Executive Directors – overview

Element	Purpose and link to strategy	Operation and recovery provisions (if applicable)	Maximum opportunity	Performance measures
Long-term incentive plan	To motivate EDs to achieve the Company's longer-term objectives, to align EDs' interests with those of shareholders and to aid the retention of key personnel.	Shares are awarded which vest dependent on the achievement of performance conditions over a three year period. Additional shares are awarded at vesting in lieu of dividends on any shares which vest. Shares are typically subject to a two year holding period after vesting, creating a total of five years between the award being granted, and the first opportunity to sell. Awards are subject to malus and clawback. Details of when these may be applied are set out in the notes below. The committee has discretion to amend vesting levels to prevent unreasonable outcomes, which it may use taking into account a range of factors, including the management of risk and good governance and, in all cases, the experience of shareholders.	The plan rules allow for awards to be made up to a maximum of 350% of basic salary. Threshold performance would result in a vesting level of 20% of maximum. Performance below threshold on both targets would result in the award lapsing in its entirety.	Currently, performance targets over three years are: • 50% vest based on targets for absolute Return on Equity (ROE) performance • 50% vest based on relative Total Shareholder Return (TSR) against a comparator group Actual targets for ROE and the appropriate TSR comparator group are agreed by the committee annually and disclosed in the annual remuneration report section.
Pension	To give a market competitive level of provision for post-retirement income.	EDs are eligible to participate in a defined contribution plan up to the annual limit. Any amounts above the annual or lifetime limits are paid in cash.	If suitable employee contributions are made, employer contributes 28% of basic salary (into pension or as cash as applicable).	N/A
Benefits	To provide EDs with a suitable but reasonable package of benefits as part of a competitive remuneration package. This involves both core executive benefits, and the opportunity to participate in flexible benefits programmes offered by the Company (via salary sacrifice). This enables us to attract and retain the right level of talent necessary to deliver the Company's strategy.	Benefits are provided on a market related basis. The Company reserves the right to deliver benefits to EDs depending on their individual circumstances, which may include a cash car allowance, life insurance and private medical insurance. In the case of non-UK executives, the committee may consider additional allowances in line with standard relevant market practice. EDs employed under UK contracts are eligible to participate in any HMRC approved all employee share plans operated by the Company on the same basis as other eligible employees.	Set at a level which the committee considers appropriate against comparable roles in companies of a similar size and complexity to provide a reasonable level of benefit. Costs would normally be limited to providing a cash car allowance, private medical insurance, life insurance, and reasonable travel benefits, including the tax cost where applicable. In addition, there may be one-off or exceptional items on a case by case basis, which would be disclosed in the DRR.	N/A
Relocation & mobility	To assist with mobility across the Group to ensure the appropriate talent is available to execute strategy locally.	Employees who are relocated or reassigned from one location to another receive relevant benefits to assist them and their dependants in moving home and settling in to the new location.	Dependent on location and family size, benefits are market related and time bound. They are not compensation for performing the role but to defray costs of a relocation or residence outside the home country. The committee would pay no more than it judged reasonably necessary, in the light of all applicable circumstances.	N/A
Shareholding requirement	To align EDs' interests with those of shareholders.	A requirement to build a shareholding in the Company equivalent to 300% of basic salary for the Group CEO and 150% of basic salary for other EDs. This shareholding is normally to be built up over a period not exceeding 5 years (subject to the committee's discretion where personal circumstances dictate).	N/A	N/A

Notes to the table:

Performance measures

For the annual bonus, performance measures are chosen to align to the Group's KPIs and include financial, risk, employee and customer measures. Achievement against individual strategic objectives is also taken into account.

LTIP performance measures are chosen to provide an indication of both absolute and relative return generated for shareholders. In terms of target setting, a number of reference points are taken into account each year including, but not limited to, the Group's business plan and external market expectations of the Company. Maximum payouts require exceptional performance that significantly exceeds performance targets or expected performance, under both the annual bonus and LTIP.

Changes

The notable changes from the previous policy are as shown in table 2 below:

Table 2: Proposed changes to remuneration policy for 2015 – overview

Element	Previous policy	Proposed policy from 2015
Annual Bonus	Target opportunity of 75% of basic salary and maximum opportunity of 150% of basic salary at maximum for all EDs.	Target annual bonus opportunity of 100% of basic salary for all EDs. Maximum annual bonus opportunity of 200% of basic salary for the Group CEO and 150% of basic salary for other EDs.
Holding Period	No formal holding period for EDs other than existing shareholding requirement.	Additional two year holding period for LTIPs post vesting. This increases the total period between when award is granted and the first opportunity to sell to five years.
Malus and Clawback	Malus provisions apply to deferred Aviva Annual Bonus Plan 2011(ABP) and LTIP awards.	Introduction of clawback, in addition to malus provisions, to cash and deferred elements of ABP awards and LTIP awards. The clawback will apply to the annual bonus from 2015 (paid March 2016) and the LTIP awards granted in 2015 and any future awards. The circumstances where these may apply include (but are not limited to) where the committee considers that the employee concerned has been involved in or partially or wholly responsible for: • A materially adverse misstatement of the Company's financial statements, or a misleading representation of performance; or • A significant failure of risk management and/or controls; or • A scenario or event which causes material reputational damage to the Company; or • Misconduct which, in the opinion of the committee, ought to result in the complete or partial lapse of an award Clawback applied for two years from the date of vesting (or from the date of payment in the case of annual bonus awards).
Shareholding Requirement	A requirement to build a shareholding in the Company equivalent to 200% of basic salary for the Group CEO and 150% of basic salary for other EDs.	Increase in shareholding requirement from 200% to 300% of basic salary for the Group CEO. No change to shareholding requirement for other EDs. Shareholding to be built up over a five year period.

Discretions

The discretions the committee has in relation to the operation of the ABP and LTIP are set out in the plan rules. These include (but are not limited to) the ability to set additional conditions (and the discretion to change or waive those conditions) in exceptional circumstances. In relation to the LTIP, in accordance with its terms, the committee has discretion in relation to vesting and in exceptional circumstances to waive or change a performance condition if anything happens which causes the committee reasonably to consider it appropriate to do so. Any use of the discretions will be disclosed, where relevant, in the Annual report and, where appropriate be subject to consultation with Aviva's shareholders.

Change in control

In the event of a change in control, unless a new award is granted in exchange for an existing award, or if there is a significant corporate event like a demerger, awards under the LTIP would normally vest to the extent that the performance conditions have been satisfied as at the date of the change in control, and unless the committee decides otherwise, would be pro-rated to reflect the time between the start of the performance period and the change in control. Awards under the ABP would normally vest on the date of the change in control and may vest if there is a significant corporate event.

Consistency of executive remuneration policy across the Group

The remuneration policy for our EDs is designed as part of the remuneration philosophy and principles that underpin remuneration for the wider Group. Remuneration arrangements for employees below the EDs take account of the seniority and nature of the role, individual performance and local market practice. The components and levels of remuneration for different employees may therefore differ from the policy for EDs. Any such elements are reviewed against market practice and approved in line with internal guidelines and frameworks.

Differentiation in reward outcomes based on performance and behaviour that is consistent with the Aviva values is a feature of how Aviva operates its annual bonus plan for its senior leaders and managers globally. A disciplined approach is taken to moderation across the Company in order to recognise and reward the key contributors. The allocation of LTIP awards also involves strong differentiation, with expected contribution and ability to collaborate effectively in implementation of the strategy driving award levels.

The committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

Approach to recruitment remuneration

On hiring a new ED, the committee would align the proposed remuneration package with our remuneration policy.

In determining the actual remuneration for a new ED, the committee would consider the package in totality, taking into account elements such as the likely contribution of the individual, local market benchmarks, remuneration practice, and the existing remuneration of other senior executives. The committee would ensure any arrangements agreed would be in the best interests of Aviva and its shareholders. It would seek not to pay more than necessary to secure the right candidate.

The committee may make awards on hiring an external candidate to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so the committee would take account of relevant factors including any performance conditions attached to these awards, the form in which it was paid (e.g. cash or shares) and the timeframe of awards. The committee considers that a buyout award is a significant investment in human capital by Aviva, and any buyout decision will involve careful consideration of the contribution that is expected from the individual. Buyout awards would be awarded on a "like for like" basis compared to remuneration being forfeited, and would be capped to reflect the value being forfeited.

The maximum level of variable pay which could be awarded to a new ED, excluding any buyouts, would be in line with the policy set out above and would therefore be no more than 550% of basic salary for the Group CEO (200% of basic salary annual bonus opportunity and 350% of basic salary as the face value of a LTIP grant) and 500% of basic salary for other EDs (150% of basic salary annual bonus opportunity and 350% of basic salary as the face value of a LTIP grant).

All other elements of remuneration will also be in line with the policy set out above.

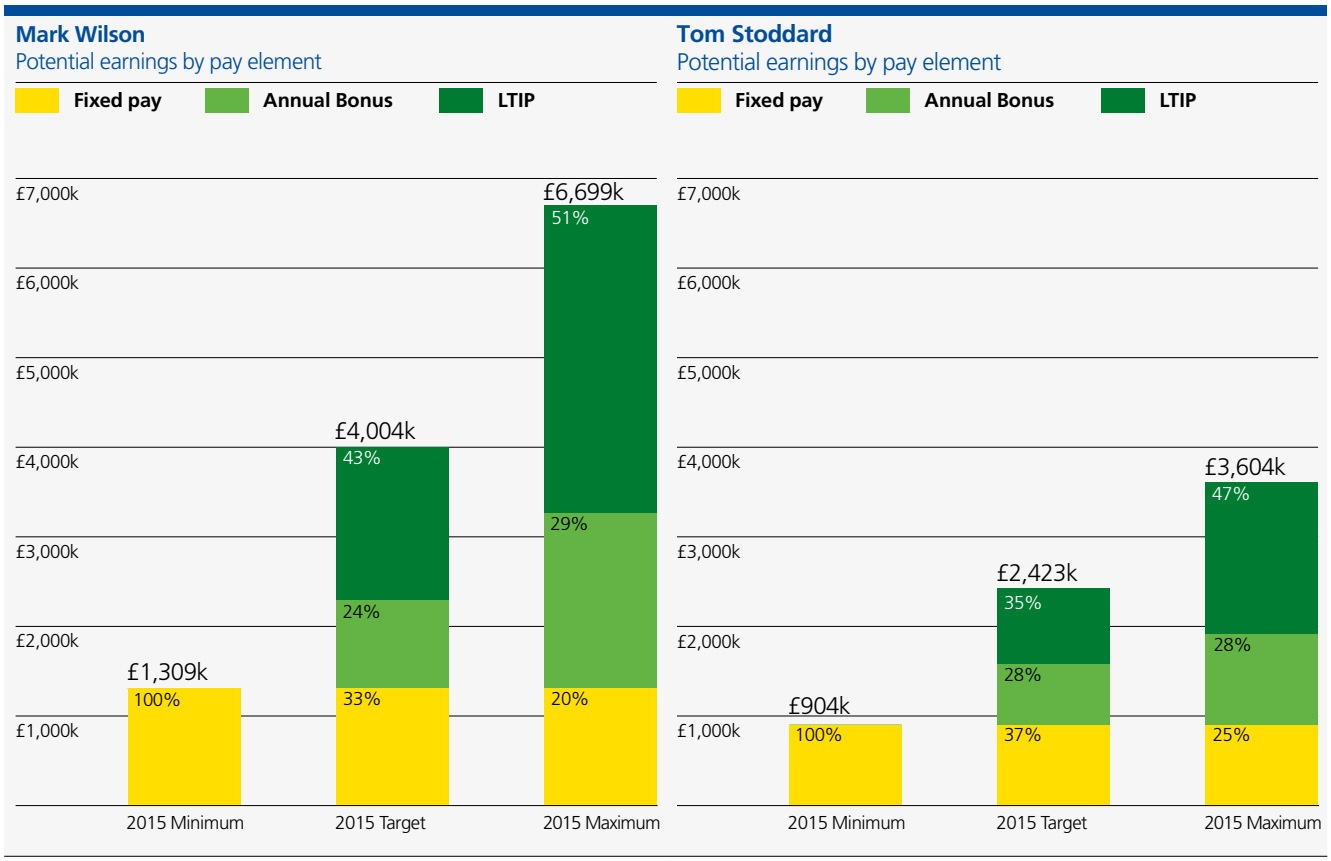
Should the Company have any prior commitments outside of this policy in respect of an employee promoted internally to an ED position, the committee may continue to honour these for a period of time. Where an ED is appointed from within the organisation, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an ED is appointed following Aviva's acquisition of, or merger with, another company, legacy terms and conditions may be honoured.

On hiring a new NED, the committee would align the remuneration package with the remuneration policy for NEDs, outlined in table 4, including fees and travel benefits.

Illustration of the policy

The charts below illustrate how much EDs could earn under different performance scenarios in one financial year:

- Minimum – basic salary, pension or cash in lieu of pension and benefits, no bonus and no vesting of the LTIP
- Target – basic salary, pension or cash in lieu of pension, benefits, and:
  - A bonus of 100% and an LTIP of 350% of basic salary (with notional LTIP vesting at 50% of maximum) for the Group CEO;
  - A bonus of 100% and an LTIP of 250% of basic salary (with notional LTIP vesting at 50% of maximum) for the CFO.
- Maximum – basic salary, pension or cash in lieu of pension, benefits, and:
  - A bonus of 200% and an LTIP of 350% of basic salary (with notional LTIP vesting at maximum) for the Group CEO;
  - A bonus of 150% and an LTIP of 250% of basic salary (with notional LTIP vesting at maximum) for the CFO.



Notes to the charts

1 Fixed pay consists of basic salary, pension as described in table 1, and estimated value of benefits provided under the remuneration policy, excluding any one offs. This therefore excludes the relocation assistance for Mr Stoddard, in connection with his relocation to the UK. Actual figures may vary in future years.

2 The value of the LTIP and deferred element of the annual bonus assumes a constant share price and does not include additional shares awarded in lieu of dividends, that may have been accrued during the vesting period

3 LTIP as awarded in 2015..

Employment contracts and letters of appointment

ED employment contracts and NED letters of appointment are available for inspection at the Company's registered office during normal hours of business, and at the place of the Company's 2015 AGM from 10.45 am on 29 April 2015 until the close of the meeting. The key employment terms and conditions of the current EDs, and those who served during the year, as stipulated in their employment contracts, are set out in table 3 below.

Table 3: Executive Directors' conditions of employment

Provision	Policy	
Notice period		
By the ED	6 months.	
By the Company	12 months, rolling. No notice or payment in lieu of notice to be paid where the Company terminates for cause.	
Termination payment	Pay in lieu of notice up to a maximum of 12 months' basic salary. Any payment is subject to phasing and mitigation requirements. An ED would be expected to mitigate the loss of office by seeking alternative employment. Any payments in lieu of notice would be reduced, potentially to zero, by any salary received from such employment. In the case of Mr Wilson, if his employment were to be terminated by the Company, other than for cause, by the end of 2015 then he would be entitled to be reimbursed against evidenced expenditure for reasonable and appropriate costs incurred in relocating outside the UK up to a maximum of £100,000, inclusive of any tax liability.	
Remuneration and benefits	The operation of the annual bonus and LTIP is at the Company's discretion.	
Expenses	Reimbursement of expenses reasonably incurred in accordance with their duties.	
Car allowance	A cash car allowance is received, as varied from time to time.	
Holiday entitlement	30 working days plus public holidays.	
Private medical insurance	Private medical insurance is provided for the ED and his family. The ED can choose to opt out of this benefit or take a lower level of cover. However, no payments are made in lieu of reduced or no cover.	
Other benefits	Other benefits include private medical insurance and participation in the Company's staff pension scheme.	
Sickness	100% of basic salary for 52 weeks, and 75% thereafter for a further 52 weeks.	
Non-compete	During employment and for six months after leaving (less any period of garden leave) without the prior written consent of the Company.	
Contract dates	Director:	Date current contract commenced:
	Mark Wilson	1 January 2013
	Tom Stoddard	28 April 2014
	Patrick Regan[1]	22 February 2010

Notes

1 Mr Regan tendered his resignation as CFO on 22 January 2014 and left the Company on 28 March 2014.

Policy on payment for loss of office

There are no pre-determined ED special provisions for compensation for loss of office. The committee has the ability to exercise its discretion on the final amount actually paid. Any compensation would be based on basic salary, pension entitlement and other contractual benefits during the notice period, or a payment made in lieu of notice, depending on whether the notice is worked.

Where notice of termination of a contract is given, payments to the ED would continue for the period worked during the notice period. Alternatively, the contract may be terminated and phased monthly payments made in lieu of notice for, or for the balance of, the 12 months' notice period. During this period, EDs would be expected to mitigate their loss by seeking alternative employment. Payments in lieu of notice would be reduced by the salary received from any alternative employment, potentially to zero. The Company would typically make a reasonable contribution towards an ED's legal fees in connection with advice on the terms of their departure.

There is no automatic entitlement to an annual bonus for the year in which loss of office occurs. The committee may determine that an ED may receive a pro rata bonus in respect of the period of employment during the year loss of office occurs based on an assessment of performance. Where an ED leaves the Company by reason of death, disability or ill health, or any other reason determined by the committee, there may be a payment of a pro rata bonus for the relevant year at the discretion of the committee.

The treatment of leavers under our ABP and LTIP is determined by the rules of the relevant plans. Good leaver status under these plans would be granted in the event of, for example, the death of an ED, or their departure on ill health grounds. Good leaver status for other leaving reasons is at the discretion of the committee, taking into account the circumstances of the individual's departure, but would typically include planned retirement. In circumstances where good leaver status has been granted, awards may still be subject to malus and clawback in the event that inappropriate conduct of the ED is subsequently discovered post departure. If good leaver status is not granted, all outstanding awards will lapse.

In the case of LTIPs, where the committee determines EDs to be good leavers, vesting is normally based on the extent to which performance conditions have been met at the end of the relevant performance period, and the proportion of the award that vests is pro-rated for the time from the date of grant to final date of service (unless the committee decides otherwise). Any decision not to apply this would only be made in exceptional circumstances, and would be fully disclosed. It is not the practice to allow such treatment.

Consideration of wider employee pay and shareholder views

When determining the remuneration policy and arrangements for our EDs, the committee considers:

- Pay and employment conditions elsewhere in the Group to ensure that pay structures are suitably aligned and that levels of remuneration remain appropriate. The committee reviews levels of basic salary increases for other employees and executives based in the UK. It reviews changes in overall bonus pool funding and long term incentive grants. The committee does not directly consult with employees on pay issues but it does consider feedback from sources including the employee opinion survey. The committee also takes into account information provided by the HR function and external advisers
- Its ongoing dialogue with shareholders. It seeks shareholder views and takes them into account when any significant changes are being proposed to remuneration arrangements and when formulating and implementing remuneration policy. For example, during 2014 and continuing in 2015, the committee has had detailed engagement with our largest shareholders to discuss the remuneration policy proposals as set out in this report

  Topics covered included:
  - Appropriate benchmarking group
  - Measures of short-term and long-term performance
  - Decisions on annual bonus and LTIP opportunities, performance measures, and deferral or holding periods
  - Malus and clawback
  - Shareholding requirements and holding periods

Non-Executive Directors

Table 4 below, sets out details of our remuneration policy for NEDs.

Table 4: Remuneration policy for Non-Executive Directors – overview

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Chairman and NEDs' fees	To attract individuals with the required range of skills and experience to serve as a Chairman and as a NED.	NEDs receive a basic annual fee in respect of their Board duties. Further fees are paid for membership and, where appropriate, chairmanship of Board committees. The Chairman receives a fixed annual fee. Fees are reviewed annually taking into account market data and trends and the scope of specific Board duties. The Chairman and NEDs do not participate in any incentive or performance plans or pension arrangements and do not receive an expense allowance. NEDs are reimbursed for reasonable expenses, and any tax arising on those expenses is settled directly by Aviva. To the extent that these are deemed taxable benefits, they will be included in the annual remuneration report, as required.	The Company's Articles of Association provide that the total aggregate remuneration paid to the Chairman of the Company and NEDs will be determined by the Board within the limits set by shareholders and detailed in the Company's Articles of Association.	N/A
Chairman's Travel Benefits	To provide the Chairman with suitable travel arrangements for him to discharge his duties effectively.	The Chairman has access to a company car and driver for business use. Where these are deemed a taxable benefit, the tax is paid by the Company.	N/A	N/A
NED Travel and Accommodation	To reimburse NEDs for appropriate business travel and accommodation, including attending Board and committee meetings.	Reasonable costs of travel and accommodation for business purposes are reimbursed to NEDs. On the limited occasions when it is appropriate for a NED's spouse or partner to attend, such as to a business event, the Company will meet these costs. The Company will meet any tax liabilities that may arise on such expenses.	N/A	N/A

The NEDs, including the Chairman of the Company, have letters of appointment which set out their duties and responsibilities. The key terms of the appointments are set out in table 5 below.

Table 5: Non-Executive Directors' key terms of appointment

Provision	Policy
Period	In line with the requirement of the UK Corporate Governance Code, all NEDs, including the Chairman, are subject to annual re-election by shareholders at each AGM.
Termination	By the director or the Company at their discretion without compensation upon giving one month's written notice for NEDs and three months' written notice for the Chairman of the Company.
Fees	As set out in table 11.
Expenses	Reimbursement of travel and other expenses reasonably incurred in the performance of their duties.
Time commitment	Each director must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively.

Appointment dates	Director	Committee appointments	Date of last appointment on letter of appointment[1]	Appointment end date in accordance with letter of appointment
	Glyn Barker	[A] R N	3 May 2012	AGM 2015
	Patricia Cross	A [R] N	1 December 2013	AGM 2015
	Michael Hawker	A [R] N	3 May 2012	AGM 2015
	Gay Huey Evans[2]	R R N	3 May 2012	AGM 2015
	John McFarlane[2]	[N]	3 May 2012	AGM 2015
	Michael Mire	R N G	12 September 2013	AGM 2015
	Sir Adrian Montague	A N G	15 January 2013	AGM 2015
	Bob Stein	R R N	15 January 2013	AGM 2015
	Scott Wheway	A N [G]	3 May 2012	AGM 2015

Key

- A Audit Committee member
- R Remuneration Committee member
- G Governance Committee member
- R Risk Committee member
- N Nomination Committee member
- ☐ Denotes chair of committee

Notes

1 The dates shown above reflect actual appointment dates where agreed following signature of the letter as all appointments are subject to regulatory approval.

2 Ms Huey Evans and Mr McFarlane will be retiring from the Board from the conclusion of the 2015 AGM.

Annual remuneration report

This section of the report sets out how Aviva has implemented its remuneration policies for directors in the course of 2014 and how the proposed remuneration policy will be implemented for 2015. This is in accordance with the requirements of the Large & Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). Where new requirements have been introduced, Aviva has taken account of the guidance produced by the GC100 and Investor Group and emerging good practice.

Remuneration Committee membership and attendance

The committee comprises independent NEDs only. Table 6 below shows the committee members during the year and their attendance at committee meetings.

Table 6: Committee membership and attendance

Committee member	Number of meetings attended	Percentage attendance[1]
Patricia Cross[2, 3] (Chairman)	8	89%
Scott Wheway[4]	1	100%
Gay Huey Evans	9	100%
Bob Stein	9	100%

Notes

1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 Patricia Cross became Chairman of the committee on 19 February 2014.
3 Patricia Cross was not able to attend one of the committee meetings due to a family bereavement.
4 Scott Wheway ceased to be Chairman and a member of the committee on 19 February 2014.

Committee responsibilities

The committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of the Group and for reviewing compliance with the remuneration policy in so far as it relates to EDs and senior managers. The committee is also responsible for recommending to the Board to seek shareholder approval for the directors' remuneration policy. A revised directors' remuneration policy will be presented to shareholders for approval at the 2015 AGM and thereafter will be subject to a shareholder vote at least every three years, in accordance with the Companies Act 2006. Any change to the approved remuneration policy will only become effective if approved by the shareholders at a general meeting.

The key responsibilities of the committee are to:

- Make recommendations to the Board regarding the Group remuneration policy in respect of the Board Chairman, EDs, members of the Group Executive (GE) and members of senior management, taking account of all legal and regulatory requirements and provisions of best practice
- Work with the Risk Committee to ensure that risk and risk appetite are considered in setting the remuneration policy
- Obtain information about remuneration in other companies and, in this regard, select, appoint and determine the terms of reference for independent remuneration consultants, to advise on remuneration policy and levels of remuneration
- Review and determine the remuneration of the Board Chairman and the terms of employment and remuneration of individual EDs and GE members, including any specific recruitment or severance terms
- Review and recommend to management the level and structure of senior management remuneration
- Approve the Aviva Investors' reward strategy, including any changes to the strategy
- Recommend to the Board the establishment of any employee share plans; exercise all the Board's powers in relation to the operation of all share and incentive plans and the Group's Savings Related Share Option Scheme (SAYE) share option plan and all employee share ownership plan
- Have regard to remuneration trends across the Group when setting remuneration policy for EDs
- Ensure that remuneration arrangements for all employees are commensurate with promoting ethical behaviour
- Approve the list of Code Staff and any severance packages for Code Staff under the relevant regulatory remuneration code and the remuneration for employees in control functions and those whose remuneration exceeds an agreed limit
- Monitor and recommend to management the level and structure of remuneration for senior management and, other than in respect of Board members, approve exceptional remuneration activity for employees outside agreed policy

The full terms of reference for the committee can be found on the Company's website at www.aviva.com/terms-of-reference and are also available from the Group General Counsel and Company Secretary.

Consideration by the committee of matters relating to directors remuneration

The committee met nine times during 2014 of which six were scheduled committee meetings and three were additional committee meetings.

The Group Chairman generally attended all meetings of the committee. The Group General Counsel and Company Secretary acted as secretary to the committee. The Chairman of the committee reported to subsequent meetings of the Board on the committee's work and the Board received a copy of the agenda and the minutes of each meeting of the committee.

The committee received material assistance in considering executive remuneration from the Group Chairman, the Group CEO, the Group HR Director, the HR Director – Reward, the Chief Accounting Officer, the Chief Capital & Investments Officer, the CEO – Aviva Investors and the Chief Audit Officer. These people attended meetings by invitation during the year. No person was present during any discussion relating to their own remuneration.

During the year, the committee received advice on executive remuneration matters from Deloitte LLP which is a member of the Remuneration Consultants Group and adheres to its Code of Conduct. Deloitte LLP was appointed by the committee as its adviser with effect from 4 December 2012 following a competitive tender process and reappointed with effect from 4 November 2013 following an assessment by the committee of the quality of the advice provided. In addition, the Group received advice on remuneration matters, taxation and other consulting services (including advice in relation to Solvency II) from Deloitte LLP during the year.

Deloitte LLP were paid fees totaling £137,245, during the year for the provision to the committee of advice on general HR and remuneration matters, benchmarking advice on market practice and views on shareholder perspectives. Fees were charged on a time plus expenses basis.

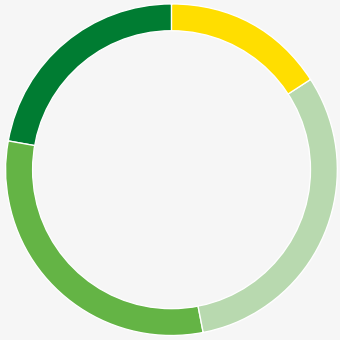
The committee reflects on the quality of the advice provided and whether this properly addresses the issues under consideration as part of its normal deliberations. The committee is satisfied that the advice received during the year was objective and independent.

Committee activities during 2014

Whilst not mutually exclusive the categories shown on the chart to the right were areas of focus for the committee during the year. The chart also shows how the committee dedicated its time to these activities.

As previously set out in this report, a significant part of the committee's work programme during the year was dedicated to the SRR and consideration of shareholder feedback following consultation. Other significant committee activities included:

Remuneration Committee – allocation of agenda time



Remuneration Policy/Governance/ Regulatory Issues/Reporting	16%
Senior Management Objectives/ Remuneration/Successon Planning	31%
Share plans operation/ Performance Testing/Targets	31%
Strategic Reward Review/ Shareholder Liaison	22%

Executive Directors' and Group Executive Remuneration

The committee benchmarked, reviewed and set salaries for the Group CEO, CFO and GE members from 1 April 2014. An assessment was conducted on the achievement of targets for 2013 for annual bonus calculation and the performance conditions were tested and reviewed for LTIP awards vesting in 2014.

A report from Internal Audit was received and considered by the committee following an internal review of the adequacy and effectiveness of controls over the preparation, validation and evaluation of financial and non-financial bonus metrics and noted that no material issues had been identified. The 2014 LTIP performance conditions and awards were approved. The committee also considered annual bonus targets for 2015.

Aviva Investors

The committee reviewed the detail and methodology for assessing the 2013 bonus pool for Aviva Investors, approving the maximum bonus pool and allocations. Remuneration proposals for 2014 were considered and approved, including formal approval of the bonus targets and consideration of a new Aviva Investors LTIP.

Directors' remuneration report

The committee reviewed the DRR for the year ended 2013 prior to its approval by the Board and subsequent approval by shareholders at the 2014 AGM.

Hires and departures during 2014

During the year the committee also considered and reviewed the remuneration and buyout packages of senior hires, including GE members, Aviva Investors senior management, and senior members of staff designated as Code Staff. The committee also reviewed severance terms for members of senior management.

Chief Financial Officer

Patrick Regan tendered his resignation as CFO on 22 January 2014 and left the Board and the Group on 28 March 2014.

- Mr Regan continued to receive basic salary and benefits up to his agreed departure date. There was no payment in lieu of any balance of his notice period
- He received no bonus in respect of 2013 or 2014. No LTIP award was made for 2014
- The deferred element of Mr Regan's 2010 and 2011 bonuses lapsed on termination of his employment
- His 2011, 2012 and 2013 LTIP awards also lapsed on termination of his employment

Following Mr Regan's departure, Mr Stoddard joined the Group and Board on 28 April 2014. Details of his remuneration were announced in the 2013 DRR and are as follows:

- Basic salary – £675,000 per annum next subject to review in 2015
- Annual bonus – 75% of basic salary for target performance and up to 150% of basic salary for maximum performance. Two thirds of any bonus awarded is currently required to be deferred into Aviva shares for three years. The bonus payable for target performance will increase to 100% of basic salary for 2015, assuming the 2015 remuneration policy is approved
- LTIP – Eligible for an LTIP grant with a face value of up to 350% of basic salary. The LTIP is subject to performance conditions and vests after three years to the extent that those conditions have been met. His 2014 grant will be at 225% of basic salary
- Buyout – On a strict "like for like" basis he will be eligible to receive a buyout up to a maximum level of £1 million gross to replace deferred compensation he has forfeited on resignation from his previous employer
- Relocation expenses – He may claim reasonable relocation expenses up to a maximum of £200,000 (inclusive of any benefit in kind liability that may arise) in respect of relocation from the US to the UK
- Benefits – A cash car allowance and Private Medical Insurance (PMI) cover for himself and his family

The LTIP and buyout awards mentioned above have not been made during 2014 as Mr Stoddard has been subject to share dealing restrictions, due to the Friends Life transaction. The awards will be made during 2015 once these restrictions have been lifted.

Committee performance and effectiveness

The committee undertook an annual review of its performance and effectiveness which concluded that overall the committee was effective in carrying out its duties.

- As indicated above, during 2014 the committee formalised its approach to assuring that reward outcomes under incentive plans are fair and consistent with the experience of shareholders
- For the annual bonus, a checkpoint process has been adopted in reviewing performance at year end against the key financial KPIs and to provide assurance as to the quality of earnings, and the exclusion of extraordinary gains in earnings attributable to matters beyond the direct control of management
- For the LTIP, a structured assessment of the earnings based performance measure (e.g. ROE under the current LTIP design) was developed and has been implemented
- Scrutiny on buyout proposals submitted to the committee for approval has been increased, with a range of valuation estimates (performed independently from Aviva) being obtained where appropriate, and a suitably robust business case being required in support of the buyout investment, including a clear statement of the contribution expected from the proposed appointment

Single total figures of remuneration for 2014 – Executive Directors (audited information)

Table 7 below sets out in the required form the total 2014 remuneration for each of our EDs who served with the Company during 2014.

Table 7: Total 2014 remuneration – Executive Directors

	Executive Directors **Mark Wilson**		**Tom Stoddard**		Former Executive Director **Patrick Regan**[1]		Total emoluments of Executive Directors	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013[4] £000
Basic salary	**980**	980	**458**	—	**175**	720	**1,613**	1,700
Benefits	**54**	239	**83**	—	**5**	37	**142**	276
Annual bonus[2]	**1,274**	1,103	**526**	—	**—**	—	**1,800**	1,103
LTIP	**—**	—	**—**	—	**—**	—	**—**	—
Pension[3]	**292**	293	**120**	—	**48**	199	**460**	492
Total	**2,600**	2,615	**1,187**	—	**228**	956	**4,015**	3,571

Notes

1 Mr Regan tendered his resignation as CFO on 22 January 2014 and left the Board and the Group on 28 March 2014, and so received no bonus award for 2013 or 2014.
2 Bonus payable in respect of the financial year including any deferred element at face value at date of award.
3 Pension contributions consist of employer contributions into the defined contribution section of the Aviva Staff Pension Scheme, excluding salary exchange contributions made by the employees, plus payments in lieu of pension above the lifetime or annual allowance caps.
4 The prior year total has been recalculated to show the directors that continued in office during all or part of the current year and excludes remuneration of directors that left in the prior year.

Additional disclosures in respect of the single total figure of remuneration table (audited information)

Benefits

The benefits disclosure includes the cost where relevant of private medical insurance, life insurance, accommodation, travel and car benefits. In the case of Mr Wilson this also includes benefits resulting from the SAYE Scheme, as described below, which has been valued based on the monthly savings amount (£250) and the discount provided (20%) for two months of 2014. All the numbers disclosed include the tax charged on the benefits, where applicable. As disclosed in the 2013 DRR, Mr Stoddard is eligible to claim benefits of £200,000 inclusive of benefit-in-kind charges, against appropriate receipts or other evidence of expenditure, in respect of his relocation from the US to the UK. In respect of Mr Wilson, as indicated in the 2013 DRR, the committee has approved reimbursement of limited additional expenses over and above the £200,000 disclosed in the 2013 DRR to assist his family to complete their relocation to the UK.

Annual bonus

The bonus awards made to EDs for 2014 are based on an assessment of performance against financial and non financial KPIs, with financial performance being the major factor in considering overall expenditure on bonuses, and performance against non financial targets and strategic goals being used to modify bonuses up or down. A summary of performance against these factors, can be seen in table 8 below.

Based on the outcomes against the KPIs, and an assessment of Mr Wilson's and Mr Stoddard's individual strategic performance, the committee approved:

- A bonus of 130% of basic salary for Mr Wilson (87% of the maximum bonus available), with a total value of £1,274,000
- A bonus of 115% of basic salary for Mr Stoddard (77% of the maximum bonus available). This will be prorated based on the date Mr Stoddard joined the Group and the Board, resulting in a total value of £526,457

In agreeing these bonus awards, the committee considered the wider performance of Aviva and the experience of shareholders during the year, and is satisfied that the bonus awards above are a fair reflection of performance and shareholder value delivered during 2014.

One third of the bonus award for Mr Wilson and Mr Stoddard will be delivered in cash, with two thirds being deferred into shares for three years.

Table 8: Assessment of 2014 ED performance and impact on bonus

Financial Element	Assessment	Bonus Award (% of Salary) CEO	Bonus Award (% of Salary) CFO
Financial			
• Gross Cash Remittances • IFRS Profit Before Tax • IFRS ROCE • MCEV Value of New Business (VNB) • Combined Operating Ratio (COR) • Operating Expense Ratio	Overall performance against financial targets resulted in an outcome of 142.42% of target. All key metrics have moved in the right direction. Cash remittances have increased by 11% to £1,412 million. Operating profit has increased by 6% due to expense reduction and an improved result in UK Life, despite the negative impact of currency and other challenges. VNB grew 15% to a record £1,009 million COR improved 1.6 percentage points to 95.7%. Strong results in the UK and Ireland and an improvement in Europe were offset by poor weather in Canada. Operating expense ratio has reduced significantly in 2014, moving from 54.1% to 51.5%. There remains significant opportunity to improve this in order to reach our target of an expense ratio below 50% in 2016.	106.8%	106.8%
Non Financial Element	**Assessment**		
Employee Engagement and Enablement scores	2014 saw employee engagement improve by 9 percentage points to 65% across the Group.		
Customer Performance against Relationship Net Promoter Score (RNPS) targets and, if these are met, against Average Product Holding (APH) targets reflecting progress against True Customer Composite strategic goal	Reasonable progress against the customer measures. Against the key measure of RNPS, the majority of businesses achieved the targeted improvement, with good results in the UK, Canada and Asia. APH targets were set for each market. Whilst these were achieved in some markets including Asia and Canada, they were not achieved in all markets across the Group.		
Risk & Controls Aviva's reward strategy includes specific risk and control objectives for senior management and Directors. The aim is to help drive and reward effective risk management and a robust control environment across the Group.	Based on independent assessment performed by the Risk Function, Directors' performance against the 2014 risk and control objectives was deemed in line with expectations. This reflected a generally robust and mature risk management framework in place, with well-established risk governance and adequate use of capital and risk tools. The assessment also reflected satisfactory progress during the year in preparing for Solvency II and the new requirements for Aviva as a global systemically important insurer (G-SII). The assessment also noted the continued need to manage and improve both the control environment and the risk aware culture of the business.		
Personal performance, • Progress against Group strategic objectives: – True customer composite – Digital first – Not everywhere	Group CEO – continued leadership and pursuit of opportunities consistent with the strategic objectives, following on from the progress made in 2013. Group CFO – since joining the Board in April 2014, has provided significant input into shaping the strategic direction of the Group.		
• Leadership and demonstration of the Aviva values: – Care more – Kill complexity – Never rest – Create legacy	Group CEO – provided exceptional leadership and embedding of the Aviva values within the Group. The committee considers him to have been instrumental in re-invigorating the Company and in aligning the interests of the Group with those of shareholders. Group CFO – played a key role in embedding the investment thesis and ensuring alignment of Aviva's strategic and capital efficiency objectives.		
		Bonus Award (% of Salary) CEO	**Bonus Award (% of Salary) CFO**
Overall impact of performance against non-financial targets on annual bonus (can result in [+] positive or [-] negative adjustment under operation of the annual bonus)		+23.2%	+8.2%
2014 bonus as a % of basic salary		**130.0%**	**115.0%**
2014 bonus as a % of maximum		**86.7%**	**76.7%**

Details of financial targets impacting the annual bonus for the 2013 financial year, and performance against them (which were not disclosed in the 2013 DRR) are disclosed in table 9 below. This also shows the relative outcomes of financial and non-financial targets on the Group CEO's bonus for 2013. Strong financial outcomes against targets suggested a bonus outcome of over 90% of maximum but the effect of failing to meet customer and employee targets saw the final outcome reduced to 75% of maximum.

2013 Annual bonus – disclosure of performance against targets

Table 9: 2013 Performance against targets Group CEO

Financial KPI	Threshold £m	Maximum £m	Outcome £m	2013 bonus as a % of basic salary	2013 bonus as a % of maximum
Net Capital Returns[1]	£1,123	£1,305	£1,274	18.71%	90.69%
IFRS Profit Before Tax[2]	£1,515	£1,775	£1,796	30.00%	100%
VNB[3]	£713	£829	£836	11.63%	100%
COR	96.3%	94.3%	97.3%	—	—
Total Expenses[4]	£3,861	£3,581	£3,571	7.50%	100%
Financial KPIs				**67.83%**	**90.44%**
Customer (measures commercially sensitive)				3.48%	23.20%
Employee (measures commercially sensitive and different definition to 2014)				—	—
Company performance				**71.31%**	**67.91%**
Personal performance				**41.19%**	**91.53%**
Total bonus % outcomes				**112.50%**	**75.00%**

1 Net capital returns represents cash remittances received from subsidiaries and joint ventures and loan repayments from subsidiaries.
2 IFRS profit before tax is calculated as IFRS operating profit before tax attributable to shareholders' profits (continuing and discontinued operations) after integration and restructuring costs, impairment of goodwill, joint ventures and associates and other amounts expensed and amortisation and impairment of intangibles.
3 MCEV value of new business is for both continuing and discontinued operations.
4 Total expenses include operating expenses and integration and restructuring costs for both continuing and discontinuing operations.

2014 targets have not been disclosed as the committee considers them to be commercially sensitive, and that disclosing them so soon after the end of the relevant financial year may adversely impact the Group's business. As stated above in the committee Chairman's letter to shareholders, the committee believes it is in the interests of shareholders that targets should be disclosed retrospectively, and at the earliest time when considerations of commercial sensitivity make it prudent to do so.

2012 LTIP award vesting in respect of performance period 2012-2014

Although no current EDs will receive a vesting amount from this award, 50% of the award is expected to vest in March 2015. The performance conditions for this award are set out in table 10 below.

Table 10: 2012 LTIP award - performance conditions

	Weighting	Threshold (20% vests)	Maximum (100% vests)	Outcome	Vesting (% of maximum)
ROE performance over 3 years	50%	30.0%	37.5%	43%	50%
Relative TSR performance	50%	Median	Upper quintile and above	Below median	0%

Pension

For 2014, under the prevailing remuneration policy, EDs were eligible to participate in a defined contribution plan under which they could elect to receive 31% of basic salary from the Company minus a personal contribution of 8% of basic salary up to the scheme specific earnings cap (£145,800 in 2014/2015). For any contribution above the HMRC annual or life time allowance cap, a cash alternative in lieu of pension contribution was offered subject to the same limit of 31% of basic salary minus the personal contribution.

Subject to the approval of the remuneration policy by shareholders, pension contributions will be amended and simplified from 2015, as set out in the policy section of this report.

All employee share plans

EDs are eligible to participate in two HMRC approved all employee share plans on the same basis as other eligible employees.
These plans include a partnership share element of the All Employee Share Option Plan (AESOP) under which eligible employees can invest up to the statutory limits, currently £150 per month, out of their gross salary in the Company's ordinary shares. The Company matches every purchased share with two matching shares for the first £40 of a participant's monthly contribution. Matching shares are subject to forfeiture if the purchased shares are withdrawn from the AESOP within three years of purchase, as long as the participant remains employed by the Company. Participants are eligible to receive dividend shares through the AESOP.

The Aviva 2007 SAYE Scheme allows eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. In order to exercise these options, participants must have saved through a 3, 5 or 7 year HMRC approved savings contract. Savings are subject to a statutory savings limit, which in 2014 increased from £250 to £500 per month although the allowed increase has not so far been applied but will continue to be reviewed in line with the market. From 2012, only 3 and 5 year contracts have been offered. Details of options granted to EDs under these schemes are included in table 22.

Single total figure of remuneration for 2014 – Non-Executive Directors (audited information)

Table 11 below sets out the total remuneration earned by each NED who served during 2014.

Table 11: Total 2014 remuneration – Non-Executive Directors

	Fees		Benefits		Total	
	2014 £000	2013 £000	**2014 £000**	2013 £000	**2014 £000**	2013[1] £000
Chairman						
John McFarlane	**550**	550	**61**	101	**611**	651
Current non-executive directors						
Glyn Barker	**136**	122	**1**	-	**137**	122
Patricia Cross	**123**	8	**1**	1	**124**	9
Michael Hawker	**136**	137	**1**	1	**137**	138
Gay Huey Evans	**104**	105	**1**	1	**105**	106
Michael Mire	**103**	29	**1**	1	**104**	30
Sir Adrian Montague	**138**	113	**15**	2	**153**	115
Bob Stein	**104**	89	**1**	1	**105**	90
Scott Wheway	**124**	118	**1**	1	**125**	119
Total emoluments of NEDs	**1,518**	1,271	**83**	109	**1,601**	1,380

1 The prior year total has been recalculated to show the directors that continued in office during all or part of the current year and excludes remuneration of directors that left in the prior year.

The total amount paid to NEDs in 2014 was £1,601,000 which is within the limits set in the Company's articles of association, which have previously been approved by shareholders.

Share awards made during the financial year (audited information)

Awards are made in shares which vest conditionally, and upon performance targets being met in the case of LTIP awards. The number of conditional shares granted is based on a percentage of basic salary. The following table sets out details of LTIP and ABP awards of conditional shares made during the year.

Table 12: Discretionary awards granted during the year

					Amount vesting		
	Date of award	Award Type	Face value (% of basic salary)	Face value (£)	Threshold performance (% of face value)	Maximum performance (% of face value)	End of performance period
Mark Wilson	24.03.2014	LTIP	300%	£2,940,000	20%	100%	31.12.2016
Mark Wilson	24.03.2014	ABP	75%	£735,000			N/A

Face value has been calculated using the average of the middle-market closing price of an Aviva ordinary share on the three consecutive business days immediately preceding the date of grant, on 24 March 2014. Accordingly 601,226 LTIP shares and 150,306 ABP shares were awarded to the Group CEO based on a share price of 489 pence per share.
The LTIP vests subject to the achievement of two equally weighted performance measures, absolute ROE and relative TSR performance, which have been chosen to reflect shareholders' long-term interests. Details of the performance measures and targets are set out below. The ABP vesting is not subject to formal performance conditions.

The LTIP and buyout awards mentioned previously in respect of Mr Stoddard have not been made during 2014 as Mr Stoddard has been subject to share dealing restrictions, due to the proposed Friends Life transaction.

ROE targets

ROE targets determine the vesting of 50% of the LTIP award and are set annually within the context of the Company's three-year business plan. Vesting depends upon performance over the three year period against a target return. The 2014 LTIP award ROE targets are set out in table 13 below.

Table 13: 2014 LTIP ROE targets

Achievement of ROE targets over the three-year performance period	Percentage of shares in award that vests based on achievement of ROE targets
Less than 41%	0%
41%	10%
Between 41% and 50%	Pro rata between 10% and 50% on a straight line basis
50% and above	50%

ROE is calculated as the IFRS profit after tax and non-controlling interest, excluding the impact of investment variances and economic assumption changes, over average IFRS equity (excluding pension scheme net surplus/deficit) attributable to the ordinary shareholders of the Company.

TSR targets (audited information)

Relative TSR determines the vesting of the other 50% of the LTIP award. Performance of the 2014 grant will be assessed against the following companies: Aegon, Allianz, Axa, CNP Assurances, Direct Line Group, Friends Life Group, Generali, Legal & General, MetLife, Old Mutual, Prudential, RSA, Standard Life and Zurich.
TSR vesting operates as set out in table 14 below.

Table 14: TSR vesting schedule for the 2014 LTIP award

TSR position over the three-year performance period	Percentage of shares in award that vests based on achievement of TSR targets
Below median	0%
Median	10%
Between median and upper quintile	Pro rata between 10% and 50% on a straight line basis
Upper quintile and above	50%

Payments to past directors (audited information)

Trevor Matthews resigned from the Board with effect from 8 May 2013 and left the Company on 6 June 2013.

- As disclosed in the 2013 Annual Report and Accounts, Mr Matthews' 2011 and 2012 LTIP awards were pro-rated to reflect his service during the performance period and vest the extent to which the performance conditions have been achieved at the end of the period
- There was a maximum of 302,431 (not inclusive of shares awarded in lieu of dividends accrued) phantom shares available to vest in March 2014. The value realised was £566,166 (based on 118,693 phantom shares, inclusive of shares awarded in lieu of dividends accrued), vesting at a share price of 477.00 pence and a vesting percentage of 34.48%
- The 2012 award will vest in March 2015 to the extent to which the performance conditions have been achieved at the end of the period. Therefore it is expected that 115,036 of the 230,073 (not inclusive of shares awarded in lieu of dividends accrued) shares will vest

Russell Walls retired from the Board with effect from 8 May 2013. Mr Walls was appointed as Chairman and NED of Aviva Insurance Limited on 1 May 2013. Mr Walls was also appointed a NED of Aviva Italia Holdings S.p.A on 4 December 2014. Both are subsidiary companies of Aviva plc and the emoluments he received in respect of these directorships for the 2014 financial year were £115,067.

Richard Karl Goeltz retired from the Board with effect from 8 May 2013. Mr Goeltz was appointed as Chairman and NED of Aviva Life Holdings UK Limited on 14 May 2013, a subsidiary company of Aviva plc and the emoluments he received in respect of this directorship for the 2014 financial year were £105,000. On 13 February 2014, Mr Goeltz was also appointed as a NED of Aviva Life & Pensions UK Limited, Aviva Annuity UK Limited and Aviva Life Services UK Limited, each of which are subsidiary companies of Aviva plc.

Payments for loss of office (audited information)

There were no payments for loss of office during the year.

Implementation of remuneration policy in 2015

The implementation of the policy will be consistent with that outlined in the policy report.

Basic salaries

The basic salary for the Group CEO will remain unchanged at £980,000 per annum.
The basic salary for the CFO will remain unchanged at £675,000 per annum.

Annual bonus

The maximum annual bonus opportunity will be in line with the levels set out in the policy section of this report. Annual bonus performance measures and weightings will be broadly in line with those for 2014.

Whilst 2015 bonus targets are not being disclosed due to commercial sensitivity, an explanation of 2015 bonus payments and how they align to performance against measures and targets will be provided in the 2015 report. Details of performance against targets and disclosure of those targets will be provided at the earliest opportunity, taking into account the committee's view of the extent to which these targets remain commercially sensitive.

LTIP

LTIP grants in 2015 will be in line with the levels set out in the policy report. The LTIP will vest subject to the degree of achievement of two equally weighted performance measures, absolute ROE and relative TSR performance, which have been chosen to reflect shareholders' long-term interests. The specific ROE targets which apply to this award will be reviewed following the completion of any proposed corporate activity in 2015 and disclosed in the 2015 DRR.

Approach to Non-Executive Directors' fees for 2015

NED fees were last reviewed in March 2015. No changes are made to the current fee levels, as set out in Table 15, below:

Table 15: Non-Executive Directors' fees

Role	Fee from 1 April 2015	Fee from 1 April 2014
Chairman of the Company[1]	£550,000	£550,000
Board membership fee	£70,000	£70,000
Additional fees are paid as follows:		
Senior Independent Director	£35,000	£35,000
Committee Chairman (inclusive of committee membership fee)		
– Audit	£45,000	£45,000
– Governance	£35,000	£35,000
– Remuneration	£35,000	£35,000
– Risk	£45,000	£45,000
Committee membership		
– Audit	£15,000	£15,000
– Governance	£12,500	£12,500
– Nomination	£7,500	£7,500
– Remuneration	£12,500	£12,500
– Risk	£15,000	£15,000

Notes
1 Inclusive of Board membership fee and any committee membership fees.

Historical TSR performance and Group CEO remuneration outcomes

Table 16 below compares the TSR performance of the Company over the past six years with the TSR of the FTSE 100 Return Index. This index has been chosen because it is a recognised equity market index of which Aviva is a member. The companies which comprise the current LTIP comparator group for TSR purposes are listed in the 'TSR Targets' section above.

Table 16: Aviva plc six-year TSR performance against the FTSE 100 return index and the median of the comparator group

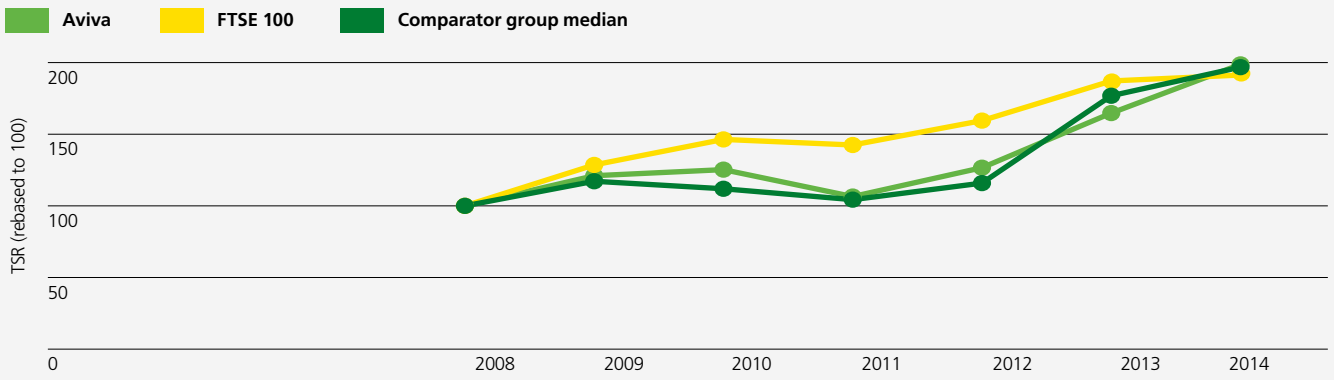


Table 17: Historical Group CEO remuneration outcomes

Summarises the Group CEO single figure for total remuneration, annual bonus pay-out and LTIP vesting as a percentage of maximum opportunity over this period.

	Group CEO	2009	2010	2011	2012	2013	**2014**
Annual bonus payout (as a % of maximum opportunity)	Mark Wilson	—	—	—	—	75%	86.7%
	Andrew Moss	74.2%	74.3%	81.0%	—	—	—
LTIP vesting (as a % of maximum opportunity)	Mark Wilson	—	—	—	—	—	—
	Andrew Moss	50%	72.3%	81.7%	—	—	—
Group CEO Single figure of remuneration (£000)	Mark Wilson[1]	—	—	—	—	2,615	2,600
	Andrew Moss[2]	2,591	2,748	3,477	554	—	—

Notes

1 Mr Wilson joined the Board as an ED with effect from 1 December 2012, and became Group CEO on 1 January 2013. He received no emoluments in respect of 2012.

2 Mr Moss resigned from the Board with effect from 8 May 2012 and left the Company on 31 May 2012.

Percentage change in remuneration of Group CEO

The table below would ordinarily set out the increase in the basic salary, bonus and benefits of the Group CEO and that of the wider UK workforce. The UK employee workforce was chosen as a suitable comparator group, as all EDs are based in the UK (albeit with a global role and responsibilities), and pay changes across the Group vary widely depending on local market conditions.

Table 18: Percentage change in remuneration of Group CEO

	% change in basic salary 2013 – 2014	% change in bonus 2013 - 2014	% change in benefits 2013 - 2014
Group CEO	—	15.56%	(77.41)%
All UK-based employees	4.01%	(15.72)%[1]	5.51%

Notes

1 The decrease in bonus awards for all UK based employees in 2014 was expected given the exceptional performance and hence high level of bonuses of the UK businesses against their targets in 2013. Although performance in 2014 was also strong, as flagged in the 2013 DRR, it was anticipated that, given the high level of payout in 2013, bonus awards for 2014 were not likely to remain at this level.

Relative importance of spend on pay

The table below outlines adjusted operating profit before tax attributable to shareholders' profits after integration and restructuring costs, dividends paid to shareholders and buybacks compared to overall spend on pay (in total and per capita). The measure of profit has been chosen as a straightforward measure reflecting the performance of the Company, showing both gross income, and also taking into account integration and restructuring costs.

Table 19: Relative importance of spend on pay

	Year end 31 December 2013 £m	Year end 31 December 2014 £m	% change
Adjusted operating profit before tax[1]	1,686	2,033	21%
Dividends paid[2]	429	449	5%
Share buybacks[3]	—	—	—
Total staff costs[4]	1,671	1,534	(8)%

Notes

1 Operating profit before tax attributable to shareholders' profits for continuing operations after integration and restructuring costs.
2 The total cost of ordinary dividends paid to shareholders.
3 There were no share buybacks in 2013 or 2014
4 Total staff costs from continuing operations includes wages and salaries, social security costs, post-retirement obligations, profit sharing and incentive plans, equity compensation plans and termination benefits. The average number of employees in continuing operations was 29,970 (2013) and 26,937 (2014).

External Board appointments

Tom Stoddard is a Trustee of Trout Unlimited (non profit conservation organisation). Mr Stoddard does not receive any fees or other compensation for this appointment.

Pat Regan continued with his NED appointment within Delta Lloyd N.V. Mr Regan received €31,113.45 between 1 January and 28 March 2014 (the time he was a director at Aviva).

Statement of directors' shareholdings and share interests (audited information)

Executive directors' share ownership requirements

The Company requires the Group CEO to build a shareholding in the Company equivalent to 200% of basic salary and each ED to build a shareholding in the Company equivalent to 150% of basic salary. From 2015, subject to shareholder approval, the Group CEO will be required to build a stake equivalent to 300% of salary.

The EDs are required to retain 50% of the net shares released from deferred annual bonuses and LTIPs until the shareholding requirement is met.

Shareholding requirements will need to be built up over a five year period.

Unvested share awards including shares held in connection with bonus deferrals are not taken into account in applying this test.

Table 20: Executive Directors – share ownership requirements

	Shares held				Options held			
Executive Directors	Owned outright[1]	Unvested and subject to performance conditions[2]	Unvested and subject to continued employment[3]	Unvested and subject to continued employment	Vested but not exercised[4]	Shareholding requirement (% of salary)	Current shareholding[5] (% of salary)	Requirement met
Mark Wilson	150,000	1,584,503	150,306	3,615	—	200[6]	74	No
Tom Stoddard	—	—	—	—	—	150	0[7]	No
Patrick Regan[8]	236,583	—	—	—	—	—	—	—

Notes

1 Shares 'Owned outright' are the directors' beneficial holdings in the ordinary shares of the Company. This information includes holdings of any connected persons.
2 Shares 'Unvested and subject to performance conditions' are awards granted under the Aviva LTIP which vest only if the performance conditions are achieved.
3 Shares 'Unvested and subject to continued employment' are awards arising through the ABP. Under this plan, some of the earned bonuses are paid in the form of conditional shares and deferred for three years. The transfer of the shares to the director at the end of the period is not subject to the attainment of performance conditions but the shares can be forfeited if the ED leaves service before the end of the period.
4 'Options vested but not exercised' are options over shares granted under the Aviva SAYE Scheme.
5 Based on the closing middle-market price of an ordinary share of the Company on 31 December 2014 of 484.5 pence. The closing middle-market price of an ordinary share of the Company during the year ranged from 436.7 pence to 539 pence.
6 As part of the SRR, it is proposed the Group CEO shareholding requirement be increased to 300% with a 5 year time limit to build the shareholding. Currently 50% of the net quantity of shares from any award vesting is retained, until the shareholding requirement is met.
7 The LTIP and buyout awards mentioned previously have not been made during 2014 as Mr Stoddard has been subject to share dealing restrictions, due to the Friends Life transaction. This has also prevented him from being able to purchase shares.
8 Shares held on 28 March 2014 (the date Mr Regan ceased to be a director of the Company).

There were no changes to the current directors' interests in Aviva shares during the period 1 January 2015 to 3 March 2015.

Non-Executive Directors' shareholdings (audited information)

Table 21: Non-Executive Directors' shareholdings[1]

	1 January 2014	31 December 2014
Glyn Barker	11,700	11,700
Patricia Cross	—	7,000
Michael Hawker	10,000	20,000
Gay Huey Evans	5,000	5,000
John McFarlane	10,000	10,000
Michael Mire	7,500	7,500
Sir Adrian Montague	21,503	22,068
Bob Stein	7,000	17,000
Scott Wheway	13,579	13,579

Notes

1 This information includes holdings of any connected persons.

Share awards and Share Options (audited information)

Details of the EDs who were in office for any part of the 2014 financial year and hold or held outstanding share awards or options over ordinary shares of the Company pursuant to the Company's share based incentive plans are set out in Table 22 below. Savings-related share options refer to options granted under the HMRC approved Aviva 2007 SAYE Scheme and are normally exercisable during the six month period following the end of the relevant (3, 5 or 7 year) savings contract.

Table 22: LTIP, ABP, options over Aviva Shares

	At 1 January 2014 Number	Options/ Awards granted during year[1] Number	Options/ Awards exercised/ vesting during year Number	Options/ Awards lapsing during year[2] Number	At 31 December 2014[3] Number	Market price at date awards granted[4] Pence	Exercise Price(Options) Pence	Market price at date awards vested/ option exercised Pence	Normal Vesting Date/ Exercise Period[7]
Patrick Regan									
Aviva long term incentive plan[5, 6]									
2011	311,059	—	—	311,059	—	435.60		—	Mar-14
2012	425,223	—	—	425,223	—	331.50		—	Mar-15
2013	541,806	—	—	541,806	—	294.20		—	Apr-16
Aviva annual bonus plan									
2011	102,741	—	—	102,741	—	435.60		—	Mar-14
2012	151,700	—	—	151,700	—	331.50		—	Mar-15
Savings-related options 2010[8]	2,903	—	2,903	—	—	—	310.00	523.00[9]	Dec 13 – May 14
Mark Wilson									
Aviva long term incentive plan[5, 6]									
2013	983,277	—	—	—	983,277	294.20		—	Apr-16
2014	—	601,226	—	—	601,226	476.40		—	Mar-17
Aviva annual bonus plan									
2014	—	150,306	—	—	150,306	476.40		—	Mar-17
Savings-related options 2014[8]	—	3,615	—	—	3,615	—	419.00	—	Dec 19 – May 20

Notes

1 The aggregate net value of share awards granted to the directors in the period was £3.6 million (2013: £4.5 million). The net value has been calculated by reference to the closing middle-market price of an ordinary share of the Company at the date of grant.
2 Awards lapsed during the year further to Mr Regan's resignation from the Company effective 28 March 2014.
3 The information given in this column is at 31 December 2014 or the date on which a director ceased to be a director of the Company (Mr Regan: 28 March 2014).
4 The actual price used to calculate the ABP and LTIP awards is based on a three day average closing middle-market price of an ordinary share of the Company, prior to grant date. These were in 2011: 434 pence, 2012: 336 pence, 2013: 299 pence and 2014: 489 pence.
5 For the 2013 and 2014 LTIP grant, the TSR comparator group consisted of the following companies: Aegon, Allianz, Assicurazioni Generali , Axa, CNP Assurances, Direct Line Group, Friends Life Group, Legal & General, Met Life, Old Mutual, Prudential, RSA Insurance Group, Standard Life and Zurich Financial. For the 2011 and 2012 LTIP grants the TSR comparator group consisted of the following companies: Aegon, Allianz, Assicurazioni Generali, Axa, Ageas, Friends Life Group, ING Groep, Legal & General, Lloyds Banking Group, Prudential, RSA, Royal Bank of Scotland Group, Standard Life and Zurich Financial.
6 The performance periods for these awards begin at the commencement of the financial year in which the award is granted.
7 Any unexercised options will lapse at the end of the exercise period.
8 Options are not subject to performance conditions (the savings related options being granted under the SAYE plan). The option price was fixed by reference to a three day average closing middle-market price of an ordinary share of the Company, prior to grant date, with a discount of 20% as permitted under the SAYE plan.
9 Mr Regan exercised his options on 12 March 2014.

Dilution

Awards granted under the Aviva all employee share plans are currently met by issuing new shares as agreed by the Board. Shares are still held in employee trusts, details of which are set out in note 33.
The Company monitors the number of shares issued under the Aviva employee share plans and their impact on dilution limits. The Company's usage of shares compared to the relevant dilution limits set by the Investment Association in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) was 2.95% and 1.86% respectively on 31 December 2014.

Governance

Regulatory remuneration code

The Financial Conduct Authority's (FCA) remuneration code applies to Aviva Investors and one small 'firm' (as defined by the FCA) within the UK & Ireland Life business. From 1 January 2014 the majority of these firms are now subject to the Capital Requirements Directive IV (CRD IV) and the subsequent revised Remuneration Code, having previously been subject to the Capital Requirements Directive III (which is still the active regulatory directive for ORN Capital Ltd within Aviva Investors as it remains registered as a BIPRU firm unlike the other regulated Aviva Investors firms which, following CRD IV, became IFPRU firms). Additionally in May 2014 Aviva Investors UK Funds Services Ltd became registered and therefore subject to the Alternative Investment Fund Management Directive (AIFMD). The remuneration requirements of AIFMD take effect in the first full performance year following registration i.e. January – December 2015. Remuneration Code requirements include an annual disclosure. For Aviva Investors this can be found in the Chapter 4 of the Pillar 3 Disclosure which can be found at http://www.avivainvestors.com/about_us/our_corporate_governance/index.htm and for the UK & Ireland Life firms at http://www.aviva.com/media/news/item/fsa-remuneration-code-disclosure-17350/.

Aviva's reward principles and arrangements are designed to incentivise and reward employees for achieving stated business goals in a manner that is consistent with the Company's approach to sound and effective risk management.

Statement of voting at AGM

The result of the shareholder vote at the Company's 2014 AGM in respect of the 2013 DRR is set out in table 23 below.

Table 23: Result of the vote at 2014 AGM

	Percentage of Votes Cast		
	For	Against	Votes withheld
Directors' Remuneration Policy	96.88%	3.12%	5,851,008
Directors' Remuneration Report	98.09%	1.91%	70,711,167

Following the result of the 2014 vote, the committee has continued to engage with institutional shareholders in the course of 2014/15, in particular seeking their views on our proposed remuneration policy to apply from the 2015 AGM, and to address any concerns regarding remuneration of our EDs.

Approval by the Board

This Directors' remuneration report was reviewed and approved by the Board on 4 March 2015.

Patricia Cross
Chairman, Remuneration Committee

IFRS financial statements

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Report on the financial statements

Our opinion

In our opinion, Aviva plc's Consolidated financial statements and parent company financial statements (the 'financial statements'):

- Give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's and the parent company's profit and cash flows for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Aviva plc's financial statements comprise:

- The Consolidated and the Company statements of financial position as at 31 December 2014;
- The Consolidated and the Company income statements and statements of comprehensive income for the year then ended;
- The Reconciliation of the Group operating profit to profit for the year then ended;
- The Consolidated and the Company statements of changes in equity and statements of cash flows for the year then ended; and
- The Accounting policies and notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the 'Annual Report'), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

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

Separate opinion in relation to IFRSs and as issued by the IASB

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

Our audit approach

Overview

- Overall Group materiality has been set at £102 million which represents 5% of the operating profit before tax attributable to shareholders' profit adjusted for integration and restructuring costs.
- Specific audit procedures were performed within the UK Life, UK General Insurance, Canada, France and Spain markets to address the areas of focus identified below.
- We identified a further five markets where account balances are considered to be significant in size in relation to the Group, and scoped our audit to include detailed testing of those account balances.
- Further audit procedures were performed by the Group engagement team, including over the head office operations and the consolidation process, to ensure that sufficient coverage was obtained.
- Our risk assessment analysis identified the following as areas of focus:
  - Valuation of life insurance contract liabilities.
  - Methodology and assumptions used to value the non-life contract liabilities for the UK General Insurance and Canada markets.
  - Valuation of hard to value investments.
  - Valuation of goodwill in Spain.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of life insurance contract liabilities Refer to page 78 (Audit Committee Report), page 122 (Accounting policies) and page 188 (notes)	
The Directors' valuation of the provisions for the settlement of future claims involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities.	The work to address the valuation of the UK Life insurance contract liabilities included the following procedures: • Testing the underlying company data to source documentation. • By applying our industry knowledge and experience we compared the methodology, models and assumptions used against recognised actuarial practices. • We used the results of an independent PwC annual benchmarking survey of assumptions which allowed us to further challenge the assumption setting process by comparing certain assumptions used relative to the Group's industry peers.

Area of focus	How our audit addressed the area of focus
	• We performed reasonableness checks on the modelled results of managements' analysis of change and tested the accuracy of the manual calculations. This included assessing the appropriateness of changes to the model used to value the liabilities associated with the UK Equity Release Mortgages. • Further testing was also conducted on specific assumptions such as UK Life Annuitant Mortality and UK Life Credit Default assumptions as set out below. *Based on the work performed, we noted no significant matters arising from our testing and consider that the assumptions used to be in line with recognised market practices and, where appropriate, industry peers.*
As part of our consideration of the entire set of assumptions we focused particularly on the following two within the UK Life market given their significance to the Group's result and the level of judgement involved.	
UK Life Annuitant Mortality Assumptions Annuitant mortality assumptions require a high degree of judgement due to the number of factors which may influence mortality experience. The differing factors which affect the assumptions are underlying mortality experience (in the portfolio), industry and management views on the future rate of mortality improvements; and external factors arising from the development of the enhanced annuity market and the UK annuity reforms announced in the March 2014 budget.	In addition to the procedures above, in respect of the UK Life annuitant mortality assumptions: • We understood and tested the governance process in place to determine the annuitant mortality methodology and assumptions. • We tested the methodology and the model for rate of improvements used by management to derive the assumptions with reference to relevant rules and actuarial guidance and by applying our industry knowledge and experience. • We assessed the results of the experience investigations carried out by UK Life management for the annuity business to determine whether they provided support for the assumptions used by management. • We evaluated management's assessment of the implications of the UK annuity reforms announced in the March 2014 budget on the assumptions adopted by UK Life. • We compared the mortality assumptions selected by UK Life against those used by its peers. *In light of the work performed and the evidence obtained, we consider the assumptions used for annuitant mortality to be reasonable.*
UK Life Credit Default Assumptions UK Life holds significant commercial mortgage, corporate bond and other loan asset portfolios to support the annuity liabilities. In line with relevant rules, the current yield on these assets less a prudent deduction for credit default and reinvestment risk is used to discount the annuity liabilities. Additional supplementary liabilities are held particularly in respect of the use of higher risk assets. These liabilities are to cover inter alia the risk of increased short term default rates and in the event of default, the availability of assets yielding similar returns. The assumptions used require significant judgement.	In respect of the credit default assumptions at UK Life: • We understood and tested the governance process in place to determine the credit default risk methodology and assumptions. • We tested the methodology and credit risk pricing models used for commercial mortgages by management to derive the assumptions with reference to relevant rules and actuarial guidance, and by applying our industry knowledge and experience. • We validated assumptions used by management against market observable data and our experience of market practices. *Based on the work undertaken, we consider the allowance for credit default risk to be appropriate.*
Valuation of non- life insurance contract liabilities Refer to page 78 (Audit Committee Report), page 122 (Accounting policies) and page 188 (notes)	
The estimation of non-life insurance contract liabilities involves a significant degree of judgement. The liabilities are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with the related claims handling costs. A range of methods, including stochastic projections, may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims. Regulators across the globe continue to focus on reserving adequacy for non-life insurers, particularly in the current market. Given their size in relation to the consolidated Group and the complexity of the judgements involved our work focused on the liabilities in the UK General Insurance and Canada markets.	In the UK General Insurance and Canada markets, we assessed the Directors' calculation of the non-life insurance liabilities by testing the underlying company data, the methodology and assumptions used against recognised actuarial practices and by applying our industry knowledge and experience. The testing included performing the following procedures: • Understanding and testing the governance process in place to determine the loss reserves, including testing the financial reporting control framework for setting these reserves. • Performing independent re-projections on selected classes of business, particularly focussing on the largest and most uncertain reserves. For these classes we compared our re-projected claims reserves to those booked by management, and sought to understand any significant differences. • For the remaining classes we evaluated the methodology and assumptions, or performed a diagnostic check to identify and follow up any anomalies. *Our work and the evidence provided identified no significant issues.*

Area of focus	How our audit addressed the area of focus
Valuation of hard to value investments Refer to page 167 (notes).	
Given the ongoing market volatility and macroeconomic uncertainty, investment valuation continues to be an area of inherent risk. The risk is not uniform for all investment types and is greatest for the following, where the investments are hard to value because quoted prices are not readily available: • Commercial mortgage loans (UK Life) • Equity release and securitised mortgage loans (UK Life) • Structured bond-type investments (France) • Collateralised loan obligations and non-recourse loans (UK Life)	For these hard to value investments we assessed both the methodology and assumptions used by management in the calculation of the year end values as well as testing the governance controls that the Directors have in place to monitor these processes. The testing included performing the following procedures: • Evaluated the methodology and assumptions used within the valuation models. • Comparing the assumptions used against appropriate benchmarks and investigating significant differences. • Testing the operation of data integrity and change management controls for the models and in particular, changes to the Equity Release Mortgage valuation model. • Using our expertise to perform independent valuations, where applicable. *Our work and the evidence provided identified no significant issues.*
Valuation of goodwill Refer to page 161 (notes). Our audit work on the Directors' goodwill impairment assessment focused in particular on Spain following the recognition of an impairment in the prior year, and with the continued volatility in the Spanish economy there continues to be a heightened risk of impairment in the current year.	The work we performed over the valuation of goodwill in Spain included the following: • Evaluating the results of the Directors' impairment assessment, including an analysis of the methodology and the assumptions adopted. • Testing the appropriateness of the key assumptions, including performing a sensitivity analysis over the Directors assumptions regarding the planned growth rate in cash flows including value of new business and discount rate assumed whilst also considering publicly available data, such as interest rate and economic growth projections. *Although uncertainties always exist with regards to forecasts on which the impairment assessment is based, when considering the work performed and evidence obtained, we considered management's assessment that goodwill had not been impaired to be appropriate.*

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

Using the outputs of a risk assessment, along with our understanding of the Aviva structure, we scoped our audit based on the significance of the results and financial position of individual markets relative to the Group result and financial position. In doing so, we also considered qualitative factors and checked that we obtained sufficient coverage across all financial statement line items in the Consolidated financial statements.

The Group's primary reporting format is along market reporting lines with supplementary information being given by business activity. The operating segments of the Group are 'United Kingdom & Ireland' (Life and General Insurance), France, Poland, 'Italy, Spain and Other', Canada, Asia, Aviva Investors and 'Other Group Activities'.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each of the markets by us, as the Group audit team, or auditors of the markets within PwC UK or from other PwC network firms operating under our instructions.

Where the work was performed by auditors of the markets, we determined the level of involvement we needed as the Group audit team to have in the audit work at those reporting lines to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. The Group audit team kept in regular communication with reporting market audit teams including visits, regular phone calls, discussions and written instructions, where appropriate.

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£102 million *(2013: £81 million)*.
How we determined it	5% of operating profit before tax attributable to shareholders' profits adjusted for integration and restructuring costs.
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant, and concluded, consistent with last year, that operating profit before tax attributable to shareholders' profits adjusted for integration and restructuring costs was the most relevant benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £5 million *(2013: £4 million)* as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 88, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and parent company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and parent company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

- In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The information given in the Corporate Governance Statement set out on pages 70 to 74 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting
Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- Information in the Annual Report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and parent company acquired in the course of performing our audit; or
  - otherwise misleading.

We have no exceptions to report arising from this responsibility.

- The statement given by the Directors on page 88, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and parent company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and parent company acquired in the course of performing our audit.

We have no exceptions to report arising from this responsibility.

- The section of the Annual Report on page 77, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report - Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. We have no exceptions to report arising from this responsibility.

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

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 88, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

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

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Law (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

4 March 2015

(a) The maintenance and integrity of the Aviva plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Aviva plc (the 'Company'), a public limited company incorporated and domiciled in the United Kingdom (UK), together with its subsidiaries (collectively, the 'Group' or 'Aviva') transacts life assurance and long-term savings business, fund management and most classes of general insurance and health business through its subsidiaries, joint ventures, associates and branches in the UK, Ireland, continental Europe, Canada, Asia and other countries throughout the world.

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

(A) Basis of preparation

The consolidated financial statements and those of the Company 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. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Group and the Company have also complied with IFRS as issued by the IASB and applicable at 31 December 2014. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, investment property, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

In accordance with IFRS 4 *Insurance Contracts*, the Group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy G.

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). The separate financial statements of the Company are on pages 238 to 246.

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 note 1.

(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 in the current or prior period as the Group has not novated its derivatives to a central counterparty.

(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 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.

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

The following new standards, amendments to existing standards and interpretations have been issued, are not yet effective and have not been adopted early by the Group:

(i) Amendments to IAS 19, Employee Benefits – Employee Contributions

These narrow scope amendments simplify accounting for contributions from employees or third parties to defined benefit plans. It is not expected to have a significant impact on the Group's consolidated financial statements. The amendments apply to annual reporting periods beginning on or after 1 July 2014 and have been endorsed by the EU.

(ii) Annual Improvements to IFRSs 2011-2013

These improvements to IFRSs consist of amendments to four IFRSs including IFRS 3 *Business Combinations* and IFRS 13 *Fair Value Measurement*. The amendments clarify existing guidance. The adoption of these amendments is not expected to have a significant impact on the Group's profit or loss or equity. The amendments are effective for annual periods beginning on or after 30 June 2015 and have been endorsed by the EU.

(iii) Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IFRS 10 and IAS 28 clarify that for transactions between an investor and its associate or joint venture, full gains are to be recognised where the assets sold or contributed constitute a business as defined in IFRS 3 *Business Combinations*. Where the assets sold or contributed do not constitute a business, gains and losses are recognised only to the extent of other investors' interests in the associate or joint venture.

The adoption of these amendments is not expected to have significant implications for the Group's consolidated financial statements. These amendments will be effective on annual reporting periods beginning on or after 1 January 2016 and have yet to be endorsed by the EU.

(iv) Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

These amendments provide additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. The amendments to IAS 16 and IAS 38 prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limit the use of revenue-based amortisation for intangible assets. The adoption of these amendments is not expected to have significant impact for the Group's consolidated financial statements. They are effective for annual reporting periods beginning on or after 1 January 2016 and have yet to be endorsed by the EU.

(v) Amendments to IAS 27, Equity Method in Separate Financial Statements

The amendments to IAS 27 allow investments in subsidiaries to be accounted for using the equity method within the Company's financial statements. The Company has not completed the assessment of the impact of the adoption of the amendments on its financial statements. The amendments to IAS 27 are effective for annual reporting periods beginning on or after 1 January 2016 and have not yet been endorsed by the EU.

(vi) Narrow scope amendments to IFRS10, IFRS 12 and IAS 28 – Applying the Consolidation Exception

These narrow-scope amendments clarify the application of the requirements for investment entities to measure subsidiaries at fair value instead of consolidating them. There are no implications for the Group's consolidated financial statements as the Group does not meet the definition of an investment entity. These amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have not yet been endorsed by the EU.

(vii) Amendments to IAS 1 – Disclosure Initiative

These amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments form part of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The adoption of these amendments will have no impact for the Group's profit or loss or equity. The amendments are effective for annual reporting periods beginning on or after 1 January 2016 and have not yet been endorsed by the EU.

(viii) Annual Improvements to IFRSs 2012-2014

These improvements consist of amendments to five IFRSs including IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and IAS 19 *Employee Benefits*. The amendments clarify existing guidance. The adoption of these amendments is not expected to have a significant impact on the Group's profit or loss or equity. The amendments are effective for annual reporting periods beginning on or after 30 June 2016 and have yet to be endorsed by the EU.

(ix) IFRS 15, Revenue from Contracts with Customers

IFRS 15 will replace IAS 18, *Revenue* and establishes a principle based five-step model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. IFRS 15 also includes enhanced disclosure requirements.

The impact of the adoption of the new standard has yet to be fully assessed by the Group. This standard applies to annual reporting periods beginning on or after 1 January 2017 and has not yet been endorsed by the EU.

(x) IFRS 9, Financial Instruments

In July 2014, the IASB published IFRS 9, *Financial Instruments* which will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The finalised standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach. The mandatory effective date of the new standard is annual reporting periods beginning on or after 1 January 2018, with earlier adoption permitted.

The impact of the adoption of IFRS 9 on the Group's consolidated financial statements, to a large extent, will need to take into account the interaction of the requirements with the IASB's ongoing insurance contracts accounting project. IFRS 9 has not been endorsed by the EU.

(B) Operating profit

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, short-term realised and unrealised investment gains and losses are treated as non-operating items. The Group focuses instead on an operating profit measure (also referred to as adjusted operating profit) that incorporates an expected return on investments supporting its long-term and non-long-term businesses. Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with allowance for the corresponding expected movements in liabilities. Variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit. For non-long-term business, the total investment income, including realised and unrealised gains, is analysed between that calculated using a longer-term return and short-term fluctuations from that level. Further details of this analysis and the assumptions used are given in notes 9 and 10. Operating profit also excludes impairment of goodwill, associates and joint ventures; amortisation and impairment of other intangibles; the profit or loss on disposal and remeasurement of subsidiaries, joint ventures and associates; integration and restructuring costs; and 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. Details of these items are provided in the relevant notes.

(C) Critical accounting policies and the use of estimates

The preparation of financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the consolidated financial statements.

Critical accounting policies and the use of estimates

These major areas of judgement on policy application are summarised below:

Item	Critical accounting judgement, estimate or assumption	Accounting policy
Consolidation	Assessment of whether the Group controls the underlying entities	D
Insurance and participating investment contract liabilities	Assessment of the significance of insurance risk passed	G
Financial investments	Classification of investments	T

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

The table below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Insurance and participating investment contract liabilities	G&L
Goodwill, AVIF and intangible assets	O
Fair values of financial investments	F&T
Impairment of financial investments	T
Fair value of derivative financial instruments	F&U
Deferred acquisition costs and other assets	X
Provisions and contingent liabilities	AA
Pension obligations	AB
Deferred income taxes	AC

(D) Consolidation principles

Subsidiaries

Subsidiaries are those entities over which the Group has control. The Group controls an investee if and only if the Group has all of the following:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

The Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including: the purpose and design of an investee, relevant activities, substantive and protective rights, and voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date the Group obtains control and are excluded from consolidation from the date the Group loses control. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Accounting policies of subsidiaries are aligned on acquisition to ensure consistency with the Group policies.

The Group is required to use the acquisition method of accounting for business combinations. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the consideration transferred over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see accounting policy O below). Acquisition-related costs are expensed as incurred. Transactions that do not result in a loss of control are treated as equity transactions with non-controlling interests.

Merger accounting and the merger reserve

Prior to 1 January 2004, the date of first time adoption of IFRS, certain significant business combinations were accounted for using the 'pooling of interests method' (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account. These transactions have not been restated, as permitted by the IFRS 1 transitional arrangements.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

Investment vehicles

In several countries, the Group has invested in a number of specialised investment vehicles such as Open-ended Investment Companies (OEICs) and unit trusts. These invest mainly in equities, bonds, cash and cash equivalents, and properties, and distribute most of their income. The Group's percentage ownership in these vehicles can fluctuate from day to day according to the Group's and third-party participation in them. When assessing control over investment vehicles, the Group considers the scope of its decision-making authority including its ability to direct the relevant activities of the fund and exposure to variability of returns from the perspective of an investor in the fund and of the asset manager. In addition, the Group assesses rights held by other parties including substantive removal rights that may affect the Group's ability to direct the relevant activities and indicate that the Group does not have power. Where Group companies are deemed to control such vehicles, they are consolidated, with the interests of parties other than Aviva being classified as liabilities. These appear as 'Net asset value attributable to unitholders' in the consolidated statement of financial position. Where the Group does not control such vehicles, and these investments are held by its insurance or investment funds, they are carried at fair value through profit or loss within financial investments in the consolidated statement of financial position, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

As part of their investment strategy, the UK and certain European and Asian long-term business policyholder funds have invested in a number of property limited partnerships (PLPs), either directly or via property unit trusts (PUTs), through a mix of capital and loans. The PLPs are managed by general partners (GPs), in which the long-term business shareholder companies

hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary.

Accounting for the PUTs and PLPs as subsidiaries, joint ventures, associates or other financial investments depends on whether the Group is deemed to have control or joint control over the PUTs and PLPs' shareholdings in the GPs and the terms of each partnership agreement are considered along with other factors that determine control, as outlined above. Where the Group exerts control over a PUT or a PLP, it has been treated as a subsidiary and its results, assets and liabilities have been consolidated. Where the partnership is managed by an agreement such that there is joint control between the parties, notwithstanding that the Group's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be lower or higher than 50%, such PUTs and PLPs have been classified as joint ventures. Where the Group has significant influence over the PUT or PLP, as defined in the following section, the PUT or PLP is classified as an associate. Where the Group holds non-controlling interests in PLPs, with no significant influence or control over their associated GPs, the relevant investments are carried at fair value through profit or loss within financial investments.

Associates and joint ventures

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control. Generally, it is presumed that the Group has significant influence if it has between 20% and 50% of voting rights. Joint ventures are joint arrangements whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. In a number of these, the Group's share of the underlying assets and liabilities may be greater or less than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly controlled entities are referred to as joint ventures in these financial statements.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred between entities.

Other than investments in investment vehicles which are carried at fair value through profit or loss, investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in a given associate or joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated statement of financial position. As explained in accounting policy O, the cost includes goodwill identified on acquisition. The Group's share of their post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Equity accounting is discontinued when the Group no longer has significant influence or joint control over the investment.

If the Group's share of losses in an associate or joint venture equals or exceeds its interest in the undertaking, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the entity.

The Company's investments

In the Company statement of financial position, subsidiaries, associates and joint ventures are stated at their fair values, estimated using applicable valuation models underpinned by the Company's market capitalisation. These investments are classified as available for sale (AFS) financial assets, with changes in their fair value being recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity.

(E) Foreign currency translation

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates and joint ventures, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and taken to the currency translation reserve within equity. On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on sale. The cumulative translation differences were deemed to be zero at the transition date to IFRS.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit or loss (FVTPL) (see accounting policy T) are included in foreign exchange gains and losses in the income statement. For monetary financial assets designated as Available for Sale (AFS), translation differences are calculated as if they were carried at amortised cost and so are recognised in the income statement, whilst foreign exchange differences arising from fair value gains and losses are recognised in other comprehensive income and included in the investment valuation reserve within equity. Translation differences on non-monetary items, such as equities which are designated as FVTPL, are reported as part of the fair value gain or loss, whereas such differences on AFS equities are included in the investment valuation reserve.

(F) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Group takes into account the asset's use that is physically possible, legally permissible and financially feasible.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the income statement. When unobservable market data has a significant

impact on the valuation of financial instruments, the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matured.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

(G) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts. Some insurance and investment contracts contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts.

As noted in accounting policy A above, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the later of the date of transition to IFRS or the date of the acquisition of the entity, in accordance with IFRS 4. Accounting for insurance contracts in UK companies is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers, the most recent version of which was issued in December 2005 and amended in December 2006. In certain businesses, the accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed, and adjustments to the measurement basis have occurred, the financial statements of that year will have disclosed the impacts accordingly. One such example is our adoption of Financial Reporting Standard 27 *Life Assurance* (FRS 27) which was issued by the UK's Accounting Standards Board (ASB) in December 2004. Aviva, along with other major insurance companies and the ABI, signed a Memorandum of Understanding with the ASB, under which we voluntarily agreed to adopt in full the standard from 2005 in the Group's IFRS financial statements. FRS 27 adds to the requirements of IFRS but does not vary them in any way. The additional requirements of FRS 27 are detailed in accounting policy L below and in note 57.

(H) Premiums earned

Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums which are accounted for when the corresponding liabilities are recognised. For single premium business, this is the date from which the policy is effective. For regular premium contracts, receivables are recognised at the date when payments are due. Premiums are shown before deduction of commission and before any sales-based taxes or duties. Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

Deposits collected under investment contracts without a discretionary participation feature (non-participating contracts) are not accounted for through the income statement, except for the fee income (covered in accounting policy I) and the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

(I) Other investment contract fee revenue

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance. The fees are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided.

Initiation and other 'front-end' fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment and investment fund management contracts. Where the investment contract is recorded at amortised cost, these fees are deferred and recognised over the expected term of the policy by an adjustment to the effective yield. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided.

(J) Other fee and commission income

Other fee and commission income consists primarily of fund management fees, distribution fees from mutual funds, commissions on reinsurance ceded, commission revenue from the sale of mutual fund shares and transfer agent fees for shareholder record keeping. Reinsurance commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy X. All other fee and commission income is recognised as the services are provided.

(K) Net investment income

Investment income consists of dividends, interest and rents receivable for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value through profit or loss investments (as defined in accounting policy T). Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis, and is recognised on a straight line basis unless there is compelling evidence that benefits do not accrue evenly over the period of the lease.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost, as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase

value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year. Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property.

(L) Insurance and participating investment contract liabilities

Claims

Long-term business claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of bonus declarations.

General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

Long-term business provisions

Under current IFRS requirements, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices, with the exception of liabilities remeasured to reflect current market interest rates to be consistent with the value of the backing assets, and those relating to UK with-profit and non-profit contracts. For liabilities relating to UK with-profit contracts, the Group has adopted FRS 27 *Life Assurance*, as described in policy G above, in addition to the requirements of IFRS.

The long-term business provisions are calculated separately for each life operation, based either on local regulatory requirements or existing local GAAP (at the later of the date of transition to IFRS or the date of the acquisition of the entity); and actuarial principles consistent with those applied in each local market. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the circumstances prevailing in each life operation. The principal assumptions are disclosed in note 41(b). For liabilities of the UK with-profit funds, FRS 27 requires liabilities to be calculated as the realistic basis liabilities as set out by the UK's Prudential Regulation Authority (PRA), adjusted to remove the shareholders' share of future bonuses. For UK non-profit insurance contracts, the Group applies regulatory requirements, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business. On 1 April 2013 the rules made by the FSA were designated by the PRA.

Unallocated divisible surplus

In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain. Amounts whose allocation to either policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus.

If the aggregate carrying value of liabilities for a particular participating business fund is in excess of the aggregate carrying value of its assets, then the difference is held as a negative unallocated divisible surplus balance, subject to recoverability from margins in that fund's participating business. Any excess of this difference over the recoverable amount is charged to net income in the reporting period.

Embedded derivatives

Embedded derivatives that meet the definition of an insurance contract or correspond to options to surrender insurance contracts for a set amount (or based on a fixed amount and an interest rate) are not separately measured. All other embedded derivatives are separated and measured at fair value if they are not considered as closely related to the host insurance contract or do not meet the definition of an insurance contract. Fair value reflects own credit risk to the extent the embedded derivative is not fully collateralised.

Liability adequacy

At each reporting date, an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up an additional provision in the statement of financial position.

General insurance and health provisions

Outstanding claims provisions

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance and health insurance are based on the best estimate of the cost of future claim payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 41(c).

Provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected below operating profit as an economic assumption change. The range of discount rates used is described in note 41(c)(ii). Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement as recognition of revenue over the period of risk.

Liability adequacy

At each reporting date, the Group reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up a provision in the statement of financial position.

Other assessments and levies

The Group is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included in insurance liabilities but are included under 'Provisions' in the statement of financial position.

(M) Non-participating investment contract liabilities

Claims

For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released.

Contract liabilities

Deposits collected under non-participating investment contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability.

The majority of the Group's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value. Certain liabilities for non-linked non-participating contracts are measured at amortised cost.

The fair value liability is determined in accordance with IAS 39, using a valuation technique to provide a reliable estimate of the amount for which the liability could be transferred in an orderly transaction between market participants at the measurement date, subject to a minimum equal to the surrender value. For unit-linked contracts, the fair value liability is equal to the current unit fund value, plus additional non-unit reserves if required based on a discounted cash flow analysis. For non-linked contracts, the fair value liability is based on a discounted cash flow analysis, with allowance for risk calibrated to match the market price for risk.

Amortised cost is calculated as the fair value of consideration received at the date of initial recognition, less the net effect of payments such as transaction costs and front-end fees, plus or minus the cumulative amortisation (using the effective interest rate method) of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate is the one that equates the discounted cash payments to the initial amount. At each reporting date, the amortised cost liability is determined as the value of future best estimate cash flows discounted at the effective interest rate.

(N) Reinsurance

The Group assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the consolidated income statement and statement of financial position as appropriate.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance and investment contract liabilities. This includes balances in respect of investment contracts which are legally reinsurance contracts but do not meet the definition of a reinsurance contract under IFRS. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance of non-participating investment contracts and reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured. These deposit assets or liabilities are shown within reinsurance assets in the consolidated statement of financial position.

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.

(O) Goodwill, AVIF and intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at its book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred. Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated. Goodwill arising on the Group's investments in subsidiaries since that date is shown as a separate asset, whilst that on associates and joint ventures is included within the carrying value of those investments.

Acquired value of in-force business (AVIF)

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset. If the AVIF results from the acquisition of an investment in a joint venture or an associate, it is held within the carrying amount of that investment. In all cases, the AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. The value of the acquired in-force long-term business is reviewed annually for any impairment in value and any reductions are charged as expenses in the income statement.

Intangible assets

Intangibles consist primarily of contractual relationships such as access to distribution networks and customer lists. The economic lives of these are determined by considering relevant factors such as usage of the asset, typical product life cycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position and the period of control over the assets. These intangibles are amortised over their useful lives, which range from five to 30 years, using the straight-line method.

The amortisation charge for the year is included in the income statement under 'Other expenses'. For intangibles with finite lives, impairment charges will be recognised in the income statement where evidence of such impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

Impairment testing

For impairment testing, goodwill and intangibles with indefinite useful lives have been allocated to cash-generating units. The carrying amount of goodwill and intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on goodwill allocation and impairment testing are given in note 17.

(P) Property and equipment

Owner-occupied properties are carried at their revalued amounts, and movements are recognised in other comprehensive income and taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives. All other items classed as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Investment properties under construction are included within property and equipment until completion, and are stated at cost less any provision for impairment in their values until construction is completed or fair value becomes reliably measurable.

Depreciation is calculated on the straight-line method to write-down the cost of other assets to their residual values over their estimated useful lives as follows:

• Properties under construction	No depreciation
• Owner-occupied properties, and related mechanical and electrical equipment	25 years
• Motor vehicles	Three years, or lease term (up to useful life) if longer
• Computer equipment	Three to five years
• Other assets	Three to five years

The assets' residual values, useful lives and method of depreciation are reviewed regularly, and at least at each financial year end, and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

Borrowing costs directly attributable to the acquisition and construction of property and equipment are capitalised. All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(Q) Investment property

Investment property is held for long-term rental yields and is not occupied by the Group. Completed investment property is stated at its fair value, as assessed by qualified external valuers or by local qualified staff of the Group. Changes in fair values are recorded in the income statement in net investment income.

As described in accounting policy P above, investment properties under construction are included within property and equipment, and are stated at cost less any impairment in their values until construction is completed or fair value becomes reliably measurable.

(R) Impairment of non-financial assets

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets except goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(S) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired.
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement.
- The Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(T) Financial investments

The Group classifies its investments as either financial assets at fair value through profit or loss (FVTPL) or financial assets available for sale (AFS). The classification depends on the purpose for which the investments were acquired, and is determined by local management at initial recognition. The FVTPL category has two subcategories – those that meet the definition as being held for trading and those the Group chooses to designate as FVTPL (referred to in this accounting policy as 'other than trading') upon initial recognition.

In general, the other than trading category is used as, in most cases, the Group's investment or risk management strategy is to manage its financial investments on a fair value basis. Debt securities and equity securities, which the Group acquires with the intention to resell in the short term, are classified as trading, as are non-hedge derivatives (see accounting policy U below). The AFS category is used where the relevant long-term business liability (including shareholders' funds) is passively managed, as well as in certain fund management and non-insurance operations.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading, other than trading and AFS, are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise. Changes in the fair value of securities classified as AFS are recognised in other comprehensive income and

recorded in a separate investment valuation reserve within equity.

When securities classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve to the income statement with a corresponding movement through other comprehensive income.

Impairment

The Group reviews the carrying value of its AFS investments on a regular basis. If the carrying value of an AFS investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policies are used to determine the level of any impairment, some of which involve considerable judgement:

AFS debt securities: An AFS debt security is impaired if there is objective evidence that a loss event has occurred which has impaired the expected cash flows, i.e. where all amounts due according to the contractual terms of the security are not considered collectible. An impairment charge, measured as the difference between the security's fair value and amortised cost, is recognised when the issuer is known to be either in default or in financial difficulty. Determining when an issuer is in financial difficulty requires the use of judgement, and we consider a number of factors including industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, credit rating declines and a breach of contract. A decline in fair value below amortised cost due to changes in risk-free interest rates does not necessarily represent objective evidence of a loss event.

For securities identified as being impaired, the cumulative unrealised loss previously recognised within the investment valuation reserve is transferred to realised losses for the year, with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve unless this increase represents a decrease in the impairment loss that can be objectively related to an event occurring after the impairment loss was recognised in the income statement. In such an event, the reversal of the impairment loss is recognised as a gain in the income statement.

AFS equity securities: An AFS equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, such evidence includes a significant or prolonged decline in fair value below cost. Unless there is evidence to the contrary, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 20% for a continuous six-month period or more than 40% at the end of the reporting period, or been in an unrealised loss position for a continuous period of more than 12 months at the end of the reporting period. We also review our largest equity holdings for evidence of impairment, as well as individual equity holdings in industry sectors known to be in difficulty. Where there is objective evidence that impairment exists, the security is written down regardless of the size of the unrealised loss.

For securities identified as being impaired, the cumulative unrealised loss previously recognised within the investment valuation reserve is transferred to realised losses for the year with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve.

Reversals of impairments on any of these assets are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

(U) Derivative financial instruments and hedging

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, credit or equity indices, commodity values or equity instruments.

All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Group's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 59(b).

The Group has collateral agreements in place between the individual Group entities and relevant counterparties. Accounting policy W covers collateral, both received and pledged, in respect of these derivatives.

Interest rate and currency swaps

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest by means of periodic payments, computed on a specified notional amount and defined interest rates. Most interest rate swap payments are netted against each other, with the difference between the fixed and floating rate interest payments paid by one party. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Both types of swap contracts may include the net exchange of principal. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Interest rate futures, forwards and options contracts

Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC contracts in which two parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an

agreed notional principal amount, a net payment to be made by one party to the other, depending what rate in fact prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the potential obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to gain or loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate. Certain contracts, known as swaptions, contain features which can act as swaps or options. These contracts are categorised according to the type of contract they most closely resemble in practice.

Foreign exchange contracts

Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates.

Exposure to gain or loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

Derivative instruments for hedging

On the date a derivative contract is entered into, the Group designates certain derivatives as either:

(i) a hedge of the fair value of a recognised asset or liability (fair value hedge);
(ii) a hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction or a firm commitment (cash flow hedge); or
(iii) a hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Group also documents its assessment of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item, both at inception and on an ongoing basis.

Changes in the fair value of derivatives that are designated and qualify as net investment or cash flow hedges, and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income and a separate reserve within equity. Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant investment or occurrence of the cash flow as appropriate.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement. The gain or loss on the hedged item that is attributable to the hedged risk is recognised in the income statement. This applies even if the hedged item is an available for sale financial asset or is measured at amortised cost. If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment made to the carrying amount of the hedged item is amortised to the income statement, based on a recalculated effective interest rate over the residual period to maturity. In cases where the hedged item has been derecognised, the cumulative adjustment is released to the income statement immediately.

For a variety of reasons, certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in net investment income.

(V) Loans

Loans with fixed maturities, including policyholder loans, mortgage loans on investment property, securitised mortgages and collateral loans, are recognised when cash is advanced to borrowers. Certain loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method. Loans with indefinite future lives are carried at unpaid principal balances or cost.

However, for the majority of mortgage loans, the Group has taken advantage of the fair value option under IAS 39 to present the mortgages, associated borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these three items. The fair values of these mortgages are estimated using discounted cash flow models, based on a risk-adjusted discount rate which reflects the risks associated with these products. They are revalued at each period end, with movements in their fair values being taken to the income statement.

At each reporting date, we review loans carried at amortised cost for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics. To the extent that a loan is uncollectable, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, taking into account the fair value of the underlying collateral through an impairment provision account. Subsequent recoveries in excess of the loan's written-down carrying value are credited to the income statement.

(W) Collateral

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans, in order to reduce the credit risk of these transactions. Collateral is also pledged as security for bank letters of credit. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities (note 60). However, where the Group has a currently enforceable legal right of set-off and the ability and intent to net settle, the collateral liability and associated derivative balances are shown net, in line with market practice. Non-cash collateral received is not recognised in the statement of financial position unless the Group either (a) sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

Collateral pledged in the form of cash, which is legally segregated from the Group, is derecognised from the statement of financial position with a corresponding receivable recognised for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Group defaults on its obligations under the relevant agreement, and

therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

(X) Deferred acquisition costs and other assets

Costs relating to the acquisition of new business for insurance and participating investment contracts are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered out of future margins in revenues on these contracts. For participating contracts written in the UK, acquisition costs are generally not deferred as the liability for these contracts is calculated in accordance with the PRA's realistic capital regime and FRS 27. For non-participating investment and investment fund management contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are also deferred.

Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability.

Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these future margins. Deferrable acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided. General insurance and health deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written-off where they are no longer considered to be recoverable.

Other receivables and payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost.

(Y) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

Operating cash flows

Purchases and sales of investment property, loans and financial investments are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims.

(Z) Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the relevant leases.

Where the Group is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable. The Group has not entered into any material finance lease arrangements either as lessor or lessee.

(AA) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Restructuring provisions comprise lease termination penalties and employee termination payments. They include only the direct expenditures arising from the restructuring, which are those that are necessarily entailed by the restructuring; and not associated with the ongoing activities of the entity. The amount recorded as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure. Provisions are not recognised for future operating losses.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

(AB) Employee benefits

Annual leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the statement of financial position date.

Pension obligations

The Group operates a number of pension schemes, whose members receive benefits on either a defined benefit or defined contribution basis. Under a defined contribution plan, the Group's legal or constructive obligation is limited to the amount it agrees to contribute to a fund and there is no obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. A defined benefit pension plan is a pension plan that is not a defined contribution plan and typically defines the amount of pension benefit that an employee will receive on retirement.

The defined benefit obligation is calculated by independent actuaries using the projected unit credit method. The pension obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The resultant net surplus or deficit recognised as an asset or liability on the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

If the fair value of plan assets exceeds the present value of the defined benefit obligation, the resultant asset is limited to the asset ceiling defined as present value of economic benefits available in the form of future refunds from the plan or

reductions in contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group.

Remeasurements of defined benefit plans comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding net interest) and the effect of the asset ceiling (if any). The Group recognises remeasurements immediately in other comprehensive income and does not reclassify them to the income statement in subsequent periods.

Service costs comprising current service costs, past service costs, gains and losses on curtailments and net interest expense/(income) are charged or credited to the income statement.

Past service costs are recognised at the earlier of the date the plan amendment or curtailment occurs or when related restructuring costs are recognised.

The Group determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset). Net interest expense is charged to finance costs, whereas, net interest income is credited to investment income.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the income statement in the year to which they relate and are included in staff costs.

Equity compensation plans

The Group offers share award and option plans over the Company's ordinary shares for certain employees, including a Save As You Earn plan (SAYE plan), details of which are given in the Directors' Remuneration Report and in note 32.

The Group accounts for options and awards under equity compensation plans, which were granted after 7 November 2002, until such time as they are fully vested, using the fair value based method of accounting (the 'fair value method'). Under this method, the cost of providing equity compensation plans is based on the fair value of the share awards or option plans at date of grant, which is recognised in the income statement over the expected vesting period of the related employees and credited to the equity compensation reserve, part of shareholders' funds. In certain jurisdictions, awards must be settled in cash instead of shares, and the credit is taken to liabilities rather than reserves. The fair value of these cash-settled awards is recalculated each year, with the income statement charge and liability being adjusted accordingly.

As described in accounting policy AE below, shares purchased by employee share trusts to fund these awards are shown as a deduction from shareholders' funds at their original cost.

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (par value) and the balance to share premium. Where the shares are already held by employee trusts, the net proceeds are credited against the cost of these shares, with the difference between cost and proceeds being taken to retained earnings. In both cases, the relevant amount in the equity compensation reserve is then credited to retained earnings.

(AC) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, technical provisions and other insurance items, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

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

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability. Current tax on interest paid on direct capital instruments and fixed rate tier 1 notes is credited directly in equity.

In addition to paying tax on shareholders' profits, the Group's life businesses in the UK, Ireland and Singapore pay tax on policyholders' investment returns ('policyholder tax') on certain products at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total tax expense. The Group has decided to show separately the amounts of policyholder tax to provide a more meaningful measure of the tax the Group pays on its profits. In the pro forma reconciliations, operating profit has been calculated after charging policyholder tax.

(AD) Borrowings

Borrowings are classified as being for either core structural or operational purposes. They are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, most borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred except where they are directly attributable to the acquisition or construction of property and equipment as described in accounting policy P above.

Where loan notes have been issued in connection with certain securitised mortgage loans, the Group has taken advantage of the revised fair value option under IAS 39 to present the mortgages, associated liabilities and derivative

financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch which would otherwise arise from using different measurement bases for these three items.

(AE) Share capital and treasury shares

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

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

(ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Group exchanging a fixed amount of cash or other assets for a fixed number of the Group's own equity instruments.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

Dividends

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

Treasury shares

Where the Company or its subsidiaries purchase the Company's share capital or obtain rights to purchase its share capital, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity. The Group's only such holding comprises shares purchased by employee trusts to fund certain awards under the equity compensation plans described in accounting policy AB above. Gains and losses on sales of own shares are charged or credited to the treasury share account in equity.

(AF) Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these financial statements where the Group has no contractual rights in the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

(AG) Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as Treasury shares.

Earnings per share has also been calculated on the adjusted operating profit before impairment of goodwill and other adjusting items, after tax, attributable to ordinary shareholders, as the directors believe this figure provides a better indication of operating performance. Details are given in note 15.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

(AH) Operations held for sale

Assets and liabilities held for disposal as part of operations which are held for sale are shown separately in the consolidated statement of financial position. Operations held for sale are recorded at the lower of their carrying amount and their fair value less the estimated selling costs.

Consolidated income statement

For the year ended 31 December 2014

	Note	2014 £m Continuing operations	Continuing operations	2013 £m Discontinued operations[1]
Income	6			
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	H	**20,057**	20,623	1,489
Fee and commission income	I & J	**1,230**	1,279	28
Net investment income	K	**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	4b	**174**	115	808
		43,497	34,646	4,665
Expenses	7			
Claims and benefits paid, net of recoveries from reinsurers		**(19,474)**	(22,093)	(2,037)
Change in insurance liabilities, net of reinsurance	41a(ii)	**(5,570)**	2,493	(312)
Change in investment contract provisions		**(6,518)**	(7,050)	(31)
Change in unallocated divisible surplus	46	**(3,364)**	280	—
Fee and commission expense		**(3,389)**	(3,975)	(438)
Other expenses		**(1,979)**	(2,220)	(293)
Finance costs	8	**(540)**	(609)	(16)
		(40,834)	(33,174)	(3,127)
Profit before tax		**2,663**	1,472	1,538
Tax attributable to policyholders' returns	14d	**(382)**	(191)	—
Profit before tax attributable to shareholders' profits		**2,281**	1,281	1,538
Tax expense	AC & 14	**(983)**	(594)	(265)
Less: tax attributable to policyholders' returns	14d	**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	39	**169**	143	
Profit for the year		**1,738**	2,151	
Earnings per share	AG & 15			
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 4 for further details.

The accounting policies (identified alphabetically) on pages 117 to 129 and notes (identified numerically on pages 137 to 237 are an integral part of the financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	Note	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	49b(i)	**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 4 for further details.

Reconciliation of Group operating profit to profit for the year

For the year ended 31 December 2014

	Note	2014 £m Continuing operations	Continuing operations	2013 £m Discontinued operations[1]
Operating profit before tax attributable to shareholders' profits				
Life business		**1,979**	1,901	272
General insurance and health		**808**	797	—
Fund management		**86**	93	31
Other:				
Other operations		**(105)**	(90)	(4)
Corporate centre		**(132)**	(150)	—
Group debt costs and other interest		**(463)**	(502)	(9)
Operating profit before tax attributable to shareholders' profits		**2,173**	2,049	290
Integration and restructuring costs	7	**(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	9	**72**	(49)	452
Short-term fluctuation in return on investments on non-long-term business	10a	**261**	(336)	—
Economic assumption changes on general insurance and health business	10a	**(145)**	33	—
Impairment of goodwill, associates and joint ventures and other amounts expensed	17a, 20	**(24)**	(77)	—
Amortisation and impairment of intangibles		**(90)**	(91)	(9)
Profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	4b	**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	15a(i)	**(561)**	(534)	(83)
Tax on other activities	15a(i)	**(40)**	131	(182)
		(601)	(403)	(265)
Profit after tax		**1,680**	878	1,273
Profit from discontinued operations[1]		**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) until the date of disposal (2 October 2013). See note 4 for further details.

Reconciliation of Group operating profit to profit for the year continued

Operating profit can be further analysed into the following segments (details of segments can be found in note 5):

Year ended 31 December 2014	**Long-term business £m**	**General insurance and health £m**	**Fund management £m**	**Other operations £m**	**Total £m**
United Kingdom & Ireland	**1,039**	**499**	**6**	**—**	**1,544**
France	**394**	**78**	**—**	**(20)**	**452**
Poland	**180**	**9**	**—**	**3**	**192**
Italy, Spain and Other	**278**	**26**	**—**	**(9)**	**295**
Canada	**—**	**189**	**—**	**2**	**191**
Asia	**87**	**(2)**	**1**	**(8)**	**78**
Aviva Investors	**2**	**—**	**79**	**(18)**	**63**
Other group activities	**(1)**	**9**	**—**	**(55)**	**(47)**
	1,979	**808**	**86**	**(105)**	**2,768**
Corporate centre					**(132)**
Group debt costs and other interest					**(463)**
Total – continuing operations					**2,173**
Total – discontinued operations[1]					**—**
					2,173

Year ended 31 December 2013	Long-term business £m	General insurance and health £m	Fund management £m	Other operations £m	Total £m
United Kingdom & Ireland	952	489	23	125	1,589
France	385	84	—	(21)	448
Poland	164	9	—	11	184
Italy, Spain and Other	302	19	—	(7)	314
Canada	—	246	—	—	246
Asia	96	1	2	(12)	87
Aviva Investors	2	—	68	(96)	(26)
Other group activities	—	(51)	—	(90)	(141)
	1,901	797	93	(90)	2,701
Corporate centre					(150)
Group debt costs and other interest					(502)
Total – continuing operations					2,049
Total – discontinued operations[1]					290
					2,339

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 4 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[1] £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[2]	**—**	**—**	**—**	**—**	**—**	**—**	**(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 Refer to note 37 for further details of balances included in Other reserves.

2 £57 million relates to the foreign exchange loss on redemption of €700 million direct capital instrument on 28 November 2014. See Note 35 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[1] £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

1 Refer to note 37 for further details of balances included in Other reserves.

Consolidated statement of financial position

As at 31 December 2014

	Note	2014 £m	Restated[1] 2013 £m	Restated[1] 2012 £m
Assets				
Goodwill	O & 17	**1,302**	1,476	1,520
Acquired value of in-force business and intangible assets	O & 18	**1,028**	1,068	1,084
Interests in, and loans to, joint ventures	D & 19	**1,140**	1,200	1,390
Interests in, and loans to, associates	D & 20	**404**	267	265
Property and equipment	P & 21	**357**	313	391
Investment property	Q & 22	**8,925**	9,451	9,939
Loans	V & 24	**25,260**	23,879	24,537
Financial investments	S, T, U & 27	**202,638**	194,027	189,651
Reinsurance assets	N & 44	**7,958**	7,220	6,684
Deferred tax assets	AC	**76**	244	188
Current tax assets		**27**	76	67
Receivables	28	**5,933**	7,476	8,034
Deferred acquisition costs and other assets	X & 29	**5,091**	3,051	3,778
Prepayments and accrued income		**2,466**	2,635	2,776
Cash and cash equivalents	Y & 56d	**23,105**	26,131	24,213
Assets of operations classified as held for sale	AH & 4c	**9**	3,113	42,603
Total assets		**285,719**	281,627	317,120
Equity				
Capital	AE			
Ordinary share capital	31	**737**	736	736
Preference share capital	34	**200**	200	200
		937	936	936
Capital reserves				
Share premium	31b	**1,172**	1,165	1,165
Merger reserve	D & 36	**3,271**	3,271	3,271
		4,443	4,436	4,436
Shares held by employee trusts	33	**(8)**	(31)	(32)
Other reserves	37	**229**	475	1,675
Retained earnings	38	**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	35	**892**	1,382	1,382
Non-controlling interests	39	**1,166**	1,471	1,574
Total equity		**12,276**	11,017	11,360
Liabilities				
Gross insurance liabilities	L & 41	**113,445**	110,555	113,091
Gross liabilities for investment contracts	M & 42	**117,245**	116,058	110,494
Unallocated divisible surplus	L & 46	**9,467**	6,713	6,931
Net asset value attributable to unitholders	D	**9,482**	10,362	9,983
Provisions	AA, AB & 48	**879**	984	1,119
Deferred tax liabilities	AC	**1,091**	563	547
Current tax liabilities		**169**	116	112
Borrowings	AD & 50	**7,378**	7,819	8,179
Payables and other financial liabilities	S & 51	**12,012**	11,945	12,051
Other liabilities	52	**2,273**	2,472	1,842
Liabilities of operations classified as held for sale	AH & 4c	**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 1 for details. There is no impact on the result or the total equity for any period presented as a result of this restatement.

Approved by the Board on 4 March 2015.

Thomas D. Stoddard
Chief Financial Officer

Company number: 2468686

The accounting policies (identified alphabetically) on pages 117 to 129 and notes (identified numerically on pages 137 to 237 are an integral part of the financial statements.

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.

	Note	2014 £m	Restated[2] 2013 £m
Cash flows from operating activities			
Cash (used in)/generated from continuing operations	56a	**(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	56b	**(79)**	(29)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	56c	**110**	377
New loans to joint ventures and associates	19a(i)	**(73)**	(6)
Repayment of loans to joint ventures and associates	19 & 20	**33**	25
Net new loans to joint ventures and associates		**(40)**	19
Purchases of property and equipment	21	**(116)**	(30)
Proceeds on sale of property and equipment	21	**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	50e	**(59)**	(240)
Interest paid on borrowings		**(527)**	(605)
Preference dividends paid	16	**(17)**	(17)
Ordinary dividends paid[3]	16	**(447)**	(429)
Coupon payments on direct capital instruments and fixed rate tier 1 notes	16	**(88)**	(92)
Capital contributions from non-controlling interests of subsidiaries	39	**—**	1
Dividends paid to non-controlling interests of subsidiaries	39	**(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	56d	**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 4 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 1 for details.
3 Ordinary dividends paid amounted to £449 million. £2 million of unclaimed and waived dividends has been set off against this above. See Note 16 for further detail.
4 Changes in controlling interests in subsidiaries primarily relate to Italy where we increased our ownership interest in certain existing subsidiaries during 2014.

1 – 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.

2 – 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

3 – 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 4(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.

4 – 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 (refer to note 19).

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.

4 – 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.

4 – 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.

4 – 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.

(e) Significant restrictions

In certain jurisdictions the ability of subsidiaries to transfer funds to the Group in the form of cash dividends or to repay loans and advances is subject to local corporate or insurance laws and regulations and solvency requirements. There are no protective rights of non-controlling interests which significantly restrict the Group's ability to access or use the assets and settle the liabilities of the Group.

5 – 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 4(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.

5 – 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 operations:										
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 4.
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.

5 – 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 4.

5 – 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

5 – 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 1 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.

5 – 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.

5 – 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 4.

5 – 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 1 for details. There is no impact on the result or the total equity for any period presented as a result of this statement.

6 – Details of income

This note gives further detail on the items appearing in the income section of the consolidated income statement.

Continuing operations	2014 £m	2013 £m
Gross written premiums (note 5a and 5b)		
Long-term:		
Insurance contracts	**7,898**	8,749
Participating investment contracts	**4,829**	3,925
General insurance and health	**8,943**	9,361
	21,670	22,035
Less: premiums ceded to reinsurers (note 5a and 5b)	**(1,614)**	(1,546)
Gross change in provision for unearned premiums (note 41e)	**(8)**	136
Reinsurers' share of change in provision for unearned premiums (note 44ciii)	**9**	(2)
Net change in provision for unearned premiums	**1**	134
Net earned premiums	**20,057**	20,623
Fee and commission income		
Fee income from investment contract business	**459**	465
Fund management fee income	**320**	347
Other fee income	**344**	294
Reinsurance commissions receivable	**81**	90
Other commission income	**13**	45
Net change in deferred revenue	**13**	38
	1,230	1,279
Total revenue	**21,287**	21,902
Net investment income		
Interest and similar income		
From financial instruments designated as trading and other than trading	**4,945**	5,488
From AFS investments and financial instruments at amortised cost	**36**	75
	4,981	5,563
Dividend income	**1,444**	1,527
Other income from investments designated as trading		
Realised gains/(losses)on disposals	**208**	(202)
Unrealised gains and losses (policy K)		
Gains/(Losses) arising in the year	**795**	(67)
(Gains)/Losses recognised in prior periods and now realised	**(208)**	202
	587	135
	795	(67)
Other income from investments designated as other than trading		
Realised gains on disposals	**2,829**	3,250
Unrealised gains and losses (see policy K)		
Gains arising in the year	**13,403**	4,639
Gains recognised in prior periods and now realised	**(2,829)**	(3,250)
	10,574	1,389
	13,403	4,639
Realised gains and losses on AFS investments		
Losses/(gains) recognised in prior periods as unrealised in equity	**7**	(1)
Net income from investment properties		
Rent	**521**	647
Expenses relating to these properties	**(42)**	(42)
Realised (losses)/gains on disposal	**49**	(2)
Fair value gains on investment properties (note 22)	**678**	184
	1,206	787
Realised losses on loans	**(4)**	—
Foreign exchange gains and losses on investments other than trading	**146**	109
Other investment expenses	**(89)**	(48)
Net investment income	**21,889**	12,509
Share of profit after tax of joint ventures (note 19)	**129**	140
Share of profit/(loss) after tax of associates (note 20a)	**18**	(20)
Share of profit after tax of joint ventures and associates	**147**	120
Profit on disposal and remeasurement of subsidiaries, joint ventures and associates (note 4b)	**174**	115
Income from continuing operations	**43,497**	34,646
Income from discontinued operations	**58**	4,665
Total income	**43,555**	39,311

7 – Details of expenses

This note gives further detail on the items appearing in the expenses section of the consolidated income statement.

Continuing operations	2014 £m	2013 £m
Claims and benefits paid		
Claims and benefits paid to policyholders on long-term business		
Insurance contracts	**10,085**	11,899
Participating investment contracts	**4,431**	5,089
Non-participating investment contracts	**27**	61
Claims and benefits paid to policyholders on general insurance and health business	**5,917**	6,082
	20,460	23,131
Less: Claim recoveries from reinsurers		
Insurance contracts	**(933)**	(975)
Participating investment contracts	**(53)**	(63)
Claims and benefits paid, net of recoveries from reinsurers	**19,474**	22,093
Change in insurance liabilities		
Change in insurance liabilities (note 41)	**5,890**	(2,396)
Change in reinsurance asset for insurance provisions (note 41)	**(320)**	(97)
Change in insurance liabilities, net of reinsurance	**5,570**	(2,493)
Change in investment contract provisions		
Investment income allocated to investment contracts	**2,629**	4,406
Other changes in provisions		
Participating investment contracts (note 42)	**3,218**	2,244
Non-participating investment contracts	**678**	409
Change in reinsurance asset for investment contract provisions	**(7)**	(9)
Change in investment contract provisions	**6,518**	7,050
Change in unallocated divisible surplus (note 46)	**3,364**	(280)
Fee and commission expense		
Acquisition costs		
Commission expenses for insurance and participating investment contracts	**2,103**	2,264
Change in deferred acquisition costs for insurance and participating investment contracts	**(59)**	184
Deferrable costs for non-participating investment contracts	**63**	82
Other acquisition costs	**828**	872
Change in deferred acquisition costs for non-participating investment contracts	**38**	(93)
Investment income attributable to unitholders	**112**	347
Reinsurance commissions and other fee and commission expense	**304**	319
	3,389	3,975
Other expenses		
Other operating expenses		
Staff costs (note 11b)	**848**	841
Central costs and sharesave schemes	**132**	150
Depreciation	**19**	31
Impairment of goodwill on subsidiaries (note 17)	**—**	48
Amortisation of acquired value of in-force business on insurance contracts	**32**	37
Amortisation of intangible assets	**81**	81
Impairment of intangible assets	**10**	14
Integration and restructuring costs (see below)	**140**	363
Other expenses	**773**	701
	2,035	2,266
Impairments		
Net impairment on loans	**(9)**	30
Net impairment on financial investments	**1**	2
Net impairment on receivables and other financial assets	**5**	—
	(3)	32
Other net foreign exchange (gains)/losses	**(53)**	(78)
Finance costs (note 8)	**540**	609
Expenses from continuing operations	**40,834**	33,174
Expenses from discontinued operations	**—**	3,127
Total expenses	**40,834**	36,301

Integration and restructuring costs

Integration and restructuring costs from continuing operations were £140 million *(2013: £363 million)* and mainly include £94 million of expenses associated with the Solvency II programme *(2013: £79 million)*. Compared to the prior year, integration and restructuring costs have reduced by £223 million principally driven by a significant reduction in transformation spend.

8 – Finance costs

This note analyses the interest costs on our borrowings (which are described in note 50) and similar charges.

Finance costs comprise:

Continuing operations	2014 £m	2013 £m
Interest expense on core structural borrowings		
Subordinated debt	**289**	305
Long term senior debt	**19**	21
Commercial paper	**2**	2
	310	328
Interest expense on operational borrowings		
Amounts owed to financial institutions	**48**	70
Securitised mortgage loan notes at fair value	**87**	89
	135	159
Interest on collateral received	**18**	20
Net finance charge on pension schemes	**13**	20
Unwind of discount on GI reserves	**6**	5
Other similar charges	**58**	77
Total finance costs from continuing operations	**540**	609
Total finance costs from discontinued operations	**—**	16
Total finance costs	**540**	625

9 – Long-term business economic volatility

The long-term nature of much of the Group's operations means that, for management's decision-making and internal performance management, the effects of short-term economic volatility are treated as non-operating items. The Group focuses instead on an operating profit measure that incorporates an expected return on investments supporting its long-term business, as described below.

(a) Definitions

Operating profit for long-term business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the reporting period, with consistent allowance for the corresponding expected movements in liabilities. Operating profit includes the effect of variance in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions, where not treated as exceptional. Changes due to economic items, such as market value movements and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed separately outside operating profit.

(b) Economic volatility

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

Long-term business	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) Methodology

The expected investment returns and corresponding expected movements in long-term business liabilities are calculated separately for each principal long-term business unit.

The expected return on investments for both policyholders' and shareholders' funds is based on opening economic assumptions applied to the expected funds under management over the reporting period. Expected investment return assumptions are derived actively, based on market yields on risk-free fixed interest assets at the end of each financial year. The same margins are applied on a consistent basis across the Group to gross risk-free yields, to obtain investment return assumptions for equities and properties. Expected funds under management are equal to the opening value of funds under management, adjusted for sales and purchases during the period arising from expected operating experience.

The actual investment return is affected by differences between the actual and expected funds under management and changes in asset mix, as well as movements in interest rates. To the extent that these differences arise from the operating experience of the long-term business, or management decisions to change asset mix, the effect is included in the operating profit. The residual difference between actual and expected investment return is included in investment variances, outside operating profit but included in profit before tax.

9 – Long-term business economic volatility continued

The movement in liabilities included in operating profit reflects both the change in liabilities due to the expected return on investments and the impact of experience variances and assumption changes for non-economic items.

The effect of differences between actual and expected economic experience on liabilities, and changes to economic assumptions used to value liabilities, are taken outside operating profit. For many types of long-term business, including unit-linked and with-profits funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. For other long-term business the profit impact of economic volatility depends on the degree of matching of assets and liabilities, and exposure to financial options and guarantees.

(d) Assumptions

The expected rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return and asset classification under IFRS.

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 is 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 long-term 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.

10 – Longer-term investment return and economic assumption changes for non-long-term business

For non-long-term business, the total investment income, including realised and unrealised gains, is split between a calculated longer-term return, which is included in operating profit, and short-term fluctuations from this, which are disclosed outside operating profit but are included in profit before tax. This note gives details of the longer-term return calculation and the relevant assumptions, as well as the economic assumption changes on our general insurance and health business.

(a) The short-term fluctuations in investment return and economic assumption changes attributable to the non-long-term business result and reported outside operating profit were as follows:

Non-long-term business	**2014 £m**	2013 £m
Short-term fluctuations in investment return (see (b) below) – continuing operations	**261**	(336)
Economic assumption changes – continuing operations (see (g) below)	**(145)**	33
	116	(303)

(b) The longer-term investment return and short-term fluctuation for continuing operations are as follows:

Non-long-term business - Continuing operations	**2014 £m**	2013 £m
Analysis of investment income:		
Net investment income	**754**	266
Foreign exchange gains/losses and other charges	**(8)**	(35)
	746	231
Analysed between:		
Longer-term investment return, reported within operating profit	**485**	567
Short-term fluctuation in investment return, reported outside operating profit		
General insurance and health	**181**	(243)
Other operations[1]	**80**	(93)
	261	(336)
	746	231

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

(c) The longer-term investment return is calculated separately for each principal non-long-term business unit. In respect of equities and properties, the return is calculated by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of investment return.

The longer-term rate of investment return is determined using consistent assumptions between operations, having regard to local economic and market forecasts of investment return. The allocated longer-term return for other investments is the actual income receivable for the year. Actual income and longer-term investment return both contain the amortisation of the discounts/premium arising on the acquisition of fixed income securities. For other operations, the longer-term return reflects assets backing non-long-term business held in Group centre investments, including the centre hedging programme.

10 – Longer-term investment return and economic assumption changes for non-long-term business continued

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.

The favourable movement in short term fluctuations 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.

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

	2014 £m	Restated 2013[2] £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-long-term business in Group centre investments, including the centre hedging programme. For 2013 represents assets backing non-long-term business in the France holding company and Group centre investments, including the centre hedging programme.
2 Restated following the adoption of amendments to 'IAS 32: *Financial Instruments: Presentation*'. Refer to note 1 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 Equities		Longer-term rates of return Properties	
	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

To calculate the longer-term investment return for its non-long-term business in 2013 and 2014, the Group has applied the same economic assumptions for equities and properties as are used under MCEV principles.

(e) The table below compares the actual return on investments attributable to the non-long-term business, after deducting investment management expenses and charges, with the aggregate longer-term return over a five-year period.

Continuing operations	2010-2014 £m	2009-2013 £m
Actual return attributable to shareholders	**2,760**	2,902
Longer-term return credited to operating results	**(3,293)**	(3,578)
Excess of longer-term returns over actual returns	**(533)**	(676)

(f) The table below shows the sensitivity of the Group's non-long-term business operating profit for continuing operations before tax to changes in the longer-term rates of return:

Continuing operations – Movement in investment return for	By	Change in	2014 £m	2013 £m
Equities	1% higher/lower	Group operating profit before tax	**3**	8
Properties	1% higher/lower	Group operating profit before tax	**1**	1

(g) The economic assumption changes mainly arise from movements in the rate used to discount latent claims reserves and periodic payment orders.

As explained in accounting policy L, provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the duration of the expected settlement of the claims. The discount rate is set at the start of the accounting period, with any change in rates between the start and end of the accounting period being reflected below operating profit as an economic assumption change. The range of discount rates used is disclosed in note 41.

11 – Employee information

This note shows where our staff are employed throughout the world, excluding staff employed by our joint ventures and associates, and analyses the total staff costs.

(a) Employee numbers

The number of persons employed by the Group, including directors under a service contract, was:

	At 31 December		Average for the year[1]	
Continuing operations	**2014 Number**	2013 Number	**2014 Number**	2013 Number
United Kingdom & Ireland	**14,324**	14,886	**14,617**	16,751
France	**4,082**	4,134	**4,135**	4,177
Poland	**1,380**	1,260	**1,342**	1,230
Italy, Spain and Other	**932**	1,239	**1,169**	1,392
Canada	**3,461**	3,582	**3,455**	3,685
Asia	**999**	1,081	**1,021**	1,128
Aviva Investors	**953**	923	**957**	979
Other Group Activities	**233**	613	**241**	628
Employees in continuing operations	**26,364**	27,718	**26,937**	29,970
Employees in discontinued operations	**—**	—	**—**	1,552
Total employee numbers	**26,364**	27,718	**26,937**	31,522

1 Average employee numbers have been calculated using a monthly average that takes into account recruitment, leavers, transfers and disposals of businesses during the year.

(b) Staff costs

Continuing operations	**2014 £m**	2013 £m
Wages and salaries	**1,067**	1,230
Social security costs	**177**	200
Post-retirement obligations		
Defined benefit schemes (note 49d)[1]	**30**	(128)
Defined contribution schemes (note 49d)	**110**	107
Profit sharing and incentive plans	**94**	117
Equity compensation plans (note 32d)	**40**	39
Termination benefits	**16**	106
Staff costs from continuing operations	**1,534**	1,671
Staff costs from discontinued operations	**—**	109
Total staff costs	**1,534**	1,780

1 In 2013, the credit for the defined benefit schemes arose from a £145 million gain from plan amendments to the Irish scheme.

Staff costs are charged within:

Continuing operations	**2014 £m**	2013 £m
Acquisition costs	**478**	474
Claims handling expenses	**131**	156
Central costs and sharesave schemes	**61**	85
Other operating expenses	**848**	841
Integration and restructuring costs	**16**	115
Staff costs from continuing operations	**1,534**	1,671
Staff costs from discontinued operations	**—**	109
Total staff costs	**1,534**	1,780

12 – Directors

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' Remuneration Report in the 'Corporate governance' section of this report. For the purposes of the disclosure required by Schedule 5 to the Companies Act 2006, the total aggregate emoluments of the directors in respect of 2014 was £5.6 million *(2013: £5.9 million)*. Employer contributions to pensions for executive directors for qualifying periods were £62,257 *(2013: £86,923).* The aggregate net value of share awards granted to the directors in the period was £3.6 million *(2013: £4.5 million).* The net value has been calculated by reference to the closing middle market price of an ordinary share at the date of grant. During the year, 2,903 share options were exercised by directors *(2013: £nil).*

13 – Auditors' remuneration

This note shows the total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, to our principal auditors, PricewaterhouseCoopers LLP.

Continuing operations	2014 £m	2013 £m
Fees payable to PwC LLP and its associates for the statutory audit of the Aviva Group and Company financial statements	**2.5**	2.4
Fees payable to PwC LLP and its associates for other services		
Audit of Group subsidiaries	**9.8**	10.1
Additional fees related to the prior year audit of Group subsidiaries	**0.1**	0.7
Total audit fees	**12.4**	13.2
Audit related assurance	**2.3**	2.2
Other assurance services	**9.8**	6.1
Total audit and assurance fees	**24.5**	21.5
Tax compliance services	**0.1**	0.1
Tax advisory services	**0.1**	0.1
Services relating to corporate finance transactions	**—**	0.1
Other non audit services not covered above	**1.5**	1.1
Fees payable to PwC LLP and its associates for services to Group companies classified as continuing operations	**26.2**	22.9
Discontinued operations		
Fees payable to PwC LLP and its associates for audit of Group subsidiaries	**—**	1.2
Fees payable to PwC LLP and its associates for other non-audit services to Group subsidiaries	**—**	0.1
Total fees payable to PwC LLP and its associates for services to Group companies	**26.2**	24.2

The tables above reflect the disclosure requirements of SI2011/2198 – The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011.

In addition to the fees shown above, during 2014 the Group paid PwC £0.2 million (*2013: £0.2 million*) in relation to the audit of Group occupational pension schemes.

Fees payable for the audit of the Group's subsidiaries include fees for the statutory audit of the subsidiaries, both inside and outside the UK, and for the work performed by the principal auditors in respect of the subsidiaries for the purpose of the consolidated financial statements of the Group.

Total audit fees (excluding additional fees relating to the prior year audits of group subsidiaries), audit-related assurance fees and fees for the audit of the Group's MCEV reporting were £15.8 million (*2013: £15.8 million*). This includes favourable foreign exchange movements of £0.3 million, giving an underlying increase of £0.3 million.

Audit related assurance comprises services in relation to statutory and regulatory filings. These include audit services for the audit of regulatory returns in the UK and review of interim financial information under the Listing Rules of the UK Listing Authority.

Fees for other assurance services comprise non-statutory assurance work which is customarily performed by the external auditor, including the audit of the Group's MCEV reporting. Although embedded value is a primary management reporting basis and our disclosures require a full audit, the relevant fees are not classified as being for statutory audit.

Other assurance services in 2014 includes fees relating to the audit of the Group's MCEV reporting of £1.2 million, £1.4 million for examination of the Group Individual Capital Assessment and Economic Capital and £6.4 million associated with assurance services to prepare the businesses for Solvency II implementation. Solvency II implementation is a major project requiring substantial model validation assurance that the Company believes is most appropriately performed by the principal auditors. In view of the significance and scale of this work, the Audit Committee specifically assessed the suitability of PwC to provide this service.

The 2014 fees for other non-audit services of £1.5 million includes £0.5 million relating to a controls review at Aviva Investors and £1.0 million for a number of other, individually smaller services.

Details of the Group's process for safeguarding and supporting the independence and objectivity of the external auditors are given in the Audit Committee report.

14 – 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

14 – Tax continued

(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

(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).*

14 – Tax continued

(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.

15 – 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:

	2014			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	**2,173**	**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:

	2014			2013		
Continuing operations	**Before tax £m**	**Net of tax, non-controlling interests, preference dividends and DCI[1] £m**	**Per share p**	Before tax £m	Net of tax, non-controlling interests, preference dividends and DCI[1] £m	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.

15 – 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

16 – 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%)*.

17 – Goodwill

This note analyses the changes to the carrying amount of goodwill during the year, and details the results of our impairment testing on both goodwill and intangible assets with indefinite lives.

(a) Carrying amount

	2014 £m	2013 £m
Gross amount		
At 1 January	**1,770**	2,774
Acquisitions and additions	**3**	6
Disposals	**(191)**	(1,034)
Movements in contingent consideration	**(39)**	—
Foreign exchange rate movements	**(40)**	24
At 31 December	**1,503**	1,770
Accumulated impairment		
At 1 January	**(290)**	(1,071)
Impairment losses charged to expenses	**—**	(48)
Disposals	**73**	842
Foreign exchange rate movements	**16**	(13)
At 31 December	**(201)**	(290)
Carrying amount at 1 January	**1,480**	1,703
Carrying amount at 31 December	**1,302**	1,480
Less: Assets classified as held for sale	**—**	(4)
Carrying amount at 31 December	**1,302**	1,476

Goodwill from acquisitions and additions arose on the acquisition of a small insurance broker in Canada.

There were no goodwill impairment charges on subsidiaries recognised in the income statement. The total charge for impairment of goodwill, joint ventures, and associates for the year was £24 million, comprising an impairment charge recognised in respect of goodwill within interests in associates (refer to note 20).

Goodwill disposed of during the year primarily relates to CxG, a Spanish long-term business, and River Road, a US equity manager. See note 4 for further details.

Movements in contingent consideration in 2014 relate to contingent consideration received in respect of acquisitions of subsidiaries made prior to 1 January 2010.

(b) Goodwill allocation and impairment testing

A summary of the goodwill and intangibles with indefinite useful lives allocated to cash generating units is presented below.

	Carrying amount of goodwill		Carrying amount of intangibles with indefinite useful lives (detailed in note 18)		Total	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
United Kingdom – general insurance and health	**924**	924	**—**	—	**924**	924
Ireland – general insurance and health	**107**	115	**—**	—	**107**	115
France – long-term business	**—**	—	**48**	52	**48**	52
Poland – long-term business	**8**	9	**—**	—	**8**	9
Italy						
Long-term business	**14**	15	**—**	—	**14**	15
General insurance and health	**28**	30	**—**	—	**28**	30
Spain – long-term business	**148**	259	**—**	—	**148**	259
Aviva Investors – fund management	**—**	27	**—**	—	**—**	27
Canada	**23**	49	**—**	—	**23**	49
Asia	**50**	52	**—**	—	**50**	52
	1,302	1,480	**48**	52	**1,350**	1,532

Goodwill in all business units is tested for impairment by comparing the carrying value of the cash generating unit to which the goodwill relates, to the recoverable value of that cash generating unit. The recoverable amount is the value in use of the cash generating unit unless otherwise stated.

Long-term business

Value in use is calculated as an actuarially determined appraisal value, based on the embedded value of the business calculated in accordance with market consistent embedded value ('MCEV') principles, together with the present value of expected profits from future new business. If the embedded value of the business tested is sufficient to demonstrate goodwill recoverability on its own, then it is not necessary to estimate the present value of expected profits from future new business.

If required, the present value of expected profits arising from future new business written over a given period is calculated on an MCEV basis, using profit projections based on the most recent three year business plans approved by management. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the relevant cash generating unit. The underlying assumptions of these projections include market share, customer numbers, mortality, morbidity and persistency.

17 – Goodwill continued

Future new business profits for the remainder of the given period beyond the initial three years are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to management estimates, past experience and relevant available market statistics.

Expected profits from future new business are discounted using a risk adjusted discount rate. The discount rate is a combination of a risk-free rate and a risk margin to make prudent allowance for the risk that experience in future years for new business may differ from that assumed.

Key Assumptions

	Embedded value basis		Future new business profits growth rate		Future new business profits discount rate	
	2014	2013	**2014 %**	2013 %	**2014 %**	2013 %
Italy long-term business	**MCEV**	MCEV	**2.0**	2.0	**8.4**	10.5
Spain long-term business	**MCEV**	MCEV	**1.5**	1.5	**10.0**	10.0

General insurance, health, fund management and other businesses

Value in use is calculated as the discounted value of expected future profits of each business. The calculation uses cash flow projections based on business plans approved by management covering a three year period. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the relevant cash generating unit. The underlying assumptions of these projections include market share, customer numbers, premium rate and fee income changes, claims inflation and commission rates.

Cash flows beyond that three year period are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to past experience and relevant available market statistics.

Future profits are discounted using a risk adjusted discount rate.

Key assumptions

	Extrapolated future profits growth rate		Future profits discount rate	
	2014 %	2013 %	**2014 %**	2013 %
United Kingdom general insurance and health	**1.3**	1.3	**6.7**	7.7
Ireland general insurance and health	**1.3**	1.3	**5.9**	8.4
Italy general insurance and health	**2.0**	2.0	**6.8 – 7.9**	8.7 – 10.2

France – indefinite life intangible asset

The recoverable amount of the indefinite life intangible asset has been assessed based on the fair value less costs to sell of the cash generating unit to which it relates. The fair value less costs to sell was determined based on the quoted market value of Aviva's share of the subsidiary to which it relates.

Results of impairment testing

The recoverable amount exceeds the carrying value of the cash generating units including goodwill.

18 – Acquired value of in-force business (AVIF) and intangible assets

This note shows the movements in cost, amortisation and impairment of the acquired value of in-force business and intangible assets during the year.

	AVIF on insurance contracts[1] £m	AVIF on investment contracts[2] £m	Other intangible assets with finite useful lives (b) £m	Intangible assets with indefinite useful lives (a) £m	Total £m
Gross amount					
At 1 January 2013	2,261	288	1,737	114	4,400
Additions	—	—	110	—	110
Disposals	(1,850)	(158)	(477)	—	(2,485)
Movement in shadow adjustment	133	—	—	—	133
Foreign exchange rate movements	18	10	8	4	40
At 31 December 2013	**562**	**140**	**1,378**	**118**	**2,198**
Additions	**—**	**—**	**161**	**—**	**161**
Disposals	**(70)**	**(21)**	**(67)**	**—**	**(158)**
Foreign exchange rate movements	**(27)**	**(1)**	**(51)**	**(8)**	**(87)**
At 31 December 2014	**465**	**118**	**1,421**	**110**	**2,114**
Accumulated amortisation					
At 1 January 2013	(1,547)	(165)	(682)	—	(2,394)
Amortisation for the year	(133)	(8)	(73)	—	(214)
Disposals	1,308	102	314	—	1,724
Foreign exchange rate movements	(11)	(7)	8	—	(10)
At 31 December 2013	**(383)**	**(78)**	**(433)**	**—**	**(894)**
Amortisation for the year	**(32)**	**(5)**	**(76)**	**—**	**(113)**
Disposals	**30**	**21**	**34**	**—**	**85**
Foreign exchange rate movements	**22**	**1**	**7**	**—**	**30**
At 31 December 2014	**(363)**	**(61)**	**(468)**	**—**	**(892)**
Accumulated Impairment					
At 1 January 2013	(144)	(39)	(185)	(63)	(431)
Impairment losses charged to expenses	—	—	(24)	—	(24)
Disposals	61	15	151	—	227
Foreign exchange rate movements	(2)	—	(3)	(3)	(8)
At 31 December 2013	**(85)**	**(24)**	**(61)**	**(66)**	**(236)**
Impairment losses charged to expenses	**—**	**—**	**(10)**	**—**	**(10)**
Disposals	**40**	**—**	**6**	**—**	**46**
Foreign exchange rate movements	**2**	**—**	**—**	**4**	**6**
At 31 December 2014	**(43)**	**(24)**	**(65)**	**(62)**	**(194)**
Carrying amount					
At 1 January 2013[3]	**570**	**84**	**870**	**51**	**1,575**
At 31 December 2013	**94**	**38**	**884**	**52**	**1,068**
At 31 December 2014	**59**	**33**	**888**	**48**	**1,028**

1 On insurance and participating investment contracts.
2 On non-participating investment contracts.
3 The carrying amount of acquired value of in-force business and intangible assets at 1 January 2013 includes held for sale assets of £491 million.

(a) Intangible assets with indefinite useful lives comprise the value of the Union Financière de France Banque distribution channel, where the existing lives of the assets and their competitive position in, and the stability of, their respective markets support this classification. Impairment testing of these intangible assets is covered in note 17(b).

(b) Other intangible assets with finite useful lives consist primarily of the value of bancassurance and other distribution agreements.

Additions relate to intangible assets with finite lives including capitalised software in the UK and Canadian general insurance business.

The intangible assets with finite lives disposed of in the year relate primarily to River Road and a Canadian broker. Disposals also comprise the derecognition of exhausted assets which are fully amortised or impaired with nil carrying value.

Impairment losses on intangible assets with finite lives of £10 million arose principally from impairments of capitalised software in the UK long-term business and other Group activities. Impairment tests were conducted as described in note 17(b).

AVIF on insurance and investment contracts is generally recoverable in more than one year. Of the total AVIF of £92 million (£59 million on insurance contracts, £33 million on investment contracts), £74 million *(2013: £93 million)* is expected to be recovered more than one year after the statement of financial position date.

19 – Interests in, and loans to, joint ventures

In several businesses, Group companies and other parties jointly control certain entities. This note analyses these interests and describes the principal joint ventures in which we are involved.

(a) Carrying amount and details of joint ventures

(i) The movements in the carrying amount comprised:

	2014				2013			
	Goodwill and intangibles £m	**Equity interests £m**	**Loans £m**	**Total £m**	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
At 1 January	**60**	**1,145**	**24**	**1,229**	132	1,341	43	1,516
Share of results before tax	**—**	**138**	**—**	**138**	—	161	—	161
Share of tax	**—**	**(3)**	**—**	**(3)**	—	(16)	—	(16)
Share of results after tax	**—**	**135**	**—**	**135**	—	145	—	145
Amortisation of intangibles[1]	**(6)**	**—**	**—**	**(6)**	(5)	—	—	(5)
Share of (loss)/profit after tax	**(6)**	**135**	**—**	**129**	(5)	145	—	140
Reclassification from subsidiary	**43**	**21**	**—**	**64**	—	—	—	—
Additions	**—**	**7**	**73**	**80**	—	149	6	155
Disposals	**—**	**(311)**	**—**	**(311)**	(54)	(378)	—	(432)
Reduction in Group interest	**(10)**	**(26)**	**—**	**(36)**	—	(37)	—	(37)
Share of gains/(losses) taken to other comprehensive income	**—**	**22**	**—**	**22**	—	(37)	—	(37)
Loans repaid	**—**	**—**	**(25)**	**(25)**	—	—	(21)	(21)
Dividend received	**—**	**(22)**	**—**	**(22)**	—	(37)	—	(37)
Foreign exchange rate movements	**—**	**9**	**1**	**10**	(13)	(1)	(4)	(18)
At 31 December	**87**	**980**	**73**	**1,140**	60	1,145	24	1,229
Less: Amounts classified as held for sale	**—**	**—**	**—**	**—**	—	(29)	—	(29)
At 31 December	**87**	**980**	**73**	**1,140**	60	1,116	24	1,200

1 Comprises amortisation of AVIF on insurance contracts of £3 million *(2013: £3 million)* and other intangibles of £3 million *(2013: £2 million)*.

'Reclassification from subsidiary' relates to the recognition of the Group's joint venture holdings in Indonesia, which was previously a fully consolidated subsidiary (refer to note 4(b)(i) for further detail). Additions relate to additional investments in, and loans to, property management undertakings.

Disposals relate to the disposal of all or a portion of the Group's holdings in various property management undertakings. Reductions in Group interest in 2014 relate to the sale of the South Korean joint venture, Woori Aviva Life Insurance Co. Ltd, and the IPO share sale of AvivaSA Emeklilik ve Hayat A.S. See note 4 for further details.

The Group's share of total comprehensive income related to joint venture entities is £151 million (*2013: £103 million*).

(ii) The carrying amount at 31 December comprised:

	2014				2013			
	Goodwill and intangibles £m	**Equity interests £m**	**Loans £m**	**Total £m**	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
Property management undertakings	**—**	**692**	**73**	**765**	—	893	24	917
Long-term business undertakings	**87**	**278**	**—**	**365**	60	252	—	312
General insurance and health undertakings	**—**	**10**	**—**	**10**	—	—	—	—
Total	**87**	**980**	**73**	**1,140**	60	1,145	24	1,229

The property management undertakings perform property ownership and management activities, and are incorporated and operate in the UK. All such investments are held by subsidiary entities. The loans are not secured and no guarantees were received in respect thereof. They are interest-bearing and are repayable on termination of the relevant partnership.

The long-term business undertakings perform life insurance activities. All investments in such undertakings are unlisted with the exception of Aviva SA Emklilik ve Hayat A.S. which has issued a minority portion of shares publically (refer to note 4(b)(v)). All investments in such undertakings are held by subsidiaries, except for the shares in the Chinese joint venture, Aviva-COFCO Life Insurance Co. Limited, which are held by Aviva plc. The Group's share of net assets of that company is £208 million *(2013: £177 million)* and has a fair value of £208 million *(2013: £177 million)*.

The investment in general insurance and health undertakings relates to the health insurance operations in our Indonesian joint venture.

(iii) No joint ventures are considered to be material from a Group perspective *(2013: none)*. The Group's principal joint ventures are as follows:

			Proportion of ownership interest	
Name	**Nature of activities**	**Principal place of business**	**2014**	2013
The Southgate Limited Partnership	Property management	UK	**50.00%**	50.00%
Airport Property Partnership	Property management	UK	**50.00%**	50.00%
First-Aviva Life Insurance Co. Ltd	Life insurance	Taiwan	**49.00%**	49.00%
Aviva-COFCO Life Insurance Co. Ltd	Life insurance	China	**50.00%**	50.00%
PT Astra Aviva Life	Life insurance	Indonesia	**50.00%**	60.00%[1]
AvivaSA Emeklilik ve Hayat A.S	Life insurance	Turkey	**41.28%**	49.83%

1 Operations reclassified as a joint venture in 2014 upon change in control, refer to note 4(b)(i).

19 – Interests in, and loans to, joint ventures continued

Additionally, the Group has one property limited partnership joint venture whose non-controlling interest (NCI) is material on the basis of their share of profit/(loss), as follows:

	Proportion of ownership interests held by NCI		Proportion of voting rights held by NCI		Profit/(loss) allocated to NCI		Accumulated NCI	
	2014	2013	**2014**	2013	**2014 £m**	2013 £m	**2014 £m**	2013 £m
2 – 10 Mortimer Limited Partnership	**54.5%**	61.9%	**50%**	50%	**62**	41	**102**	46

(iv) The joint ventures have no significant contingent liabilities to which the Group is exposed. The Group has commitments to provide funding to property management joint ventures of £70 million *(2013: £140 million)*.

In certain jurisdictions the ability of joint ventures to transfer funds in the form of cash dividends or to repay loans and advances made by the Group is subject to local corporate or insurance laws and regulations and solvency requirements.

b) Impairment testing

Joint ventures are tested for impairment by comparing the carrying value of the cash generating unit to which the goodwill or intangible relates to the recoverable value of that cash generating unit.

The recoverable amount of long-term business undertakings is the value in use of the joint venture. This is calculated according to the methodology for the calculation of the value in use of long-term business cash generating units for the impairment testing of goodwill, as set out in note 17(b).

The recoverable amount of property management undertakings is the fair value less costs to sell of the joint venture, measured in accordance with the Group's accounting policy for Investment Property (see accounting policy Q).

There is no impairment in the goodwill and intangible amounts within the joint ventures.

20 – Interests in, and loans to, associates

This note analyses our interests in entities which we do not control but where we have significant influence.

Carrying amount and details of associates

(i) The movements in the carrying amount comprised:

	2014				2013			
	Goodwill and intangibles £m	**Equity interests £m**	**Loans £m**	**Total £m**	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m
At 1 January	**—**	**262**	**5**	**267**	—	256	9	265
Share of results before tax	**—**	**44**	**—**	**44**	—	10	—	10
Share of tax	**—**	**(2)**	**—**	**(2)**	—	(1)	—	(1)
Share of results after tax	**—**	**42**	**—**	**42**	—	9	—	9
Impairment	**(24)**	**—**	**—**	**(24)**	(29)	—	—	(29)
Share of results after tax	**(24)**	**42**	**—**	**18**	(29)	9	—	(20)
Additions	**24**	**34**	**—**	**58**	29	14	—	43
Loans repaid	**—**	**—**	**(8)**	**(8)**	—	—	(4)	(4)
Reduction in group interest	**—**	**(43)**	**—**	**(43)**	—	(8)	—	(8)
Reclassification from subsidiary	**—**	**125**	**—**	**125**	—	—	—	—
Reclassification from investment	**—**	**25**	**—**	**25**	—	—	—	—
Dividends received	**—**	**(30)**	**—**	**(30)**	—	(10)	—	(10)
Foreign exchange rate movements	**—**	**(11)**	**3**	**(8)**	—	1	—	1
Movements in carrying amount	**—**	**142**	**(5)**	**137**	—	6	(4)	2
At 31 December	**—**	**404**	**—**	**404**	—	262	5	267

Impairment testing

Management has determined that the goodwill in Aviva Life Insurance Company India Limited is fully impaired. An impairment of £24 million *(2013: £29 million)* has been recognised in respect of this associate, reducing its goodwill to £nil.

The recoverable amount of property management undertakings is the fair value less costs to sell of the associate, measured in accordance with the Group's accounting policy for Investment Property (see accounting policy Q).

Other movements

Additions of equity interests and reduction in group interests relate to the purchase and sale of portions of the Group's holdings in various property management undertakings. Reclassification from subsidiary relates primarily to the reclassification of property management undertakings following reductions in the Group's stakes in 2014. The Group's share of total comprehensive income related to associates is £18 million (*2013: loss of £20 million*).

(ii) No associates are considered to be material from a Group perspective *(2013: none)*. All investments in principal associates are held by subsidiaries. The Group's principal associates are as follows:

			Proportion of ownership interest	
Name	**Nature of activities**	**Principal place of business**	**2014**	2013
Aviva Life Insurance Company India	Life insurance	India	**26.00%**	26.00%
SCPI Ufifrance Immobilier	Property Management	France	**20.40%**	20.40%
Ashtenne Industrial Fund (A.I.F)	Property Management	UK	**20.10%**	32.17%
Encore +[1]	Property Management	UK	**10.82%**	12.32%

1. The Group has significant influence over Encore + and it is therefore accounted for as an associate.

20 – Interests in, and loans to, associates continued

(iii) The associates have no significant contingent liabilities to which the Group is exposed.

In certain jurisdictions the ability of associates to transfer funds in the form of cash dividends or to repay loans and advances made by the Group is subject to local corporate or insurance laws and regulations and solvency requirements.

21 – Property and equipment

This note analyses our property and equipment, which are primarily properties occupied by Group companies.

	Properties under construction £m	Owner - occupied properties £m	Motor vehicles £m	Computer equipment £m	Other assets £m	Total £m
Cost or valuation						
At 1 January 2013	74	337	3	608	219	1,241
Additions	—	12	—	9	9	30
Disposals[1]	(44)	(96)	—	(19)	(61)	(220)
Transfers (to)/from investment property (note 22)	(25)	1	—	—	—	(24)
Fair value losses	3	(2)	—	—	—	1
Foreign exchange rate movements	—	6	—	(2)	(1)	3
At 31 December 2013	8	258	3	596	166	1,031
Additions	**—**	**100**	**—**	**9**	**7**	**116**
Disposals	**(13)**	**(4)**	**—**	**(39)**	**(5)**	**(61)**
Transfers (to)/from investment property (note 22)	**—**	**—**	**—**	**—**	**—**	**—**
Fair value gains/(losses)	**5**	**4**	**—**	**—**	**—**	**9**
Foreign exchange rate movements	**—**	**(15)**	**—**	**(3)**	**(9)**	**(27)**
At 31 December 2014	**—**	**343**	**3**	**563**	**159**	**1,068**
Depreciation and impairment						
At 1 January 2013	—	(92)	(2)	(559)	(195)	(848)
Charge for the year	—	—	—	(22)	(12)	(34)
Disposals[1]	—	91	—	12	59	162
Foreign exchange rate movements	—	—	—	—	2	2
At 31 December 2013	—	(1)	(2)	(569)	(146)	(718)
Charge for the year	**—**	**—**	**—**	**(13)**	**(6)**	**(19)**
Disposals	**—**	**—**	**—**	**37**	**5**	**42**
Impairment charge	**—**	**(26)**	**—**	**—**	**—**	**(26)**
Foreign exchange rate movements	**—**	**—**	**—**	**5**	**5**	**10**
At 31 December 2014	**—**	**(27)**	**(2)**	**(540)**	**(142)**	**(711)**
Carrying amount						
At 31 December 2013	8	257	1	27	20	313
At 31 December 2014	**—**	**316**	**1**	**23**	**17**	**357**

1 Disposals include property and equipment sold as part of the disposal of the US Life business in 2013.

Total net fair value gains of £4 million on owner occupied properties consist of £7 million gains *(2013: £2 million losses)* which have been taken to other comprehensive income and £3 million losses which have been taken to the income statement.

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers. These values are assessed in accordance with the relevant parts of the current Royal Institute of Chartered Surveyors Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment is in accordance with UK Valuations Standards ("Red book"), and is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably and without compulsion, on the basis of the highest and best use of asset that is physically possible, legally permissible and financially feasible. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, *Property, Plant and Equipment*.

Similar considerations apply to properties under construction, where an estimate is made of valuation when complete, adjusted for anticipated costs to completion, profit and risk, reflecting market conditions at the valuation date.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £329 million *(2013: £255 million)*.

The Group has no material finance leases for property and equipment.

22 – Investment property

This note gives details of the properties we hold for long-term rental yields or capital appreciation.

	2014			2013		
	Freehold £m	**Leasehold £m**	**Total £m**	Freehold £m	Leasehold £m	Total £m
Carrying value						
At 1 January	**8,207**	**1,244**	**9,451**	8,552	1,405	9,957
Additions	**606**	**56**	**662**	332	10	342
Capitalised expenditure on existing properties	**57**	**6**	**63**	26	2	28
Fair value gains/(losses)	**545**	**133**	**678**	111	73	184
Disposals[1]	**(1,733)**	**(29)**	**(1,762)**	(888)	(248)	(1,136)
Transfers from property and equipment (note 21)	**—**	**—**	**—**	24	—	24
Foreign exchange rate movements	**(161)**	**(6)**	**(167)**	50	2	52
At 31 December	**7,521**	**1,404**	**8,925**	8,207	1,244	9,451

1 Disposals in 2014 relate primarily to the deconsolidation of certain property limited partnerships (PLPs). Disposals in 2013 include property sold as part of the disposal of the US Life business.

Please refer to note 23 'Fair value methodology' for further information on the fair value measurement and valuation techniques of investment property.

The fair value of investment properties leased to third parties under operating leases at 31 December 2014 was £8,917 million *(2013: £9,447 million)*. Future contractual aggregate minimum lease rentals receivable under the non-cancellable portion of these leases are given in note 54(b)(i).

23 – Fair value methodology

This note explains the methodology for valuing our assets and liabilities measured at fair value, and for fair value disclosures. It also provides an analysis of these according to a 'fair value hierarchy', determined by the market observability of valuation inputs.

(a) Basis for determining fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date.

Level 2

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly.
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads).
- Market-corroborated inputs.

Where we use broker quotes and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- Where the broker price is validated by using internal models with market observable inputs and the values are similar, we classify the investment as Level 2.
- In circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

Level 3

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. 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 or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability. Examples are investment properties, certain private equity investments and private placements.

23 – Fair value methodology continued

The majority of the Group's assets and liabilities measured at fair value are based on quoted market information or observable market data. 17.4% of assets and 2.4% of liabilities measured at fair value are based on estimates and recorded as 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. Third-party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third-party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

(b) Changes to valuation techniques

There were no changes in the valuation techniques during the year compared to those described in the 2013 annual consolidated financial statements, other than those noted below.

(c) Comparison of the carrying amount and fair values of financial instruments

Set out below is a comparison of the carrying amounts and fair values of financial assets and liabilities, excluding those classified as held for sale. These amounts may differ where the asset or liability is carried on a measurement basis other than fair value, e.g. amortised cost.

	2014			Restated 2013[1]
	Fair value £m	**Carrying amount £m**	Fair value £m	Carrying amount £m
Financial assets				
Loans[2] (note 24)	**25,135**	**25,260**	23,811	23,879
Financial Investments (note 27)	**202,638**	**202,638**	194,027	194,027
Fixed maturity securities	**131,661**	**131,661**	124,385	124,385
Equity securities	**35,619**	**35,619**	37,326	37,326
Other investments (including derivatives)	**35,358**	**35,358**	32,316	32,316
Financial liabilities				
Non-participating investment contracts (note 42(a))	**50,013**	**50,013**	48,140	48,140
Net asset value attributable to unitholders	**9,482**	**9,482**	10,362	10,362
Borrowings[2] (note 50)	**8,080**	**7,378**	8,222	7,819
Derivative liabilities (note 51)	**3,481**	**3,481**	2,251	2,251

1 Restated following the adoption of amendments to IAS 32 *'Financial instruments: Presentation'* – see note 1 for details.
2 Within the fair value total, the estimated fair value has been provided for the portion of loans and borrowings that are carried at amortised cost as disclosed in note 23 (d).

Fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities
- The equivalent assets to those above, which are classified as held for sale

(d) Fair value hierarchy analysis

An analysis of assets and liabilities measured at amortised cost and fair value categorised by fair value hierarchy is given below. Financial instruments relating to operations classified as held for sale have been excluded from the individual asset and liability line items and have been disclosed separately.

	Fair value hierarchy					
2014	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Sub-total fair value £m**	**Amortised cost £m**	**Total carrying value £m**
Recurring fair value measurements						
Investment Property (note 22)	**—**	**—**	**8,925**	**8,925**	**—**	**8,925**
Loans (note 24)	**—**	**3,895**	**17,000**	**20,895**	**4,365**	**25,260**
Financial investments measured at fair value (note 27)						
Fixed maturity 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**
Financial liabilities measured at fair value						
Non-participating investment contracts[1] (note 42(a))	**49,791**	**222**	**—**	**50,013**	**—**	**50,013**
Net asset value attributable to unit holders	**9,463**	**—**	**19**	**9,482**	**—**	**9,482**
Borrowings (note 50)	**—**	**812**	**560**	**1,372**	**6,006**	**7,378**
Derivative liabilities (note 51)	**180**	**2,310**	**991**	**3,481**	**—**	**3,481**
Total	**59,434**	**3,344**	**1,570**	**64,348**	**6,006**	**70,354**

1 In addition to the balances in this table, included within Reinsurance assets in the Statement of financial position and note 44 are £2,533 million of non-participating investment contracts, which are legally reinsurance but do not meet the definition of a reinsurance contract under IFRS. These assets are financial instruments measured at fair value through profit and loss and are classified as Level 1 assets.

23 – Fair value methodology continued

2014	Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Non-recurring fair value measurement[1]				
Properties occupied by group companies	—	—	**316**	**316**
Total	—	—	**316**	**316**

1 Non-recurring fair value measurements of assets or liabilities are those fair value measurements that other IFRSs permit or require in particular circumstances.

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers in line with the Group's policy. Further details on the valuation of these properties can be found in note 21.

2013 (Restated)[1]	Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Amortised cost £m	Total carrying value £m
Recurring fair value measurements						
Investment Property (note 22)	—	—	9,451	9,451	—	9,451
Loans (note 24)	—	3,115	15,362	18,477	5,402	23,879
Financial investments measured at fair value (note 27)						
Fixed maturity securities	74,904	40,602	8,879	124,385	—	124,385
Equity securities	36,783	102	441	37,326	—	37,326
Other investments (including derivatives)	24,129	5,170	3,017	32,316	—	32,316
Financial assets of operations classified as held for sale	2,245	282	148	2,675	—	2,675
Total	138,061	49,271	37,298	224,630	5,402	230,032
Financial liabilities measured at fair value						
Non-participating investment contracts[2] (note 42(a))	47,889	251	—	48,140	—	48,140
Net asset value attributable to unit holders	10,183	179	—	10,362	—	10,362
Borrowings (note 50)	—	831	482	1,313	6,506	7,819
Derivative liabilities(note 51)	220	1,830	201	2,251	—	2,251
Financial liabilities of operations classified as held for sale	—	—	—	—	29	29
Total	58,292	3,091	683	62,066	6,535	68,601

1 Restated following the adoption of amendments to IAS 32 *'Financial instruments: Presentation'* – see note 1 for details.
2 In addition to the balances in this table, included within Reinsurance assets in the Statement of financial position and note 44 are £2,048 million of non-participating investment contracts, which are legally reinsurance but do not meet the definition of a reinsurance contract under IFRS. These assets are financial instruments measured at fair value through profit and loss and are classified as level 1 assets.

2013	Fair value hierarchy Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Non-recurring fair value measurement[1]				
Properties occupied by group companies	—	—	257	257
Total	—	—	257	257

1. Non-recurring fair value measurements of assets or liabilities are those fair value measurements that other IFRSs permit or require in particular circumstances.

Investments classified as Level 2

Please see note 23(a) for a description of typical Level 2 inputs.

Fixed income assets, in line with market practice, are generally valued using an independent pricing service. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis. Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced from brokers.

Other Level 2 investments, including Unit Trusts, are valued using net assets values which are deemed to be observable market inputs.

(e) Transfers between levels of the fair value hierarchy

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

Transfers between Level 1 and Level 2

For the year ended 31 December 2014, transfers of financial assets from fair value hierarchy Level 1 to Level 2 amounted to £3.4 billion. These arose primarily in the UK and Ireland (£3.1 billion) as a result of the enhanced understanding of pricing vendor methodologies for the fair value hierarchy level classification of certain debt securities. The remaining £0.3 billion were transferred as a result of a decline in the level of market activity for certain debt securities.

Transfers from Level 2 to Level 1 of £0.2 billion followed changes in the level of market activity of certain investments.

23 – Fair value methodology continued

Transfer to/from Level 3

Transfers out of Level 3 of £0.5 billion principally related to debt securities held by our business in France resulting from improvements in the market liquidity or changes in the availability of observable market inputs.

Transfers of assets into Level 3 of £3.4 billion included:

- £1.8 billion of privately placed notes held in the UK Life business. The discounted cash flow model used to fair value the notes was refined to incorporate asset specific counterparty credit ratings. Where these inputs have been deemed to be unobservable notes have been classified as Level 3.
- £1.4 billion of debt securities held in the UK and France and £0.2 billion of loans held in the UK have been transferred into Level 3 either due to the unavailability of significant observable market data or sufficiently significant differences between the valuation provided by the counterparty and broker quotes and the validation models.

For the year to 31 December 2014, transfers of financial liabilities between fair value hierarchies included the transfer of £0.3 billion of derivative liabilities in the UK from Level 2 to Level 3 due to the unavailability of observable market inputs.

(f) Further information on Level 3 assets and liabilities:

The table below shows movement in the Level 3 assets and liabilities measured at fair value:

						Assets			Liabilities
2014	**Investment Property £m**	**Loans £m**	**Debt securities £m**	**Equity securities £m**	**Other investments (including derivatives) £m**	**Financial assets of operations classified as held for sale £m**	**Net asset value attributable to unitholders £m**	**Derivative liabilities £m**	**Borrowings £m**
Opening balance at 1 January 2014	**9,451**	**15,362**	**8,879**	**441**	**3,017**	**148**	**—**	**(201)**	**(482)**
Total net (losses)/gains recognised in the income statement[2]	**727**	**829**	**209**	**(2)**	**74**	**—**	**—**	**(135)**	**(92)**
Total net (losses)/gains recognised in other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchases	**725**	**1,675**	**1,550**	**28**	**1,017**	**—**	**—**	**(400)**	**—**
Issuances	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(20)**	**—**
Disposals	**(1,811)**	**(1,049)**	**(1,482)**	**(292)**	**(998)**	**(148)**	**—**	**56**	**12**
Transfers into Level 3	**—**	**183**	**3,169**	**2**	**19**	**—**	**(19)**	**(292)**	**—**
Transfers out of Level 3	**—**	**—**	**(469)**	**—**	**—**	**—**	**—**	**—**	**2**
Reclassification to held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Foreign exchange rate movements	**(167)**	**—**	**(547)**	**(18)**	**(63)**	**—**	**—**	**1**	**—**
Balance at 31 December 2014	**8,925**	**17,000**	**11,309**	**159**	**3,066**	**—**	**(19)**	**(991)**	**(560)**

						Assets			Liabilities
2013 (Restated)[1]	Investment Property £m	Loans £m	Debt securities £m	Equity securities £m	Other investments (including derivatives) £m	Financial assets of operations classified as held for sale £m	Non-participating investment contracts £m	Derivative liabilities £m	Borrowings £m
Opening balance at 1 January 2013	—	—	9,962	473	2,503	516	(443)	(231)	—
Total net (losses)/gains recognised in the income statement[2]	—	—	(36)	(39)	305	4	—	22	—
Total net (losses)/gains recognised in other comprehensive income	—	—	—	—	1	19	—	—	—
Purchases	—	—	1,983	11	832	187	—	(50)	—
Issuances	—	—	—	—	—	—	(11)	—	—
Disposals	—	—	(1,527)	(11)	(910)	(737)	270	58	—
Transfers into Level 3	9,482	15,362	301	—	545	—	—	—	(482)
Transfers out of Level 3	—	—	(2,089)	—	(119)	—	184	—	—
Reclassification to held for sale	—	—	—	(3)	(159)	162	—	—	—
Foreign exchange rate movements	(31)	—	285	10	19	(3)	—	—	—
Balance at 31 December 2013	9,451	15,362	8,879	441	3,017	148	—	(201)	(482)

1 Restated following the adoption of amendments to IAS 32 *'Financial instruments: Presentation'* – see note 1 for details. Changes in the total net (losses)/gains recognised in the income statement relating to Level 3 derivative financial instruments were offset by corresponding changes to other derivative financial instruments held by the same counterparty but classified as Level 2. There is no net impact on the consolidated income statement.

2 Total net (losses)/gains recognised in the income statement includes realised gains/(losses) on disposals.

23 – Fair value methodology continued

Total net gains recognised in the income statement in the year ended 31 December 2014 in respect of Level 3 assets measured at fair value amounted to £1,837 million *(restated 2013: £234 million)*, with net losses in respect of liabilities of £227 million *(restated 2013: gains £22 million)*. Included in this balance are net gains of £1,733 million *(restated 2013: £199 million)* attributable to those assets and net losses of £227 million *(restated 2013: gains £22 million)* attributable to those liabilities still held at the end of the year.

The principal assets classified as Level 3, and the valuation techniques applied to them, are:

- Commercial mortgage loans held by our UK Life business amounting to £10.4 billion (2013: £9.9 billion), valued using a Portfolio Credit Risk Model (PCRM). This model calculates a Credit Risk Adjusted Value (CRAV) for each mortgage. The risk adjusted cash flows are discounted using a yield curve, taking into account the term dependent gilt yield curve, and global assumption for the liquidity premium. The mortgage loans have been classified as Level 3 as the liquidity premium is deemed to be non-market observable. The illiquidity premium used in the discount rate ranges between 140 bps to 180 bps.
- Equity release and securitised mortgage loans held by our UK life business amounting to £5.9 billion *(2013: £4.7 billion)* comprise:
  - £3.6 billion *(2013: £2.6 billion)* of equity release mortgages held by our UK Life annuity business valued using an internal model which has been refined during 2014 (see note 41(b)(iii) for further details). Inputs to the model include property growth rates, mortality and morbidity assumptions, cost of capital and liquidity premium. These mortgage loans continue to be classified as Level 3 as these inputs are not deemed to be market observable. The assumed property growth ranges between 1.4% to 1.7% per annum.
  - £2.3 billion *(2013: £2.1 billion)* of securitised and equity release mortgages are valued using a DCF model. The inputs include liquidity risk and property risk premium which are deemed unobservable. The liquidity risk premium used ranges between 140 bps to 180 bps.
- Investment property amounting to £8.9 billion *(2013: £9.5 billion)*. In the UK, investment property is valued at least annually by external chartered surveyors in accordance with guidance issued by The Royal Institution of Chartered Surveyors, and using estimates during the intervening period. Outside the UK, valuations are produced by local qualified staff of the Group or external qualified professional appraisers in the countries concerned. Investment properties are valued on an income approach that is based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking into 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.
- Structured bond-type and non-standard debt products held by our business in France amounting to £7.4 billion *(2013: £7.1 billion)* and bonds held by our UK business of £1.0 billion *(2013: £0.5 billion)*, for which there is no active market. These bonds are valued either using counterparty or broker quotes. These bonds are validated against internal or third-party models. These bonds have been classified as Level 3 because either (i) the third-party models included a significant unobservable liquidity adjustment, or (ii) differences between the valuation provided by the counterparty and broker quotes and the validation model were sufficiently significant to result in a Level 3 classification. At 31 December 2014, the values reported in respect of these products were the lower of counterparty and broker quotes and internally modelled valuations.
- Privately placed notes held by our UK Life business of £1.8 billion transferred in during 2014 have been valued by an internal DCF model using discount factors comprising the yield on a sovereign gilt of similar maturity, plus spreads for credit and liquidity risk. The DCF model used was refined during the year to incorporate asset specific counterparty credit ratings. Where credit spreads have been derived internally these inputs have been deemed to be unobservable and notes have been classified as Level 3.
- Private equity investment funds amounting to £1.0 billion *(2013: £1.1 billion)*, together with external hedge funds held principally by businesses in the UK and France amounting to £1.4 billion *(2013: £1.1 billion)*, and property funds amounting to £0.3 billion *(2013: £0.5 billion)* are valued based on external reports received from the fund manager. Where these valuations are at a date other than balance sheet date, as in the case of some private equity funds, we make adjustments for items such as subsequent draw-downs and distributions and the fund manager's carried interest.
- Level 3 investments including a collateralised loan obligation of £0.4 billion *(2013: £0.4 billion)* and UK non-recourse loans of £0.5 billion *(2013: £0.8 billion)* have been valued using internally developed discounted cash flow models.
- Investments including debt securities held by our French business of £0.3 billion *(2013: £0.7 billion)* have been valued using third party or counterparty valuations.
- Other Level 3 investments amount to £1.2 billion *(restated 2013: £1.0 billion)* and relate to a diverse range of different types of securities held by a number of businesses throughout the Group.

23 – Fair value methodology continued

Where possible, the Group tests the sensitivity of the fair values of Level 3 investments to changes in unobservable inputs to reasonable alternatives. Valuations for Level 3 investments are sourced from independent third parties when available and, where appropriate, validated against internally-modelled valuations, third-party models or broker quotes. Where third-party pricing sources are unwilling to provide a sensitivity analysis for their valuations, the Group undertakes, where feasible, sensitivity analysis on the following basis:

- For third-party valuations validated against internally-modelled valuations using significant unobservable inputs, the sensitivity of the internally modelled valuation to changes in unobservable inputs to a reasonable alternative is determined.
- For third-party valuations either not validated or validated against a third-party model or broker quote, the third-party valuation in its entirety is considered an unobservable input. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple or other suitable valuation multiples of the financial instrument implied by the third-party valuation. For example, for a fixed income security the implied yield would be the rate of return which discounts the security's contractual cash flows to equal the third-party valuation.

On the basis of the methodology outlined above, the Group is able to perform sensitivity analysis for £39.3 billion of the Group's Level 3 assets. For these Level 3 assets, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by + £1.5 billion / - £1.6 billion. Of the £1.2 billion Level 3 assets for which sensitivity analysis is not provided, it is estimated that a 10% change in valuation downwards of these assets would result in a change in fair value of approximately £120 million.

The principal liabilities classified as Level 3, and the valuation techniques applied to them, are:

- £0.6 billion *(2013: £0.5 billion)* of securitised mortgage loan notes are valued using a similar technique to the related Level 3 securitised mortgage assets.
- Derivative liabilities of £1.0 billion *(restated 2013: £0.2 billion)* comprising of over the counter derivatives such as credit default swaps and inflation swaps. These swaps are valued using either a Discounted Cash Flow (DCF) models or other valuation models. Cash flows within these models may be adjusted based on assumptions reflecting the underlying credit risk and liquidity risk and these assumptions are deemed to be not market observable.

Where possible, the Group tests the sensitivity of the fair values of Level 3 liabilities to changes in unobservable inputs to reasonable alternatives. Sensitivities are determined by flexing inputs of internal models to a reasonable alternative, including the yield, NAV multiple or other suitable valuation multiples of the financial instrument implied by the third-party valuation.

On the basis of the methodology outlined above, the Group is able to perform sensitivity analysis for £0.5 billion of the Group's Level 3 liabilities. For these Level 3 liabilities, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by approximately ± £30 million. Of the £1.1 billion Level 3 investments for which sensitivity analysis is not provided it is estimated that a 10% change in valuation downwards of these liabilities would result in a change in fair value of approximately £110 million.

(g) Assets and liabilities not carried at fair value for which fair value is disclosed

The table below shows the fair value and fair value hierarchy for those assets and liabilities not carried at fair value. These exclude any assets or liabilities held for sale.

	Fair value hierarchy			
2014	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**
Asset and liabilities not carried at fair value				
Loans	**—**	**984**	**3,256**	**4,240**
Borrowings	**5,928**	**402**	**378**	**6,708**

	Fair value hierarchy			
2013	Level 1 £m	Level 2 £m	Level 3 £m	Total fair value £m
Asset and liabilities not carried at fair value				
Loans	—	1,021	4,313	5,334
Borrowings	5,499	383	1,027	6,909

24 – Loans

This note analyses the loans our Group companies have made, the majority of which are mortgage loans.

(a) Carrying amounts

The carrying amounts of loans at 31 December 2014 and 2013 were as follows:

	2014			2013		
	At fair value through profit or loss other than trading £m	**At amortised cost £m**	**Total £m**	At fair value through profit or loss other than trading £m	At amortised cost £m	Total £m
Policy loans	**1**	**835**	**836**	1	888	889
Loans to banks	**599**	**3,164**	**3,763**	757	4,087	4,844
UK securitised mortgage loans (see note 25)	**2,406**	**—**	**2,406**	2,169	—	2,169
Non-securitised mortgage loans	**17,889**	**77**	**17,966**	15,550	192	15,742
Loans to brokers and other intermediaries	**—**	**123**	**123**	—	78	78
Other loans	**—**	**166**	**166**	—	157	157
Total	**20,895**	**4,365**	**25,260**	18,477	5,402	23,879
Less: Amounts classified as sale	**—**	**—**	**—**	—	—	—
	20,895	**4,365**	**25,260**	18,477	5,402	23,879

Of the above loans, £23,771 million *(2013: £21,850 million)* are due to be recovered in more than one year after the statement of financial position date.

Loans at fair value

Fair values have been calculated by discounting the future cash flows using appropriate current interest rates for each portfolio of mortgages. Further details of the fair value methodology are given in note 23.

The change in fair value of these loans during the year, attributable to a change in credit risk, was £361 million loss *(2013: £43 million loss)*. This amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. The cumulative change attributable to changes in credit risk to 31 December 2014 was £3,070 million loss *(2013: £2,709 million loss)*.

Non-securitised mortgage loans include £4.6 billion *(2013: £4.1 billion)* relating to UK primary healthcare and PFI businesses which are secured against General Practitioner premises, other primary health-related premises or other 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.

Loans at amortised cost

The fair value of these loans at 31 December 2014 was £4,240 million *(2013: 5,334 million)*.

(b) Analysis of loans carried at amortised cost

	2014			2013		
	Amortised Cost £m	**Impairment £m**	**Carrying Value £m**	Amortised Cost £m	Impairment £m	Carrying Value £m
Policy loans	**835**	**—**	**835**	888	—	888
Loans to banks	**3,164**	**—**	**3,164**	4,087	—	4,087
Non-securitised mortgage loans	**138**	**(61)**	**77**	343	(151)	192
Loans to brokers and other intermediaries	**123**	**—**	**123**	78	—	78
Other loans	**166**	**—**	**166**	157	—	157
Total	**4,426**	**(61)**	**4,365**	5,553	(151)	5,402

The movements in the impairment provisions on these loans for the years ended 31 December 2014 and 2013 were as follows:

	2014 £m	2013 £m
At 1 January	**(151)**	(128)
Decrease / (increase) during the year	**9**	(30)
Write back following sale or reimbursement	**81**	3
Write back following recovery in value	**—**	4
At 31 December	**(61)**	(151)

(c) Collateral

Loans to banks include cash collateral received under stock lending arrangements (see note 60 for further discussion regarding these collateral positions). The obligation to repay this collateral is included in payables and other financial liabilities (note 51).

The Group holds collateral in respect of loans where it is considered appropriate in order to reduce the risk of non-recovery. This collateral generally takes the form of liens or charges over properties and, in the case of policy loans, the underlying policy for the majority of the loan balances above. In all other situations, the collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts.

25 – Securitised mortgages and related assets

The Group, in its UK Life business has loans receivable, secured by mortgages, which have then been securitised through non-recourse borrowings. This note gives details of the relevant transactions.

(a) Description of current arrangements

In a UK long-term business subsidiary, Aviva Equity Release UK Limited (AER), the beneficial interest in certain portfolios of lifetime mortgages has been transferred to five special purpose securitisation companies (the ERF companies), in return for initial consideration and, at later dates, deferred consideration. The deferred consideration represents receipts accrued within the ERF companies after meeting all their obligations to the note holders, loan providers and other third parties in the priority of payments. The purchases of the mortgages were funded by the issue of fixed and floating rate notes by the ERF companies.

All the shares in the ERF companies are held by independent companies, whose shares are held on trust. Although AER does not own, directly or indirectly, any of the share capital of the ERF companies or their parent companies, it has control of the securitisation companies, and they have therefore been treated as subsidiaries in the consolidated financial statements. AER has no right to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where AER is in breach of warranty or loans are substituted in order to effect a further advance.

AER has purchased subordinated notes and granted subordinated loans to some of the ERF companies. In addition, Group companies have invested in loan notes issued by the ERF companies. These have been eliminated on consolidation through offset against the borrowings of the ERF companies in the consolidated statement of financial position.

In all of the above transactions, the Company and its subsidiaries are not obliged to support any losses that may be suffered by the note holders and do not intend to provide such support. Additionally, the notes were issued on the basis that note holders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective special purpose securitisation companies, including funds due from customers in respect of the securitised loans, are sufficient and that note holders have no recourse whatsoever to other companies in the Aviva Group.

(b) Carrying values

The following table summarises the securitisation arrangements:

	2014		2013	
	Securitised assets £m	**Securitised borrowings £m**	Securitised assets £m	Securitised borrowings £m
Securitised mortgage loans				
At fair value (note 24)	**2,406**	**(1,539)**	2,169	(1,493)
Other securitisation assets/(liabilities)	**319**	**(1,186)**	301	(977)
	2,725	**(2,725)**	2,470	(2,470)

Loan notes held by third parties are as follows:

	2014 £m	2013 £m
Total loan notes issued, as above	**1,539**	1,493
Less: Loan notes held by Group companies	**(167)**	(180)
Loan notes held by third parties {note 50(c)(i)}	**1,372**	1,313

26 – Interests in structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Group has interests in both consolidated and unconsolidated structured entities as described below.

The Group holds redeemable shares or units in investment vehicles, which consist of:

- Debt securities comprising securitisation vehicles that Aviva does not originate. These investments are comprised of a variety of debt instruments, including asset-backed securities and other structured securities.
- Investment funds which include: hedge funds, liquidity funds, private equity funds, unit trusts, mutual funds and Private Finance Initiative (PFIs).
- Specialised investment vehicles include Open Ended Investment Companies (OEICs), Property Limited Partnerships (PLPs), Sociétés d'Investissement a Capital Variable (SICAVs) and other investment vehicles.

The Group's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. The investment manager makes investment decisions after extensive due diligence of the underlying investment vehicle including consideration of its strategy and the overall quality of the underlying investment vehicle's manager.

All of the investment vehicles in the investment portfolio are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee, and is reflected in the valuation of the investment vehicles.

26 – Interests in structured entities continued

(a) Interests in consolidated structured entities

The Group has determined that where it has control over investment vehicles, these investments are consolidated structured entities. As at 31 December 2014 the Group has granted loans to consolidated PLPs for a total of £210 million (*2013: £371 million*). The purpose of these loans is to assist the consolidated PLPs to purchase or construct properties within the funds business activity. The Group has also provided support, without having a contractual obligation to do so, to certain consolidated PLPs via letters of support amounting to £124 million (*2013: £39 million*). The Group has commitments to provide funding to consolidated PLPs of £9 million (*2013: £34 million*).

The Group has also given support to the consolidated structured entity Aviva Equity Release UK Limited (AER). As discussed in note 25, at the inception of the securitisation vehicle, the UK subsidiary, Aviva Equity Release UK Limited (AER), has granted subordinated loan facilities to some of the ERF companies. AER receives various fees in return for the services provided to the entities. Aviva receives cash management fees based on the outstanding loan balance at the start of each quarter for the administration of the loan note liabilities. AER receives portfolio administration fees as compensation for managing the mortgage assets.

As at the reporting date, the Group has no intentions to provide financial or other support in relation to any other investment vehicles.

(b) Interests in unconsolidated structured entities

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 31 December 2014, the Group's total interest in unconsolidated structured entities was £34,406 million on the Group's statement of financial position, which are classified as financial investments held at fair value through profit or loss.

The Group does not sponsor any of the unconsolidated structured entities.

As at 31 December 2014, a summary of the Group's interest in unconsolidated structured entities is as follows:

				2014 £m				2013[2] £m
	Interest in, and loans to, joint ventures	**Interest in, and loans to, associates**	**Financial investments**	**Total assets**	Interest in, and loans to, joint ventures	Interest in, and loans to, associates	Financial investments	Total assets
Structured debt securities[1]	**—**	**—**	**2,549**	**2,549**	—	—	2,122	2,122
Other investments	**765**	**361**	**30,731**	**31,857**	917	237	29,792	30,946
Analysed as:								
Unit trust and other investment vehicles	**—**	**—**	**29,640**	**29,640**	—	—	28,606	28,606
PLPs and property funds	**765**	**361**	**754**	**1,880**	917	237	796	1,950
Other funds	**—**	**—**	**337**	**337**	—	—	390	390
Total	**765**	**361**	**33,280**	**34,406**	917	237	31,914	33,068

1 Reported within "other debt securities" in note 27a.
2 The Group has refined the definition of unconsolidated structured entities to include other investments that are held within consolidated structured entities. Consistent with this, FY13 comparatives have been restated totaling £33.1 billion, an increase of £6.6 billion.

The Group's maximum exposure to loss related to the interests presented above is the carrying amount of the Group's investments.

The majority of debt securities above are investment grade securities held by the UK business. In some cases, the Group may be required to absorb losses from an unconsolidated structured entity before other parties when and if Aviva's interest is more subordinated with respect to other owners of the same security.

At 31 December 2014 the Group has granted loans to PLPs classified as joint ventures and associates totaling £73 million (*2013: £29 million*). This amount has been provided for the purpose of short term liquidity funding. For commitments to property management joint ventures, please refer to Note 19.

In relation to risk management, disclosures on debt securities and investment vehicles are given in note 58(b)(iii).

The Group has not provided any other financial or other support in addition to that described above as at the reporting date, and there are no intentions to provide support in relation to any other unconsolidated structured entities in the foreseeable future.

In relation to other guarantees and commitments that the Group provides in the course of its business, please refer to Note 53 (f) 'Contingent liabilities and other risk factors'.

Aviva's interest in unconsolidated structured debt securities at 31 December 2014 is £2.5 billion (*2013: £2.1 billion*) and the total issuance balance relating to these securities totals £51.2 billion (*2013: £44.7 billion*).

Aviva's interest in unconsolidated structured entities that it also manages at 31 December 2014 is £2.1 billion (*2013: £2.2 billion*) and the total funds under management relating to these investments at 31 December 2014 is £16.1 billion (*2013: £12.2 billion*).

(c) Other interests in unconsolidated structured entities

The Group receives management fees and other fees in respect of its asset management businesses. The Group does not sponsor any of the funds or investment vehicles from which it receives fees. Management fees received for investments that the Group manages but does not have a holding in also represent an interest in unconsolidated structured entities. As these investments are not held by the Group, the investment risk is borne by the external investors and therefore the Group's maximum exposure to loss relates to future management fees. The table below shows the assets under management of entities that the Group manages but does not have a holding of and the fees earned from those entities.

26 – Interests in structured entities continued

	2014		2013[2]	
	Assets Under Management £m	**Investment Management Fees £m**	Assets Under Management £m	Investment Management Fees £m
Investment funds[1]	**10,251**	**92**	23,730	94
Specialised investment vehicles:	**2,831**	**12**	2,301	9
Analysed as:				
OEICs	**1,185**	**5**	1,211	3
PLPs	**1,609**	**7**	1,051	5
SICAVs	**37**	—	39	1
Total	**13,082**	**104**	26,031	103

1 Investment funds relate to the Group's Spanish and Polish pension funds. 31 December 2013 AUM includes funds managed by the Group's US external mutual fund management business which was sold in 2014.
2 2013 figures have been restated to include certain externally owned funds which had been excluded from this disclosure in the prior year. The net impact on assets under management has been an increase of £805 million.

27 – Financial investments

This note analyses our financial investments by type and shows their cost and fair value. These will change from one period to the next as a result of new business written, claims paid and market movements.

(a) Carrying amount

Financial investments comprise:

	2014				Restated[1] 2013			
	At fair value through profit or loss				At fair value through profit or loss			
	Trading £m	**Other than trading £m**	**Available for sale £m**	**Total £m**	Trading £m	Other than trading £m	Available for sale £m	Total £m
Fixed maturity securities								
Debt securities								
UK government	**—**	**20,590**	**—**	**20,590**	—	17,297	—	17,297
UK local authorities	**—**	**18**	**—**	**18**	—	133	—	133
Non-UK government (note 27e)	**—**	**44,140**	**815**	**44,955**	—	43,113	781	43,894
Corporate bonds								
Public utilities	**—**	**8,419**	**24**	**8,443**	—	7,988	25	8,013
Other corporate	**—**	**47,003**	**182**	**47,185**	—	48,820	255	49,075
Convertibles and bonds with warrants attached	**—**	**170**	**—**	**170**	—	310	79	389
Other	**—**	**8,177**	**—**	**8,177**	—	7,070	—	7,070
	—	**128,517**	**1,021**	**129,538**	—	124,731	1,140	125,871
Certificates of deposit	**—**	**2,123**	**—**	**2,123**	—	934	—	934
	—	**130,640**	**1,021**	**131,661**	—	125,665	1,140	126,805
Equity securities								
Ordinary shares								
Public utilities	**—**	**2,929**	**—**	**2,929**	—	3,716	—	3,716
Banks, trusts and insurance companies	**—**	**7,267**	**8**	**7,275**	—	7,968	39	8,007
Industrial miscellaneous and all other	**—**	**25,127**	**2**	**25,129**	—	25,258	2	25,260
	—	**35,323**	**10**	**35,333**	—	36,942	41	36,983
Non-redeemable preference shares	**—**	**286**	**—**	**286**	—	397	—	397
	—	**35,609**	**10**	**35,619**	—	37,339	41	37,380
Other investments								
Unit trusts and other investment vehicles	**—**	**29,636**	**4**	**29,640**	—	28,599	7	28,606
Derivative financial instruments (note 59)	**4,088**	**—**	**—**	**4,088**	2,124	—	—	2,124
Deposits with credit institutions	**—**	**539**	**—**	**539**	—	598	3	601
Minority holdings in property management undertakings	**—**	**754**	**—**	**754**	—	796	—	796
Other investments – long-term	**—**	**335**	**1**	**336**	—	386	3	389
Other investments – short-term	**—**	**1**	**—**	**1**	—	1	—	1
	4,088	**31,265**	**5**	**35,358**	2,124	30,380	13	32,517
Total financial investments	**4,088**	**197,514**	**1,036**	**202,638**	2,124	193,384	1,194	196,702
Less assets classified as held for sale								
Fixed maturity securities	**—**	**—**	**—**	**—**	—	(2,413)	(7)	(2,420)
Equity securities	**—**	**—**	**—**	**—**	—	(54)	—	(54)
Other investments	**—**	**—**	**—**	**—**	—	(201)	—	(201)
	—	**—**	**—**	**—**	—	(2,668)	(7)	(2,675)
	4,088	**197,514**	**1,036**	**202,638**	2,124	190,716	1,187	194,027

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

Of the above total, £120,743 million *(2013 restated: £115,278 million)* is due to be recovered in more than one year after the statement of financial position date.

Other debt securities of £8,177 million *(2013: £7,070 million)* include residential and commercial mortgage-backed securities, as well as other structured credit securities.

27 – Financial investments continued

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments:

	2014				Restated[1] 2013			
	Cost/ amortised cost £m	**Unrealised gains £m**	**Unrealised losses and impairments £m**	**Fair value £m**	Cost amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m	Fair value £m
Fixed maturity 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								
Unit trusts and specialised investment vehicles	**27,304**	**2,152**	**184**	**29,640**	26,880	1,881	(155)	28,606
Derivatives financial instruments	**917**	**3,660**	**(489)**	**4,088**	912	1,630	(418)	2,124
Deposits with credit institutions	**539**	**—**	**—**	**539**	601	—	—	601
Minority holdings in property management undertakings	**740**	**120**	**(106)**	**754**	774	130	(108)	796
Other long-term investments	**344**	**22**	**(30)**	**336**	405	12	(28)	389
Other investments – short-term	**1**	**—**	**—**	**1**	1	—	—	1
	177,791	**27,198**	**(2,351)**	**202,638**	181,053	19,592	(3,943)	196,702
These are further analysed as follows:								
At fair value through profit or loss	**176,843**	**27,098**	**(2,339)**	**201,602**	179,802	19,539	(3,833)	195,508
Available for sale	**948**	**100**	**(12)**	**1,036**	1,251	53	(110)	1,194
	177,791	**27,198**	**(2,351)**	**202,638**	181,053	19,592	(3,943)	196,702

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

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

Gains and losses on financial investments from continuing operations classified as at fair value through profit or loss recognised in the income statement in the year were a net gain of £11,161 million *(2013: £1,524 million net gain)*. Of this, £587 million net gain *(2013: £135 million net gain)* related to financial investments designated as trading and £10,574 million net gain *(2013: £1,389 million net gain)* related to investments designated as other than trading.

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes foreign exchange movements on the translation of unrealised gains and losses on financial investments held by foreign subsidiaries, which are recognised in other comprehensive income, as well as transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

Total impairments of financial investments classified as available for sale (AFS) in the income statement in the year were £2 million. £5 million previously recognised impairment on equity securities was recovered through sale during 2014.

The total accumulated impairment provision for financial investments classified as available-for-sale included in the table above within unrealised losses and impairments was £9 million *(2013: £13 million)*. Movements in this AFS provision are shown in section (c) below.

(c) Impairment of financial investments

The movements in impairment provisions on available-for-sale financial investments for the years ended 31 December 2014 and 2013 were as follows:

	2014				2013			
	Fixed maturity securities £m	**Equity securities £m**	**Other Investments £m**	**Total £m**	Fixed maturity securities £m	Equity securities £m	Other Investments £m	Total £m
At 1 January	**—**	**(5)**	**(8)**	**(13)**	(84)	(4)	(9)	(97)
Charge for the year taken to the income statement	**—**	**—**	**(2)**	**(2)**	(12)	—	(1)	(13)
Write back following sale or reimbursement	**—**	**5**	**—**	**5**	101	—	—	101
Foreign exchange rate movements	**—**	**—**	**1**	**1**	(5)	(1)	2	(4)
At 31 December	**—**	**—**	**(9)**	**(9)**	—	(5)	(8)	(13)

27 – Financial investments continued

(d) Financial investment arrangements

(i) Stock lending arrangements

The Group has entered into stock lending arrangements in the UK and overseas in accordance with established market conventions. The majority of the Group's stock lending transactions occur in the UK, where investments are lent to EEA-regulated, locally domiciled counterparties and governed by agreements written under English law.

The Group receives collateral in order to reduce the credit risk of these arrangements, either in the form of securities or cash. See Note 60 for further discussion regarding collateral positions held by the Group.

(ii) Other arrangements

In carrying on its bulk purchase annuity business, the Group's UK Life operation is required to place certain investments in trust on behalf of the policyholders. Amounts become payable from the trust funds to the trustees if the Group were to be in breach of its payment obligations in respect of policyholder benefits. At 31 December 2014 £1,447 million *(2013: £1,201 million)* of financial investments were restricted in this way.

Certain financial investments are also required to be deposited under local laws in various overseas countries as security for the holders of policies issued in those countries. Other investments are pledged as security collateral for bank letters of credit.

(e) Non UK Government Debt Securities (gross of non-controlling interests)

The following is a summary of non UK government debt by issuer as at 31 December 2014 analysed by policyholder, participating and shareholder funds.

	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 *(2013: £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 *(2013: £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 *(2013: £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 (35%), Italy (21%), Germany (5%), Belgium (4%), Netherlands (4%) and Spain (4%).

27 – Financial investments continued

(f) Exposure to worldwide banks – 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**
2013 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, our direct shareholder asset exposure to worldwide bank equity securities is £75 million.

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**
2013 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, our direct shareholder asset exposure to worldwide bank equity securities is £75 million.

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.

28 – Receivables

This note analyses our total receivables.

	2014 £m	Restated[1] 2013 £m
Amounts owed by contract holders	**1,512**	1,762
Amounts owed by intermediaries	**1,100**	1,222
Deposits with ceding undertakings	**1,322**	1,479
Amounts due from reinsurers	**277**	335
Amounts due from brokers for investment sales	**69**	149
Amounts receivable for cash collateral pledged	**512**	577
Amounts due from government, social security and taxes	**415**	475
Dividends receivable	**6**	4
Other receivables	**720**	1,549
Total	**5,933**	7,552
Less: Amounts classified as held for sale	**—**	(76)
	5,933	7,476
Expected to be recovered in less than one year	**5,833**	7,334
Expected to be recovered in more than one year	**100**	142
	5,933	7,476

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

Concentrations of credit risk with respect to receivables are limited due to the size and spread of the Group's trading base. No further credit risk provision is therefore required in excess of the normal provision for doubtful receivables.

29 – Deferred acquisition costs, other assets, prepayments and accrued income

(a) Deferred acquisition costs and other assets – carrying amount

The carrying amount comprises:

	2014 £m	2013 £m
Deferred acquisition costs in respect of:		
Insurance contracts – Long-term business	**529**	485
Insurance contracts – General insurance and health business	**852**	868
Participating investment contracts – Long-term business	**22**	27
Non-participating investment contracts – Long-term business	**968**	1,013
Retail fund management business	**7**	10
Total deferred acquisition costs	**2,378**	2,403
Surpluses in the staff pension schemes (note 49(a))	**2,695**	606
Other assets	**18**	49
Total	**5,091**	3,058
Less: Amounts classified as held for sale	**—**	(7)
	5,091	3,051

Deferred acquisition costs (DAC) on long-term business are generally recoverable in more than one year whereas such costs on general insurance and health business are generally recoverable within one year. Of the above total, £1,277 million (*2013: £1,285 million)* is expected to be recovered more than one year after the statement of financial position date. For long-term business where amortisation of the DAC balance depends on projected profits, the amount expected to be recovered is estimated and actual experience will differ.

Surpluses in the staff pension schemes are recoverable more than one year after the statement of financial position date.

(b) Deferred acquisition costs – movements in the year

The movements in deferred acquisition costs (DAC) during the year were:

	2014				2013			
	Long-term business £m	General insurance and health business £m	Retail fund management business £m	Total £m	Long-term business £m	General insurance and health business £m	Retail fund management business £m	Total £m
Carrying amount at 1 January	**1,525**	**868**	**10**	**2,403**	3,088	939	14	4,041
Acquisition costs deferred during the year	**173**	**2,107**	**—**	**2,280**	407	2,276	—	2,683
Amortisation	**(81)**	**(2,102)**	**(3)**	**(2,186)**	(466)	(2,327)	(4)	(2,797)
Impact of assumption changes	**(73)**	**—**	**—**	**(73)**	(213)	—	—	(213)
Effect of portfolio transfers, acquisitions and disposals[1]	**—**	**(4)**	**—**	**(4)**	(2,418)	—	—	(2,418)
Foreign exchange rate movements	**(25)**	**(17)**	**—**	**(42)**	(22)	(20)	—	(42)
Shadow adjustment	**—**	**—**	**—**	**—**	1,149	—	—	1,149
Carrying amount at 31 December	**1,519**	**852**	**7**	**2,378**	1,525	868	10	2,403
Less: Amounts classified as held for sale	**—**	**—**	**—**	**—**	—	(6)	—	(6)
	1,519	**852**	**7**	**2,378**	1,525	862	10	2,397

1 Disposals in 2013 include the disposal of US Life (£2,344 million), and the disposal of Ark Life (£67 million).

29 – Deferred acquisition costs, other assets, prepayments and accrued income continued

The balance of deferred acquisition costs for long-term business remained broadly flat over 2014, as acquisition costs deferred during the year were offset by amortisation, the effect of assumption changes and exchange rate movements. Assumption changes mainly reflect the announcement in March 2014 of a 0.75% charge cap for default funds and removal of active member discounts on auto-enrolment pension schemes in the UK.

Where amortisation of the DAC balance depends on projected profits, changes to economic conditions may lead to a movement in the DAC balance and a corresponding impact on profit. It is estimated that the movement in the DAC balance would reduce profit by £18 million *(2013: £2 million)* if market yields on fixed income investments were to increase by 1% and increase profit by £31 million *(2013: £8 million)* if yields were to reduce by 1%. The sensitivity to yields on fixed interest investments has increased particularly in the UK. As at 31 December 2014 the DAC balance has been restricted by the value of projected future profits. This was not the case in prior periods, therefore the DAC balance is now more sensitive to changes in the value of those projected profits.

In the comparative period, the shadow adjustments related to deferred acquisition costs on business in the US backed by investments classified as available for sale (AFS), movements in which were recognised directly in other comprehensive income.

(c) Other assets

Other assets include £1 million *(2013: £1 million)* that is expected to be recovered more than one year after the statement of financial position date.

(d) Prepayments and accrued income

Prepayments and accrued income of £2,466 million *(2013 restated: £2,635 million)*, includes £81 million *(2013: £103 million)* that is expected to be recovered more than one year after the statement of financial position date.

30 – Assets held to cover linked liabilities

Certain unit-linked products have been classified as investment contracts, while some are included within the definition of an insurance contract. The assets backing these unit-linked liabilities are included within the relevant balances in the consolidated statement of financial position, while the liabilities are included within insurance and investment contract provisions. This note analyses the carrying values of assets backing these liabilities.

	2014 £m	Restated[1] 2013 £m
Loans	**302**	471
Debt securities	**13,628**	12,835
Equity securities	**26,324**	25,836
Reinsurance assets	**2,536**	2,043
Cash and cash equivalents	**3,514**	4,725
Other	**31,777**	30,729
	78,081	76,639
Less: Assets classified as held for sale	**—**	(44)
	78,081	76,595

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

31 – Ordinary share capital

This note gives details of Aviva plc's ordinary share capital and shows the movements during the year.

(a) Details of the Company's ordinary share capital are as follows:

	2014 £m	2013 £m
The allotted, called up and fully paid share capital of the Company at 31 December 2014 was:		
2,950,487,340 *(2013: 2,946,939,622)* ordinary shares of 25 pence each	**737**	736

(b) During 2014, a total of 3,547,718 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	2014			2013		
	Number of shares	**Share Capital £m**	**Share Premium £m**	Number of shares	Share Capital £m	Share Premium £m
At 1 January	**2,946,939,622**	**736**	**1,165**	2,945,972,261	736	1,165
Shares issued under the Group's Employee and Executive Share Option Schemes	**3,547,718**	**1**	**7**	967,361	—	—
At 31 December	**2,950,487,340**	**737**	**1,172**	2,946,939,622	736	1,165

Ordinary shares in issue in the Company rank pari passu with any new ordinary shares issued in the Company. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

32 – Group's share plans

This note describes various equity compensation plans operated by the Group, and shows how the Group values the options and awards of shares in the Company. Details of other share plans where shares are acquired and held in trust for the participant from the outset are not set out here but described in the shareholder information section of page 286.

(a) Description of the plans

The Group maintains a number of active share option and award plans and schemes (the Group's share plans). These are as follows:

(i) Savings-related options

These are options granted under the tax-advantaged save as you earn (SAYE) share option scheme in the UK and Irish revenue-approved SAYE share option scheme in Ireland. Options are normally exercisable during the six-month period following either the 3rd, 5th or 7th anniversary of the start of the relevant savings contract. Options granted from 2012 are normally exercisable following the 3rd or 5th anniversary.

(ii) Aviva long-term incentive plan awards

These awards have been made under the Aviva long term incentive plan 2011, and are described in section (b) below and in the directors' remuneration report.

(iii) Aviva annual bonus plan awards

These awards have been made under the Aviva annual bonus plan 2011, and are described in section (b) below and in the directors' remuneration report.

(iv) Aviva recruitment and retention share plan awards

These are conditional awards granted under the Aviva recruitment and retention share award plan in relation to the recruitment or retention of senior managers excluding executive directors. The awards vest in tranches on various dates and vesting is conditional upon the participant being employed by the Group on the vesting date and not having served notice of resignation. Some awards can be subject to performance conditions. If a participant's employment is terminated due to resignation or dismissal, any tranche of the award which has vested within the 12 months prior to the termination date will be subject to clawback and any unvested tranches of the award will lapse in full.

(v) Aviva Investors long-term incentive plan awards

These awards have been made under the Aviva Investors Holdings Limited 2009 long term incentive plan, a long term profit sharing arrangement for key Aviva Investors' employees. Awards will vest on the 3rd anniversary of grant, subject to achieving performance conditions.

(vi) Aviva Investors deferred share award plan awards

These awards have been made under the Aviva Investors deferred share award plan, where employees can choose to have the deferred element of their bonus deferred into awards over Aviva shares. The awards vest in three equal tranches on the 2nd, 3rd and 4th year following the year of grant.

No new Aviva plc ordinary shares will be issued to satisfy awards made under plans iv, v or vi.

(b) Outstanding options and awards

(i) Share options

At 31 December 2014, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva savings related share option scheme	Option price p	Number of shares	Normally exercisable	Option price p	Number of shares	Normally exercisable
	563	33,636	2014	268	4,912,279	2014, 2016 or 2018
	410	66,338	2015	266	4,094,187	2015 or 2017
	316	655,255	2014 or 2016	312	2,416,509	2016 or 2018
	310	604,620	2015 or 2017	419	3,864,102	2017 or 2019

Aviva Ireland savings related share option scheme (in euros)	Option price c	Number of shares	Normally exercisable	Option price c	Number of shares	Normally exercisable
	360	49,843	2014	336	167,783	2015 or 2017
	374	3,110	2015	369	99,156	2016 or 2018
	304	174,130	2014 or 2016	527	100,586	2017 or 2019

32 – Group's share plans continued

The following table summarises information about options outstanding at 31 December 2014:

Range of exercise prices	Outstanding options Number	Weighted average remaining contractual life Years	Weighted average exercise price p
£2.66 – £3.75	13,176,872	2	280.26
£3.76 – £4.84	4,031,026	4	418.85
£4.85 – £5.93	33,636	0	563.00

The comparative figures as at 31 December 2013 were:

Range of exercise prices	Outstanding options Number	Weighted average remaining contractual life Years	Weighted average exercise price p
£2.66 – £3.75	19,454,698	3	280.05
£3.76 – £4.84	275,117	1	410.00
£4.85 – £5.93	340,033	1	536.89

(ii) Share awards

At 31 December 2014, awards issued under the Company's executive incentive plans over ordinary shares of 25 pence each in the Company were outstanding as follows:

Aviva long term incentive plan 2011	Number of shares	Year of vesting
	7,743,045	2015
	10,376,329	2016
	8,473,727	2017

Aviva annual bonus plan 2011	Number of shares	Year of vesting
	2,458,393	2015
	3,173,502	2016
	2,442,587	2017

Aviva recruitment and retention share award plan	Number of shares	Year of vesting
	588,478	2015
	293,436	2016
	69,704	2017
	12,708	2018
	3,992	2019

Aviva Investors Holdings Limited 2009 long term incentive plan	Number of shares	Year of vesting
	387,194	2015

Aviva Investors deferred share award plan	Number of shares	Year of vesting
	26,096	2015
	26,096	2016
	26,097	2017

The vesting of awards under the Aviva long term incentive plan 2011 is subject to the attainment of performance conditions as described in the directors' remuneration report. Shares which do not vest will lapse.

No performance conditions are attached to the awards under the Aviva annual bonus plan 2011, Aviva Investors deferred share award plan or some of the awards under the Aviva recruitment and retention share award plan except as outlined below.

275,254 of the shares which vest in 2015 under the Aviva recruitment and retention share award plan are subject to the attainment of the same performance conditions that apply to the 2012 grant under the Aviva long term incentive plan 2011. 196,328 of the shares which vest in 2016 are subject to the attainment of the same performance conditions that apply to the 2013 grant under the Aviva long term incentive plan 2011. 12,828 of the shares which vest in 2017 are subject to the attainment of the same performance conditions that apply to the 2014 grant under the Aviva long term incentive plan 2011. These performance conditions are as outlined in the relevant year's directors' remuneration report.

26,044 of the shares awarded which vest in 2015 are subject to the performance conditions relating to the performance of the participant's previous employer. 22,493 of the shares awarded which vest in 2015 are subject to performance conditions relating to the performance of the UK general insurance business.

The vesting of the awards under the Aviva Investors Holdings Limited 2009 long term incentive plan are subject to Aviva Investors Holdings Limited achieving a return on capital employed (ROCE) of 27% per annum over a three year performance period.

Shares which do not vest will lapse.

(iii) Shares to satisfy awards and options

From July 2008 to 2014, it was the Company's practice to satisfy all awards and options using shares purchased in the market and held by employee trusts except where local regulations made it necessary to issue new shares. During 2014, this practice has changed and new issue shares are now generally used to satisfy all awards and options granted under plans that have received shareholder approval and where local regulations permit. Further details are given in note 33.

32 – Group's share plans continued

(c) Movements in the year

A summary of the status of the option plans as at 31 December 2013 and 2014, and changes during the years ended on those dates, is shown below.

	2014		2013	
	Number of options	**Weighted average exercise price p**	Number of options	Weighted average exercise price p
Outstanding at 1 January	**20,069,848**	**286.18**	25,212,210	298.40
Granted during the year	**3,994,548**	**419.00**	2,986,293	312.00
Exercised during the year	**(4,626,781)**	**282.30**	(2,442,874)	304.57
Forfeited during the year	**(1,028,382)**	**277.24**	(1,171,735)	274.84
Cancelled during the year	**(490,267)**	**298.10**	(1,355,364)	274.74
Expired during the year	**(677,432)**	**412.83**	(3,158,682)	403.02
Outstanding at 31 December	**17,241,534**	**313.21**	20,069,848	286.18
Exercisable at 31 December	**2,277,929**	**283.83**	846,226	410.53

(d) Expense charged to the income statement

The total expense recognised for the year arising from equity compensation plans was as follows:

	2014 £m	2013 £m
Equity-settled expense	**39**	37
Cash-settled expense	**1**	2
Total (note 11b)	**40**	39

(e) Fair value of options and awards granted after 7 November 2002

The weighted average fair values of options and awards granted during the year, estimated by using the Binomial option pricing model and Monte Carlo Simulation model, were £1.47 and £4.19 *(2013: £1.26 and £2.15)* respectively.

(i) Share options

The fair value of the options was estimated on the date of grant, based on the following weighted average assumptions:

Weighted average assumption	2014	2013
Share price	**524p**	408p
Exercise price	**419p**	312p
Expected volatility	**32%**	38%
Expected life	**3.73 years**	3.66 years
Expected dividend yield	**2.91%**	3.58%
Risk-free interest rate	**1.42%**	0.92%

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the option prior to its date of grant. The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the options. 4,626,781 options granted after 7 November 2002 were exercised during the year *(2013: 2,442,874)*.

(ii) Share awards

The fair value of the awards was estimated on the date of grant based on the following weighted average assumptions:

Weighted average assumption	2014	2013
Share price	**484.87p**	295.37p
Expected volatility[1]	**33%**	35%
Expected volatility of comparator companies' share price[1]	**29%**	31%
Correlation between Aviva and comparator competitors' share price[1]	**58%**	67%
Expected life[1]	**2.83 years**	3.00 years
Expected dividend yield[2]	**2.94%**	—
Risk-free interest rate[1]	**0.75%**	0.29%

1 For awards with market-based performance conditions.
2 The majority of awards with market based performance conditions include additional shares being provided to employees equal to dividend rights before vesting. As a result, no dividend yield assumption is required on these awards.

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the share award prior to its date of grant. The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the share awards.

33 – Shares held by employee trusts

Prior to 2014, we satisfied awards and options granted under the Group's share plans primarily through shares purchased in the market and held by employee share trusts. During 2014 we have moved to a general practice of issuing new shares except where it is necessary to use shares held by an employee share trust. This note gives details of the shares held in these trusts. Movements in the carrying value of shares held by employee trusts comprise:

	2014		2013	
	Number	**£m**	Number	£m
Cost debited to shareholders' funds				
At 1 January	**8,561,382**	**31**	10,053,515	32
Acquired in the year	**19,603**	**—**	7,863,726	32
Distributed in the year	**(5,995,161)**	**(23)**	(9,355,859)	(33)
Balance at 31 December	**2,585,824**	**8**	8,561,382	31

The shares are owned by employee share trusts with an undertaking to satisfy awards of shares in the Company under the Company's share plans and schemes. Details of the features of the plans can be found in the directors' remuneration report and/or in note 32.

These shares were purchased in the market and are carried at weighted average cost. At 31 December 2014, they had an aggregate nominal value of £646,456 *(2013: £2,140,346)* and a market value of £12,528,317 *(2013: £38,500,535)*. The trustees have waived their rights to dividends on the shares held in the trusts.

34 – Preference share capital

This note gives details of Aviva plc's preference share capital.

The preference share capital of the Company at 31 December was:

	2014 £m	2013 £m
Issued and paid up		
100,000,000 8.375% cumulative irredeemable preference shares of £1 each	**100**	100
100,000,000 8.75% cumulative irredeemable preference shares of £1 each	**100**	100
	200	200

The issued preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are altered.

On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares. Holders are entitled to receive dividends out of the profits available for distribution and resolved to be distributed in priority to the payment of dividends to holders of ordinary shares. The Company does not have a contractual obligation to deliver cash or other financial assets to the preference shareholders and therefore the directors may make dividend payments at their discretion.

35 – 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.

35 – 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. Please refer to accounting policy AE.

36 – Merger reserve

Prior to 1 January 2004, certain significant business combinations were accounted for using the 'pooling of interests method' (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

The balance on the reserve of £3,271 million *(2013: £3,271 million)* has arisen through the mergers of Commercial Union, General Accident and Norwich Union companies, forming Aviva plc in 2000, together with the acquisition of RAC plc ("RAC") in 2005. Because RAC ownership was immediately transferred from Aviva plc to a subsidiary company, this reserve is unaffected by the disposal of RAC in 2011.

37 – Other reserves

This note gives details of the various reserves forming part of the Group's consolidated equity and shows the movements during the year net of non-controlling interests:

	Currency translation reserve (see accounting policy E) £m	Owner occupied properties reserve (see accounting policy P) £m	Investment valuation reserve (see accounting policy T) £m	Hedging instruments reserve (see accounting policy U) £m	Equity compensation reserve (see accounting policy AB) £m	Total £m
Balance at 1 January 2013	1,272	77	855	(589)	60	1,675
Arising in the year through other comprehensive income:						
Fair value losses	—	(2)	(196)	—	—	(198)
Fair value gains transferred to profit on disposals	—	—	(280)	—	—	(280)
Share of other comprehensive income of joint ventures and associates	—	—	(37)	—	—	(37)
Impairment losses on assets previously revalued directly through other comprehensive income now taken to income statement	—	—	12	—	—	12
Foreign exchange rate movements	(34)	—	—	(39)	—	(73)
Aggregate tax effect – shareholders' tax	(6)	—	161	—	—	155
Total other comprehensive income for the year	(40)	(2)	(340)	(39)	—	(421)
Tax transferred to income statement	30	—	—	—	—	30
Transfer to profit on disposal of subsidiaries, joint ventures and associates	(355)	(1)	(497)	50	—	(803)
Reserves credit for equity compensation plans	—	—	—	—	37	37
Shares issued under equity compensation plans	—	—	—	—	(43)	(43)
Balance at 31 December 2013	**907**	**74**	**18**	**(578)**	**54**	**475**
Arising in the year through other comprehensive income:						
Fair value gains	**—**	**7**	**62**	**—**	**—**	**69**
Fair value gains transferred to profit on disposals	**—**	**—**	**(7)**	**—**	**—**	**(7)**
Share of other comprehensive income of joint ventures and associates	**—**	**—**	**22**	**—**	**—**	**22**
Impairment losses on assets previously revalued directly through other comprehensive income now taken to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Foreign exchange rate movements	**(373)**	**—**	**—**	**56**	**—**	**(317)**
Aggregate tax effect – shareholders' tax	**12**	**—**	**(21)**	**—**	**—**	**(9)**
Total other comprehensive income for the year	**(361)**	**7**	**56**	**56**	**—**	**(242)**
Tax transferred to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Fair value gains transferred to retained earnings on disposals	**—**	**(2)**	**—**	**—**	**—**	**(2)**
Transfer to profit on disposal of subsidiaries, joint ventures and associates	**(12)**	**(2)**	**1**	**—**	**—**	**(13)**
Reserves credit for equity compensation plans	**—**	**—**	**—**	**—**	**39**	**39**
Shares issued under equity compensation plans	**—**	**—**	**—**	**—**	**(28)**	**(28)**
Balance at 31 December 2014	**534**	**77**	**75**	**(522)**	**65**	**229**

38 – Retained earnings

This note analyses the movements in the consolidated retained earnings during the year.

	2014 £m	2013 £m
Balance at 1 January	**2,348**	1,389
Profit for the year attributable to equity shareholders	**1,569**	2,008
Remeasurements of pension schemes	**1,662**	(674)
Dividends and appropriations (note 16)	**(551)**	(538)
Shares issued under equity compensation plans	**24**	43
Shares distributed by employee trusts	**(18)**	(28)
Realised loss on redemption of direct capital instrument	**(57)**	—
Effect of changes in non-controlling interests in existing subsidiaries	**(36)**	—
Fair value gains transferred from other reserves	**2**	—
Transfer from other reserves on disposal of subsidiaries, joint ventures and associates	**2**	1
Aggregate tax effect	**(328)**	147
Balance at 31 December	**4,617**	2,348

The Group's regulated subsidiaries are required to hold sufficient capital to meet acceptable solvency levels based on applicable local regulations. Their ability to transfer retained earnings to the UK parent companies is therefore restricted to the extent these earnings form part of local regulatory capital.

39 – Non-controlling interests

This note gives details of the Group's non-controlling interests and shows the movements during the year.

Non-controlling interests at 31 December comprised:

	2014 £m	2013 £m
Equity shares in subsidiaries	**472**	641
Share of earnings	**202**	321
Share of other reserves	**242**	259
	916	1,221
Preference shares in General Accident plc	**250**	250
	1,166	1,471

Movements in the year comprised:

	2014 £m	2013 £m
Balance at 1 January	**1,471**	1,574
Profit for the year attributable to non-controlling interests	**169**	143
Foreign exchange rate movements	**(79)**	34
Total comprehensive income attributable to non-controlling interests	**90**	177
Capital contributions from non-controlling interests	**—**	1
Non-controlling interests share of dividends declared in the year	**(189)**	(134)
Changes in non-controlling interest in subsidiaries	**(206)**	(147)
Balance at 31 December	**1,166**	1,471

The Group has no subsidiaries whose non-controlling interest (NCI) is material on the basis of their share of profit or loss in 2014.

40 – Contract liabilities and associated reinsurance

The following notes explain how the Group calculates its liabilities to policyholders for insurance and investment products it has sold to them. Notes 41 and 42 cover these liabilities, and note 43 details the financial guarantees and options given for some of these products. Note 44 details the reinsurance recoverables on these liabilities while note 45 shows the effects of changes in the assumptions.

The following is a summary of the contract provisions and related reinsurance assets as at 31 December.

	2014			2013		
	Gross provisions £m	**Reinsurance assets £m**	**Net £m**	Gross provisions £m	Reinsurance assets £m	Net £m
Long-term business						
Insurance contracts	**(98,110)**	**4,032**	**(94,078)**	(94,972)	3,734	(91,238)
Participating investment contracts	**(67,232)**	**3**	**(67,229)**	(70,628)	2	(70,626)
Non-participating investment contracts	**(50,013)**	**2,533**	**(47,480)**	(48,140)	2,048	(46,092)
	(215,355)	**6,568**	**(208,787)**	(213,740)	5,784	(207,956)
Outstanding claims provisions						
Long-term business	**(1,343)**	**43**	**(1,300)**	(1,287)	53	(1,234)
General insurance and health	**(7,298)**	**724**	**(6,574)**	(7,730)	849	(6,881)
	(8,641)	**767**	**(7,874)**	(9,017)	902	(8,115)
Provisions for claims incurred but not reported	**(2,578)**	**373**	**(2,205)**	(2,568)	315	(2,253)
	(226,574)	**7,708**	**(218,866)**	(225,325)	7,001	(218,324)
Provision for unearned premiums	**(4,107)**	**250**	**(3,857)**	(4,226)	256	(3,970)
Provision arising from liability adequacy tests	**(10)**	**—**	**(10)**	(10)	—	(10)
Totals	**(230,691)**	**7,958**	**(222,733)**	(229,561)	7,257	(222,304)
Less: Amounts classified as held for sale	**1**	**—**	**1**	2,948	(37)	2,911
	(230,690)	**7,958**	**(222,732)**	(226,613)	7,220	(219,393)

41 – 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.

41 – Insurance liabilities continued

2014	Gross £m	Reinsurance £m	Net £m
Long-term business liabilities			
Change in long-term business provisions (note 41b(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 41c(iv) and 44 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 (note 7)	**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 41b(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 41c(iv) and 44 c(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 (note 7)	(2,396)	(97)	(2,493)	320	(8)	312	(2,076)	(105)	(2,181)

(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.

41 – Insurance liabilities continued

(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.

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

41 – Insurance liabilities continued

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.

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 c.40% 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

41 – Insurance liabilities continued

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

(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 45, 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.

41 – Insurance liabilities continued

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

(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.

41 – Insurance liabilities continued

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 58.

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 45 and the economic assumption changes are explained in note 10.

41 – Insurance liabilities continued

(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.

(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**

41 – 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

42 – 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 41. 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. Guarantees on long-term investment products are discussed in note 43.

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 US Life 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. The amount of the related deferred acquisition cost asset is shown in note 29 and the deferred income liability is shown in note 52.

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.

42 – 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 45, 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 45, which combines participating and non-participating investment contracts together with the impact of movements in related non-financial assets.

43 – Financial guarantees and options

This note details the financial guarantees and options that the Group has given for some of our insurance and investment products.

As a normal part of their operating activities, various Group companies have given guarantees and options, including investment return guarantees, in respect of certain long-term insurance and fund management products. Further information on assumptions is given in notes 41 and 42.

(a) UK Life with-profit business

In the UK, life insurers are required to comply with the PRA's realistic reporting regime for their with-profit funds for the calculation of PRA liabilities. Under the PRA's rules, provision for guarantees and options within realistic liabilities must be measured at fair value, using market-consistent stochastic models. A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions.

The material guarantees and options to which this provision relates are:

(i) Maturity value guarantees

Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus. In addition, the guarantee fund has offered maturity value guarantees on certain unit-linked products. For some unitised with-profit life contracts the amount paid after the fifth policy anniversary is guaranteed to be at least as high as the premium paid increased in line with the rise in RPI/CPI.

(ii) No market valuation reduction (MVR) guarantees

For unitised business, there are a number of circumstances where a 'no MVR' guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets.

43 – Financial guarantees and options continued

(iii) Guaranteed annuity options

The Group's UK with-profit funds have written individual and group pension contracts which contain guaranteed annuity rate options (GAOs), where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates. The Group also has exposure to GAOs and similar options on deferred annuities.

Realistic liabilities for GAOs in the UK with-profit funds were £1,198 million at 31 December 2014 *(2013: £921 million).* With the exception of the New With-Profits Sub Fund (NWPSF), movements in the realistic liabilities in the with-profit funds are offset by a corresponding movement in the unallocated divisible surplus, with no net impact on IFRS profit. Realistic liabilities for GAOs in the NWPSF were £197 million at 31 December 2014 *(2013: £149 million)*.

(iv) Guaranteed minimum pension

The Group's UK with-profit funds also have certain policies that contain a guaranteed minimum level of pensions as part of the condition of the original transfer from state benefits to the policy.

(v) Guaranteed minimum maturity payments on mortgage endowments

In addition, the with-profit fund companies have made promises to certain policyholders in relation to their with-profit mortgage endowments. Top-up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall. For UKLAP WP policyholders, these payments are subject to certain conditions.

(b) UK Life non-profit business

The Group's UK non-profit funds are evaluated by reference to statutory reserving rules, including changes introduced in 2006 under FSA Policy Statement 06/14, *Prudential Changes for Insurers (which was designated by the PRA on 1 April 2013)*.

(i) Guaranteed annuity options

Similar options to those written in the with-profit fund have been written in relation to non-profit products. Provision for these guarantees does not materially differ from a provision based on a market-consistent stochastic model, and amounts to £33 million at 31 December 2014 *(2013: £31 million)*.

(ii) Guaranteed unit price on certain products

Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

(c) Overseas life businesses

In addition to guarantees written in the Group's UK life businesses, our overseas businesses have also written contracts containing guarantees and options. Details of the significant guarantees and options provided by overseas life businesses are set out below.

(i) France

Guaranteed surrender value and guaranteed minimum bonuses

Aviva France has written a number of contracts with such guarantees. The guaranteed surrender value is the accumulated value of the contract including accrued bonuses. Bonuses are based on accounting income from amortised bond portfolios, where the duration of bond portfolios is set in relation to the expected duration of the policies, plus income and releases from realised gains on equity-type investments. Policy reserves are equal to guaranteed surrender values. Local statutory accounting envisages the establishment of a reserve, 'Provision pour Aléas Financiers' (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No PAF was established at full year 2014.

The most significant of these contracts is the AFER Eurofund which has total liabilities of £32 billion at 31 December 2014 *(2013: £34 billion).* The guaranteed minimum bonus is agreed between Aviva France and the AFER association at the end of each year, in respect of the following year. The bonus was 3.20% for 2014 (*2013: 3.36%*) compared with an accounting income from the fund of 3.69% (*2013: 3.85%*).

Non-AFER contracts with guaranteed surrender values had liabilities of £16 billion at 31 December 2014 *(2013: £15 billion)* and all guaranteed annual bonus rates are between 0% and 4.5%. For non-AFER business the accounting income return exceeded guaranteed bonus rates in 2014.

Guaranteed death and maturity benefits

In France, the Group has also sold unit-linked policies where the death and/or maturity benefit is guaranteed to be at least equal to the premiums paid. The reserve held in the Group's consolidated statement of financial position at the end of 2014 for this guarantee is £28 million *(2013: £20 million).* The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2014, total sums at risk for these contracts were £70 million *(2013: £101 million)* out of total unit-linked funds of £15 billion *(2013: £15 billion).* The average age of policyholders was approximately 54. It is estimated that this liability would increase by £36 million *(2013: £22 million)* if yields were to decrease by 1% per annum and by £12 million *(2013: £8 million)* if equity markets were to decline by 10% from year end 2014 levels. These figures do not reflect our ability to review the tariff for this option.

(ii) Ireland

Guaranteed annuity options

Products with GAOs similar to those offered in the UK have been issued in Ireland. The net provision as at 31 December 2014 for such options is £273 million *(2013: £202 million)*. This has been calculated on a deterministic basis, making conservative assumptions for the factors which influence the cost of the guarantee, principally annuitant mortality option take-up and long-term interest rates.

These GAOs are "in the money" at current interest rates but the exposure to interest rates under these contracts has been hedged through the use of derivatives (receiver swaps and payer swaptions).

43 – Financial guarantees and options continued

'No MVR' guarantees

Certain unitised with-profit policies containing "no MVR" guarantees, similar to those in the UK, have been sold in Ireland.

These guarantees as at 31 December 2014 are "in-the-money" by £0.1 *million (2013: £0.2 million "in-the-money")*. This has been calculated on a deterministic basis as the excess of the current policy surrender value over the discounted value (excluding terminal bonus) of the guarantees. The value of these guarantees is usually sensitive to the performance of investments held in the with-profit fund. Amounts payable under these guarantees are determined by the bonuses declared on these policies.

(iii) Spain and Italy

Guaranteed investment returns and guaranteed surrender values

The Group has also written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy. Traditional profit-sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and up to 4% in Italy on existing business, while on new business the maximum guaranteed rate is lower. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At 31 December 2014, total liabilities for the Spanish business were £1 billion *(2013: £1 billion)* with a further reserve of £6.1 million *(2013: £0.1 million)* for guarantees. Total liabilities for the Italian business were £13.9 billion *(2013: £11 billion)*, with a further provision of £42 million *(2013: £43 million)* for guarantees. Liabilities are most sensitive to changes in the level of interest rates. It is estimated that provisions for guarantees would need to increase by £34 million *(2013: £7 million)* in Spain and £nil *(2013: £nil)* in Italy if interest rates fell by 1% from end 2014 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 1.37% and no lapses or premium discontinuances. In the local valuation there is no allowance for stochastic modelling of guarantees and options.

(d) Sensitivity

In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, real estate prices and equity prices. Interest rate guaranteed returns, such as those available on GAOs, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

44 – 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.

44 – 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 movement 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 45, 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

45 – 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 *(2013: £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.

46 – 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).*

47 – Tax assets and liabilities

This note analyses the tax assets and liabilities that appear in the statement of financial position and explains the movements in these balances in the year.

(a) Current tax

Current tax assets recoverable and liabilities payable in more than one year are £15 million and £13 million *(2013: £42 million and £1 million),* respectively.

(b) Deferred tax

(i) The balances at 31 December comprise:

	2014 £m	2013 £m
Deferred tax assets	**76**	252
Deferred tax liabilities	**(1,091)**	(564)
Net deferred tax liability	**(1,015)**	(312)
Less: Amounts classified as held for sale	**—**	(7)
	(1,015)	(319)

(ii) The net deferred tax liability arises on the following items:

	2014 £m	2013 £m
Long-term business technical provisions and other insurance items	**2,263**	1,276
Deferred acquisition costs	**(251)**	(220)
Unrealised gains on investments	**(2,885)**	(1,856)
Pensions and other post-retirement obligations	**(499)**	(78)
Unused losses and tax credits	**227**	296
Subsidiaries, associates and joint ventures	**(12)**	(8)
Intangibles and additional value of in-force long-term business	**(170)**	(190)
Provisions and other temporary differences	**312**	468
Net deferred tax liability	**(1,015)**	(312)
Less: Amounts classified as held for sale	**—**	(7)
	(1,015)	(319)

(iii) The movement in the net deferred tax liability was as follows:

	2014 £m	2013 £m
Net liability at 1 January	**(312)**	(1,007)
Acquisition and disposal of subsidiaries[1]	**5**	682
Amounts charged to income statement (note 14a)	**(291)**	(251)
Amounts (charged)/credited to other comprehensive income (note 14b)	**(445)**	271
Foreign exchange rate movements	**28**	(8)
Other movements	**—**	1
Net liability at 31 December	**(1,015)**	(312)

1 Disposals in 2013 mainly relate to the disposal of US Life of £720 million.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available. Where this is the case, the directors have relied on business plans supporting future profits.

The Group has unrecognised tax losses and other temporary differences of £694 million *(2013: £777 million)* to carry forward against future taxable income of the necessary category in the companies concerned. Of these, trading losses of £48 million will expire within the next 20 years. The remaining losses have no expiry date.

In addition, the Group has unrecognised capital losses of £434 million *(2013: £438 million)*. These have no expiry date.

There are no temporary differences in respect of unremitted overseas retained earnings for which deferred tax liabilities have not been recognised at 31 December 2014 (*2013: £nil).*

48 – Provisions

This note details the non-insurance provisions that the Group holds, and shows the movements in these during the year.

(a) Carrying amounts

	2014 £m	2013 £m
Total IAS 19 obligations to main staff pension schemes (Note 49(a))	**391**	367
Deficits in other staff pension schemes	**43**	43
Total IAS 19 obligations to staff pension schemes	**434**	410
Restructuring provisions	**97**	140
Other provisions	**348**	437
Total provisions	**879**	987
Less: Amounts classified as held for sale	**—**	(3)
	879	984

Other provisions comprise many small provisions throughout the Group for obligations such as costs of compensation, litigation and staff entitlements.

Of the total, £493 million *(2013: £532 million)* is expected to be settled more than one year after the statement of financial position date.

(b) Movements on restructuring and other provisions

	2014			2013		
	Restructuring provisions £m	**Other provisions £m**	**Total £m**	Restructuring provisions £m	Other provisions £m	Total £m
At 1 January	**140**	**437**	**577**	144	423	567
Additional provisions	**74**	**150**	**224**	222	219	441
Unused amounts reversed	**—**	**(118)**	**(118)**	—	(22)	(22)
Change in the discounted amount arising from passage of time	**—**	**2**	**2**	—	1	1
Charge to income statement	**74**	**34**	**108**	222	198	420
Utilised during the year	**(115)**	**(112)**	**(227)**	(210)	(72)	(282)
Disposal of subsidiaries	**—**	**(7)**	**(7)**	(17)	(116)	(133)
Foreign exchange rate movements	**(2)**	**(4)**	**(6)**	1	4	5
At 31 December	**97**	**348**	**445**	140	437	577

49 – Pension obligations

(a) Introduction

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 (see b(ii) below)	**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 (note 29)	**2,695**	**—**	**—**	**2,695**	606	—	—	606
Deficits included in provisions (note 48)	**(41)**	**(265)**	**(85)**	**(391)**	(57)	(209)	(101)	(367)
	2,654	**(265)**	**(85)**	**2,304**	549	(209)	(101)	239

This note gives full IAS 19, *Employee Benefits*, disclosures for the above schemes. The smaller ones, while still measured under IAS 19, are included as one total within Provisions (see note 48). Similarly, while the charges to the income statement for the main schemes are shown in section (b)(i) below, the total charges for all pension schemes are disclosed in section (d) below.

The assets of the UK, Irish and Canadian schemes are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. In all schemes, the appointment of trustees of the funds is determined by their trust documentation, and they are required to act in the best interests of the schemes' beneficiaries. The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes.

A full actuarial valuation of each of the defined benefit schemes is carried out at least every three years for the benefit of scheme trustees and members. Actuarial reports have been submitted for each scheme within this period, using appropriate methods for the respective countries on local funding bases.

49 – Pension obligations continued

The number of scheme members was as follows:

	United Kingdom		Ireland		Canada	
	2014 Number	2013 Number	**2014 Number**	2013 Number	**2014 Number**	2013 Number
Deferred members	**51,239**	56,009	**1,957**	2,017	**784**	919
Pensioners	**32,360**	30,945	**763**	747	**1,360**	1,364
Total members	**83,599**	86,954	**2,720**	2,764	**2,144**	2,283

All schemes are closed to future accrual. Closure of the schemes has removed the volatility associated with additional future accrual for active members.

(i) UK schemes

In the UK, the Group operates two main pension schemes, the Aviva Staff Pension Scheme (ASPS) and the smaller RAC (2003) Pension Scheme which was retained after the sale of RAC Limited in September 2011. As the defined benefit section of both UK schemes is now closed to both new members and future accrual, existing deferred members in active service and new entrants participate in the defined contribution section of the ASPS. Both schemes operate within the UK pensions' regulatory framework.

(ii) Other schemes

Future accruals for the Irish and Canadian defined benefit schemes ceased with effect from 30 April 2013 and 31 December 2011 respectively. The Irish scheme is regulated by the Pensions Authority in Ireland. The main Canadian plan is Registered Pension Plan in Canada and as such is registered with the Canada Revenue Agency and Financial Services Commission of Ontario and is required to comply with the Income Tax of Canada and the various provincial Pension Acts within Canada.

(b) IAS 19 disclosures

Disclosures under IAS 19 for the material defined benefit schemes in the UK, Ireland and Canada, are given below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions.

(i) 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 (see Note 8).
3 Total recognised in income from discontinued operations is £nil and total remeasurements recognised in other comprehensive income from discontinued operations is £nil.

The present value of unfunded post-retirement benefit obligations included in the table above is £120 million at 31 December 2014 *(2013: £118 million)*.

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.

49 – Pension obligations continued

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 (see Note 8).
4 Total recognised in income from discontinued operations is £nil and total remeasurements recognised in other comprehensive income from discontinued operations is £nil.

(ii) Scheme assets

Scheme assets are stated at their fair values at 31 December 2014.
Total scheme assets are comprised by scheme 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

Total scheme assets are analysed by those that have a quoted market price in active market and other 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 disclosed in 2013 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.

Plan assets include investments in Group-managed funds in the consolidated statement of financial position of £905 million *(2013: £868 million)* and transferrable insurance policies with other Group companies of £189 million *(2013: £177 million)* in ASPS. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate line in the table above, otherwise they appear in 'Cash and other'.

49 – Pension obligations continued

(iii) Assumptions on scheme liabilities

The valuations used for accounting under IAS 19 have been based on the most recent full actuarial valuations, updated to take account of the standard's requirements in order to assess the liabilities of the material schemes at 31 December 2014.

The projected unit credit method

The inherent uncertainties affecting the measurement of scheme liabilities require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to the economic conditions of the countries in which the relevant businesses are situated, and changes in these assumptions can materially affect the measurement of the pension obligations.

Financial assumptions

The main financial assumptions used to calculate scheme liabilities under IAS 19 are:

	UK		Ireland		Canada	
	2014	2013	**2014**	2013	**2014**	2013
Inflation rate[1]	**3.1%/2.0%**	3.4%/2.3%	**1.5%**	2.0%	**2.5%**	2.5%
General salary increases [2]	**4.9%**	5.2%	**3.0%**	3.5%	**3.0%**	3.0%
Pension increases[1]	**3.1%/2.0%**	3.4%/2.3%	**0.4%**	0.5%	**1.25%**	1.25%
Deferred pension increases[1]	**3.1%/2.0%**	3.4%/2.3%	**1.5%**	2.0%	—	—
Discount rate	**3.7%**	4.4%	**2.1%**	3.6%	**4.0%**	4.75%
Basis of discount rate	AA-rated corporate bonds		AA-rated corporate bonds		AA-rated corporate bonds	

1 For UK schemes, assumption provided for RPI/CPI.
2 In the UK, the only remaining linkage between pension benefits and general salary increases is in respect of a small amount of Guaranteed Minimum Pension benefits, in line with National Average Earnings.

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. For each country, the discount rate is based on current average yields of high-quality debt instruments taking account of the maturities of the defined benefit obligations.

Mortality assumptions

Mortality assumptions are significant in measuring the Group's obligations under its defined benefit schemes, particularly given the maturity of these obligations in the material schemes. The assumptions used are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of these schemes.

The mortality tables, average life expectancy and pension duration used at 31 December 2014 for scheme members are as follows:

			Life expectancy/(pension duration) at NRA of a male		Life expectancy/(pension duration) at NRA of a female	
Mortality table		Normal retirement age (NRA)	Currently aged NRA	20 years younger than NRA	Currently aged NRA	20 years younger than NRA
UK – ASPS	Club Vita pooled experience, including an allowance for future improvements	60	89.5 (29.5)	91.4 (31.4)	90.6 (30.6)	92.4 (32.4)
– RAC	SAPS series 1, including allowances for future improvement	65	87.5 (22.5)	90.1 (25.1)	89.3 (24.3)	91.6 (26.6)
Ireland	89% PNA00 with allowance for future improvements	61	87.8 (26.8)	91.1 (30.1)	90.7 (29.7)	94.0 (33.0)
Canada	Canadian Pensioners' Mortality 2014 Private Table	65	86.5 (21.5)	87.6 (22.6)	89.0 (24.0)	90.0 (25.0)

The assumptions above are based on commonly used mortality tables. The tables make allowance for observed variations in such factors as age, gender, pension amount, salary and postcode-based lifestyle group, and have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgment is required in setting this assumption. In the UK schemes, which are the most material to the Group, the allowance for future mortality improvement is per the actuarial professions CMI 2013 model, with assumed long term rates of improvement of 1.75% p.a. for males, and 1.50% p.a. for females.

49 – Pension obligations continued

Sensitivity analysis

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and mortality. The sensitivities analyses below have been determined based on reasonably possible changes of the respective assumptions, holding all other assumptions constant. The following table summarises how the defined benefit obligation would have increased/ (decreased) as a result of the change in the respective assumptions:

Impact on present value of defined benefit obligation

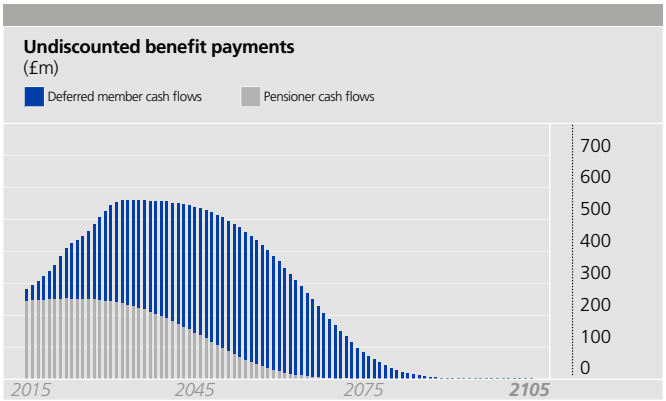
	Increase in discount rate +1% £m	Decrease in discount rate -1% £m	Increase in inflation rate +1% £m	Decrease in inflation rate -1% £m	1 year younger[1] £m
Impact on present value of defined benefit obligation at 31 December 2014	**(2,170)**	**2,911**	**2,747**	**(2,081)**	**367**
Impact on present value of defined benefit obligation at 31 December 2013	(1,968)	2,616	2,388	(1,824)	324

1 The effect of assuming all members in the schemes were one year younger.

The sensitivity analyses presented above may not be representative as in practice it is unlikely that the changes in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, the present value of the defined benefit obligation has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation liability recognised within the consolidated statement of financial position. In addition, the sensitivities shown are for liabilities only and ignore the impact on assets, which would significantly mitigate the net interest rate and inflation sensitivity impact on the net surplus.

Maturity profile of the defined benefit obligation

The discounted scheme liabilities have an average duration of 20 years in ASPS, 19 years in the RAC scheme, 20 years in the Irish scheme and 12 years in the Canadian scheme. The expected undiscounted benefits payable from the main UK defined benefit scheme, ASPS, is shown in the chart below:



(iv) Risk management and asset allocation strategy

As noted above, the long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. To meet these objectives, the schemes' assets are invested in a portfolio, consisting primarily (approximately 75%) of debt securities as detailed in section (b)(ii). 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 risks 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 risk appetite. Currency risk is relatively small and is largely hedged. The other principal risk is longevity risk. On 5 March 2014, ASPS 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.

(v) Funding

Formal actuarial valuations normally take place every three years and where there is a deficit, the Company and the trustee would agree a deficit recovery plan. The assumptions adopted for triennial actuarial valuations are determined by the trustee and agreed with the Company and are normally more prudent than the assumptions adopted for IAS19 purposes, which are best estimate.

For ASPS, following the latest formal actuarial valuation (with an effective date of 31 March 2012) deficit recovery plan was agreed, to make good the deficit over a period of time, consistent with the requirements of the UK pension regulations. As at 31 December 2014, the funding deficit was estimated at £30 million. The deficit funding payment for 2015 is estimated to be £180 million, however, contributions will depend on the funding position of the scheme and the outcome of the triennial actuarial valuation as at 31 March 2015.

Total employer contributions for all schemes in 2015 are currently expected to be £298 million.

49 – Pension obligations continued

(c) Defined contribution (money purchase) section of the ASPS

The trustees have responsibility for selecting a range of suitable funds in which the members can choose to invest and for monitoring the performance of the available investment funds. Members are responsible for reviewing the level of contributions they pay and the choice of investment fund to ensure these are appropriate to their attitude to risk and their retirement plans. Members of this section contribute at least 2% of their pensionable salaries and, depending on the percentage chosen, the Company contributes up to a maximum 14%, together with the cost of the death-in-service benefits. These contribution rates are unchanged for 2015. The amount recognised as an expense for defined contribution schemes is shown section (d) below.

(d) Charge to staff costs in the income statement

The total pension charge/ (credit) to staff costs for all of the Group's defined benefit and defined contribution schemes were:

	2014 £m	2013 £m
Continuing operations		
UK defined benefit schemes	**31**	19
Overseas defined benefit schemes	**(1)**	(147)
Total defined benefit schemes (note 11b)	**30**	(128)
UK defined contribution schemes	**94**	90
Overseas defined contribution schemes	**16**	17
Total defined contribution schemes (note 11b)	**110**	107
Total charge/(credit) from continuing operations	**140**	(21)
Total charge from discontinuing operations	**—**	9
Total charge/(credit) for Pension Schemes	**140**	(12)

There were no significant contributions payable or prepaid in the consolidated statement of financial position as at either 31 December 2014 or 2013.

50 – 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

50 – Borrowings continued

(b) Core structural borrowings

(i) The carrying amounts of these borrowings are:

	2014				2013			
	Upper Tier 2 £m	**Lower Tier 2 £m**	**Senior £m**	**Total £m**	Upper Tier 2 £m	Lower Tier 2 £m	Senior £m	Total £m
Subordinated debt								
6.125% £700 million subordinated notes 2036	**—**	**692**	**—**	**692**	—	692	—	692
5.700% €500 million undated subordinated notes	**387**	**—**	**—**	**387**	415	—	—	415
6.125% £800 million undated subordinated notes	**794**	**—**	**—**	**794**	793	—	—	793
6.125% €650 million subordinated notes 2043	**—**	**502**	**—**	**502**	—	537	—	537
6.875% £600 million subordinated notes 2058	**—**	**594**	**—**	**594**	—	594	—	594
6.875% €500 million subordinated notes 2018	**—**	**387**	**—**	**387**	—	415	—	415
10.6726% £200 million subordinated notes 2019	**—**	**—**	**—**	**—**	—	200	—	200
10.464% €50 million subordinated notes 2019	**—**	**—**	**—**	**—**	—	42	—	42
8.25% $400 million subordinated notes 2041	**—**	**252**	**—**	**252**	—	236	—	236
6.625% £450 million subordinated notes 2041	**—**	**447**	**—**	**447**	—	446	—	446
3.875% €700 million subordinated debt 2044	**—**	**539**	**—**	**539**	—	—	—	—
	1,181	**3,413**	**—**	**4,594**	1,208	3,162	—	4,370
Debenture Loans								
9.5% guaranteed bonds 2016	**—**	**—**	**200**	**200**	—	—	199	199
	—	**—**	**200**	**200**	—	—	199	199
Commercial paper	**—**	**—**	**516**	**516**	—	—	556	556
Total	**1,181**	**3,413**	**716**	**5,310**	1,208	3,162	755	5,125

The classifications between Upper Tier 2, Lower Tier 2 and Senior debt shown above are as defined by the PRA in GENPRU Annex 1 'Capital Resources'. All the above borrowings are stated at amortised cost.

As described in note 59, the Group has designated a portion of its euro denominated debt as a hedge of the net investment in its European subsidiaries. The carrying value of the debt, included in the table above, at 31 December 2014 was £1,292 million *(2013: £1,428 million).*

(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:

	2014			2013		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within one year	**516**	**304**	**820**	556	314	870
1 to 5 years	**200**	**1,149**	**1,349**	200	1,204	1,404
5 to 10 years	**—**	**1,340**	**1,340**	242	1,348	1,590
10 to 15 years	**1,188**	**1,322**	**2,510**	—	1,341	1,341
Over 15 years	**3,442**	**2,924**	**6,366**	4,165	2,950	7,115
Total contractual undiscounted cash flows	**5,346**	**7,039**	**12,385**	5,163	7,157	12,320

Borrowings are considered current if the contractual maturity dates are within a year. Where subordinated debt is undated or loan notes are perpetual, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £72 million *(2013: £73 million)*.

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Year-end exchange rates have been used for interest projections on loans in foreign currencies.

(c) Operational borrowings

(i) The carrying amounts of these borrowings are:

	2014 £m	2013 £m
Amounts owed to financial institutions		
Loans	**696**	1,410
Securitised mortgage loan notes		
UK lifetime mortgage business	**1,372**	1,313
Total	**2,068**	2,723

All the above borrowings are stated at amortised cost, except for the loan notes issued in connection with the UK lifetime mortgage business of £1,372 million *(2013: £1,313 million)*. These loan notes are carried at fair value, their values are modelled on risk-adjusted cash flows for defaults discounted at a risk-free rate plus a market-determined liquidity premium, and are therefore classified as either 'Level 2' or 'Level 3' in the fair value hierarchy, depending on whether observable market prices are available for the loan note. These have been designated at fair value through profit and loss in order to present the relevant mortgages, borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch.

The securitised mortgage loan notes are at various fixed, floating and index-linked rates. Further details about these notes are given in note 25.

50 – Borrowings continued

(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:

	2014			2013		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within one year	**342**	**65**	**407**	558	81	639
1 to 5 years	**199**	**278**	**477**	659	330	989
5 to 10 years	**508**	**307**	**815**	437	396	833
10 to 15 years	**702**	**212**	**914**	707	306	1,013
Over 15 years	**625**	**144**	**769**	766	125	891
Total contractual undiscounted cash flows	**2,376**	**1,006**	**3,382**	3,127	1,238	4,365

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Year-end exchange rates have been used for interest projections on loans in foreign currencies.

(d) Description and features

(i) Subordinated debt

A description of each of the subordinated notes is set out in the table below:

Notional amount	Issue date	Redemption date	Callable at par at option of the Company from	In the event the Company does not call the notes, the coupon will reset at each applicable reset date to
£700 million	14 Nov 2001	14 Nov 2036	16 Nov 2026	5 year Benchmark Gilt + 2.85%
€500 million	29 Sep 2003	Undated	29 Sep 2015	3 month Euribor + 2.35%
£800 million	29 Sep 2003	Undated	29 Sep 2022	5 year Benchmark Gilt + 2.40%
£600 million	20 May 2008	20 May 2058	20 May 2038	3 month LIBOR + 3.26%
€500 million	20 May 2008	22 May 2038	22 May 2018	3 month Euribor + 3.35%
£200 million[1]	1 Apr 2009	1 Apr 2019	1 Apr 2014	3 month LIBOR + 8.10%
€50 million[1]	30 Apr 2009	30 Apr 2019	30 Apr 2014	3 month Euribor + 8.25%
£450 million	26 May 2011	3 June 2041	3 June 2021	6 Month LIBOR + 4.136%
$400 million	22 November 2011	1 December 2041	1 December 2016	8.25%(fixed)
€650 million	5 July 2013	5 July 2043	5 July 2023	5 year EUR mid-swaps + 5.13%
€700 million	3 July 2014	3 July 2044	3 July 2024	5 year EUR mid-swaps + 3.48%

1 The £200 million and €50 million subordinated notes were redeemed at their first call dates on 1 April and 30 April 2014 respectively.

Subordinated notes issued by the Company rank below its senior obligations and ahead of its preference shares and ordinary share capital. The dated subordinated notes rank ahead of the undated subordinated notes. The fair value of notes at 31 December 2014 was £5,188 million *(2013: £4,707 million)*, calculated with reference to quoted prices.

(ii) Debenture loans

The 9.5% guaranteed bonds were issued by the Company at a discount of £1.1 million. This discount and the issue expenses are being amortised over the full term of the bonds. Although these bonds were issued in sterling, the loans have effectively been converted into euro liabilities through the use of financial instruments in a subsidiary.

All these borrowings are at fixed rates and their fair value at 31 December 2014 was £223 million *(2013: £236 million)*, calculated with reference to quoted prices.

(iii) Commercial paper

The commercial paper consists of £516 million issued by the Company *(2013: £556 million)* and is considered core structural funding.

All commercial paper is repayable within one year and is issued in a number of different currencies, primarily sterling, euros and US dollars. Its fair value is considered to be the same as its carrying value.

(iv) Loans

Loans comprise:

	2014 £m	2013 £m
Non-recourse		
Loans to property partnerships (see (a) below)	**199**	804
Loans to Irish investment funds (see (b) below)	**—**	7
UK Life reassurance (see (c) below)	**178**	208
Other non-recourse loans (see (d) below)	**219**	288
	596	1,307
Other loans (see (e) below)	**100**	103
	696	1,410

(a) As explained in accounting policy D, the UK long-term business policyholder funds have invested in a number of property funds and structures (the "Property Funds"), some of which have raised external debt, secured on the relevant Property Fund's property portfolio. The lenders are only entitled to obtain payment of interest and principal to the extent there are sufficient resources in the relevant Property Fund and they have no recourse whatsoever to the policyholder or shareholders' funds of any companies in the Group. Loans of £199 million *(2013: £804 million)* included in the table relate to those Property Funds which have been consolidated as subsidiaries.

(b) External borrowings raised by one Irish policyholder investment fund, which has been fully consolidated in accordance with accounting policy D, were repaid in full in 2014.

50 – Borrowings continued

(c) The UK long-term business entered into a financial reassurance agreement with Swiss Re in 2008, under which up-front payments are received from Swiss Re in return for 90% of future surpluses arising. The loan will be repaid as profits emerge on the business. The UK long-term business entered into an additional financial reassurance agreement with BNP Paribas in 2012 in return for 100% of future surpluses arising. The loan will be repaid as profits emerge on the business.
(d) Other non-recourse loans primarily include external debt raised by special purpose vehicles in the UK long-term business. The lenders have no recourse whatsoever to the shareholders' funds of any companies in the Group.
(e) Other loans include external debt raised by overseas long-term businesses to fund operations.

(v) Securitised mortgage loan notes
Loan notes have been issued by special purpose securitisation companies in the UK. Details are given in note 25.

(e) 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.

(f) Undrawn borrowings

The Group and Company have the following undrawn committed central borrowing facilities available to them, of which £750 million *(2013: £750 million)* is used to support the commercial paper programme:

	2014 £m	2013 £m
Expiring within one year	**350**	400
Expiring beyond one year	**1,200**	1,100
	1,550	1,500

51 – Payables and other financial liabilities

This note analyses our payables and other financial liabilities at the end of the year.

	2014 £m	Restated[1] 2013 £m
Payables arising out of direct insurance	**948**	1,115
Payables arising out of reinsurance operations	**358**	440
Deposits and advances received from reinsurers	**92**	145
Bank overdrafts (see below)	**550**	493
Derivative liabilities (note 59)	**3,481**	2,251
Amounts due to brokers for investment purchases	**73**	164
Obligations for repayment of cash collateral received	**5,577**	5,604
Other financial liabilities	**933**	1,747
Total	**12,012**	11,959
Less: Amounts classified as held for sale	**—**	(14)
	12,012	11,945
Expected to be settled within one year	**10,731**	10,337
Expected to be settled in more than one year	**1,281**	1,608
	12,012	11,945

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

Bank overdrafts amount to £95 million *(2013: £77 million)* in life business operations and £455 million *(2013: £416 million)* in general insurance business and other operations.

All payables and other financial liabilities are carried at cost, which approximates to fair value, except for derivative liabilities, which are carried at their fair values.

52 – Other liabilities

This note analyses our other liabilities at the end of the year.

	2014 £m	2013 £m
Deferred income	**159**	177
Reinsurers' share of deferred acquisition costs	**12**	11
Accruals	**1,167**	1,386
Other liabilities	**935**	930
Total	**2,273**	2,504
Less: Amounts classified as held for sale	**—**	(32)
	2,273	2,472
Expected to be settled within one year	**1,756**	2,145
Expected to be settled in more than one year	**517**	327
	2,273	2,472

53 – 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 41 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. Note 43 gives details of these guarantees and options. In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, property values and equity prices. Interest rate guaranteed returns, such as those available on guaranteed annuity options, 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.

53 – Contingent liabilities and other risk factors continued

(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.

54 – Commitments

This note gives details of our commitments to capital expenditure and under operating leases.

(a) Capital commitments

Contractual commitments for acquisitions or capital expenditures of investment property and property and equipment, which have not been recognised in the financial statements, are as follows:

	2014 £m	2013 £m
Investment property	**97**	3
Property and equipment	**8**	24
	105	27

Contractual obligations for future repairs and maintenance on investment properties are £nil *(2013: £nil)*. Note 19 sets out the commitments the Group has to its joint ventures.

(b) Operating lease commitments

(i) Future contractual aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows:

	2014 £m	2013 £m
Within 1 year	**234**	252
Later than 1 year and not later than 5 years	**732**	807
Later than 5 years	**1,203**	1,307
	2,169	2,366

(ii) Future contractual aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2014 £m	2013 £m
Within 1 year	**92**	111
Later than 1 year and not later than 5 years	**290**	357
Later than 5 years	**421**	575
	803	1,043
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases	**47**	45

55 – Group capital structure

The Group maintains an efficient capital structure from a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings, consistent with our overall risk profile and the regulatory and market requirements of our business. This note shows where this capital is employed.

Accounting basis and capital employed by segment

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

	2014 Capital employed IFRS basis £m	2013 Capital employed IFRS basis £m
Long-term business		
United Kingdom	**5,135**	5,237
Ireland	**533**	595
United Kingdom & Ireland	**5,668**	5,832
France	**2,234**	2,366
Poland	**318**	380
Italy	**929**	1,108
Spain	**557**	769
Other Europe	**82**	93
Europe	**4,120**	4,716
Asia	**791**	676
	10,579	11,224
General insurance & health		
United Kingdom	**3,775**	3,725
Ireland	**370**	421
United Kingdom & Ireland	**4,145**	4,146
France	**556**	570
Italy	**276**	269
Other Europe	**32**	43
Europe	**864**	882
Canada	**969**	925
Asia	**29**	33
	6,007	5,986
Fund Management	**298**	237
Corporate & Other Business[1]	**702**	(1,305)
Total capital employed	**17,586**	16,142
Financed by		
Equity shareholders' funds	**10,018**	7,964
Non-controlling interests	**1,166**	1,471
Direct capital instruments & fixed rate tier 1 notes	**892**	1,382
Preference shares	**200**	200
Subordinated debt	**4,594**	4,370
Senior debt	**716**	755
Total capital employed	**17,586**	16,142
Less: Goodwill	**(1,327)**	(1,510)
Total tangible capital employed[2]	**16,259**	14,632
Total debt[3]	**6,652**	6,957
Tangible debt leverage	**41%**	48%

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 to calculate "tangible capital". Goodwill includes £1,302 million *(2013: £1,480 million including £4 million within assets held for sale)* of goodwill in subsidiaries and £25 million *(2013: £30 million)* of goodwill in joint ventures. AVIF and other intangibles are maintained within the capital base. As the end of 2014, AVIF and other intangibles comprise £1,028 million *(2013: £1,068 million)* of intangibles in subsidiaries and £62 million *(2013: £30 million)* of intangibles in joint ventures, net of deferred tax liabilities of £(180) million *(2013: £(189) million)* and the non-controlling interest share of intangibles of £(198) million *(2013: £(215) million)*.

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.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings. At the end of 2014 the Group had £17.6 billion *(2013: £16.1 billion)* of total capital employed in our trading operations measured on an IFRS 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% *(2013: 48%)*.

At the end of 2014 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 *(2013: £7,573 million)*.

56 – Statement of cash flows

This note gives further detail behind the figures in the statement of cash flows.

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2014 £m	Restated[1] 2013 £m
Profit before tax from continuing operations	**2,663**	1,472
Adjustments for:		
Share of profits of joint ventures and associates	**(147)**	(120)
Dividends received from joint ventures and associates	**52**	47
(Profit)/loss on sale of:		
Investment property	**(49)**	2
Property and equipment	**(4)**	—
Subsidiaries, joint ventures and associates	**(174)**	(115)
Investments	**(3,040)**	(3,047)
	(3,267)	(3,160)
Fair value (gains)/losses on:		
Investment property	**(678)**	(184)
Investments	**(11,228)**	(1,525)
Borrowings	**70**	(4)
	(11,836)	(1,713)
Depreciation of property and equipment	**19**	31
Equity compensation plans, equity settled expense	**39**	37
Impairment and expensing of:		
Goodwill on subsidiaries	**—**	48
Financial investments, loans and other assets	**(3)**	32
Acquired value of in-force business and intangibles	**10**	14
Non-financial assets	**26**	—
	33	94
Amortisation of:		
Premium or discount on debt securities	**255**	144
Premium or discount on borrowings	**(24)**	(16)
Premium or discount on non participating investment contracts	**5**	8
Financial instruments	**12**	194
Acquired value of in-force business and intangibles	**108**	110
	356	440
Change in unallocated divisible surplus	**3,364**	(280)
Interest expense on borrowings	**525**	589
Net finance charge on pension schemes	**(20)**	(37)
Foreign currency exchange gains	**(199)**	(187)
Changes in working capital		
Increase in reinsurance assets	**(818)**	(571)
Increase in deferred acquisition costs	**(21)**	90
Increase in insurance liabilities and investment contracts	**11,552**	3,983
Increase in other assets	**(1,495)**	5,135
	9,218	8,637
Net purchases of operating assets		
Purchases of investment property	**(725)**	(370)
Proceeds on sale of investment property	**1,811**	1,115
Net sales of financial investments	**(1,973)**	(4,033)
	(887)	(3,288)
Cash (used in)/generated from operating activities – continuing operations	**(87)**	2,562
Cash generated from operating activities – discontinued operations	**—**	1,950
Total cash (used in)/generated from operating activities	**(87)**	4,512

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

The cash flows presented in this statement cover all the Group's activities and include flows from both policyholder and shareholder activities. Operating cash flows reflect the movement in both policyholder and shareholder controlled cash and cash equivalent balances.

During the year the net operating cash outflow reflects a number of factors, including the level of premium income, payments of claims, creditors and surrenders and purchases and sales of operating assets including financial investments. It also includes changes in the size and value of consolidated cash investment funds and changes in the Group participation in these funds.

(b) Cash flows in respect of, and additions to, the acquisition of subsidiaries, joint ventures and associates comprised:

	2014 £m	2013 £m
Cash consideration for subsidiaries, joint ventures and associates acquired and additions	**79**	1
Less: Cash and cash equivalents acquired with subsidiaries	**—**	28
Total cash flow on acquisitions and additions	**79**	29

56 – Statement of cash flows continued

(c) Cash flows in respect of the disposal of subsidiaries, joint ventures and associates comprised:

	2014 £m	2013 £m
Cash proceeds from disposal of subsidiaries, joint ventures and associates	**349**	817
Less: Net cash and cash equivalents divested with subsidiaries	**(239)**	(440)
Cash flows on disposals – continuing operations	**110**	377
Cash flows on disposal – discontinued operations	**(20)**	(1,582)
Total cash flow on disposals	**90**	(1,205)

The above figures form part of cash flows from investing activities.

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

	2014 £m	Restated[1] 2013 £m
Cash at bank and in hand	**2,855**	4,103
Cash equivalents	**20,259**	22,379
	23,114	26,482
Bank overdrafts	**(550)**	(493)
	22,564	25,989

1 Restated for the adoption of amendments to IAS 32 'Financial Instruments: Presentations' – see note 1 for details. In addition, following a review of the classification of cash and cash equivalents, £8,211 million has been reclassified from cash at bank and in hand to cash equivalents. The net impact of this reclassification on cash and cash equivalents is £nil.

Cash and cash equivalents reconciles to the statement of financial position as follows:

	2014 £m	Restated[1] 2013 £m
Cash and cash equivalents (excluding bank overdrafts)	**23,114**	26,482
Less: Assets classified as held for sale	**(9)**	(351)
	23,105	26,131

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

57 – Capital statement

This statement sets out the financial strength of our Group entities and provides an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital statement also provides a reconciliation of shareholders' funds to regulatory capital.

The analysis below sets out the Group's available capital resources, which includes available capital resources of subsidiaries classified as held for sale in the Group IFRS statement of financial position still included in the Group's available capital resources at 31 December 2014.

Available capital resources

	Old with-profit sub-fund £m	New with-profit sub-fund £m	With-profit sub-fund[5] £m	Total UK life with-profit funds £m	Other UK life operations £m	Total UK life operations £m	Overseas life operations £m	Total life operations £m	Other operations[6] £m	2014 Total £m	2013 Total £m
Total shareholders' funds	**—**	**(37)**	**24**	**(13)**	**5,131**	**5,118**	**5,339**	**10,457**	**1,819**	**12,276**	11,017
Other sources of capital[1]	**—**	**—**	**—**	**—**	**200**	**200**	**29**	**229**	**4,394**	**4,623**	4,413
Unallocated divisible surplus[2]	**221**	**(19)**	**1,530**	**1,732**	**—**	**1,732**	**7,735**	**9,467**	**—**	**9,467**	6,709
Adjustments onto a regulatory basis:											
Shareholders' share of accrued bonus	**(37)**	**445**	**(181)**	**227**	**—**	**227**	**—**	**227**	**—**	**227**	(89)
Goodwill and other intangibles[3]	**—**	**—**	**—**	**—**	**(126)**	**(126)**	**(855)**	**(981)**	**(1,436)**	**(2,417)**	(2,608)
Regulatory valuation and admissibility restrictions[4]	**69**	**1,722**	**210**	**2,001**	**(2,521)**	**(520)**	**1,021**	**501**	**(2,519)**	**(2,018)**	(886)
Total available capital resources	**253**	**2,111**	**1,583**	**3,947**	**2,684**	**6,631**	**13,269**	**19,900**	**2,258**	**22,158**	18,556
Analysis of liabilities:											
Participating insurance liabilities	**1,766**	**12,111**	**9,870**	**23,747**	**95**	**23,842**	**20,992**	**44,834**	**—**	**44,834**	45,098
Unit-linked liabilities	**—**	**—**	**—**	**—**	**3,327**	**3,327**	**4,636**	**7,963**	**—**	**7,963**	8,714
Other non-participating life insurance	**372**	**3,588**	**509**	**4,469**	**37,476**	**41,945**	**4,711**	**46,656**	**—**	**46,656**	42,447
Amounts classified as held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	(106)
Total insurance liabilities	**2,138**	**15,699**	**10,379**	**28,216**	**40,898**	**69,114**	**30,339**	**99,453**	**—**	**99,453**	96,153
Participating investment liabilities	**717**	**3,115**	**6,227**	**10,059**	**2,612**	**12,671**	**54,561**	**67,232**	**—**	**67,232**	70,628
Non-participating investment liabilities	**(2)**	**(7)**	**—**	**(9)**	**40,804**	**40,795**	**9,218**	**50,013**	**—**	**50,013**	48,140
Amounts classified as held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	(2,710)
Total investment liabilities	**715**	**3,108**	**6,227**	**10,050**	**43,416**	**53,466**	**63,779**	**117,245**	**—**	**117,245**	116,058
Total liabilities	**2,853**	**18,807**	**16,606**	**38,266**	**84,314**	**122,580**	**94,118**	**216,698**	**—**	**216,698**	212,211

1 Other sources of capital include Subordinated debt of £4,594 million issued by Aviva and £29 million of other qualifying capital issued by Italian and Spanish subsidiary and associate undertakings.
2 Unallocated divisible surplus for overseas life operations is included gross of minority interest and amounts disclosed include balances classified as held for sale.
3 Includes goodwill and other intangibles of £87 million in joint ventures and associates, and amounts disclosed include balances classified as held for sale.
4 Includes an adjustment for minorities (except for other sources of capital that are reflected net of minority interest).
5 Includes the Provident Mutual with-profit fund.
6 Other operations include general insurance and fund management business.

57 – Capital statement continued

Analysis of movements in capital of long-term businesses

For the year ended 31 December 2014

	Old with-profit sub-fund £m	New with-profit sub-fund £m	With-profit sub-fund £m	Total UK life with-profit funds £m	Other UK life operations £m	Total UK life operations £m	Overseas life operations £m	Total life operations £m
Available capital resources at 1 January	**363**	**1,298**	**1,510**	**3,171**	**2,793**	**5,964**	**10,732**	**16,696**
Effect of new business	**—**	**(36)**	**(1)**	**(37)**	**127**	**90**	**(150)**	**(60)**
Expected change in available capital resources	**(4)**	**(1)**	**70**	**65**	**306**	**371**	**653**	**1,024**
Variance between actual and expected experience	**(6)**	**70**	**31**	**95**	**(71)**	**24**	**3,176**	**3,200**
Effect of operating assumption changes	**(6)**	**5**	**48**	**47**	**156**	**203**	**59**	**262**
Effect of economic assumption changes	**(8)**	**(139)**	**(26)**	**(173)**	**(45)**	**(218)**	**51**	**(167)**
Effect of changes in management policy[1]	**(87)**	**926**	**—**	**839**	**308**	**1,147**	**3**	**1,150**
Transfers, acquisitions and disposals[2]	**—**	**—**	**—**	**—**	**(491)**	**(491)**	**(61)**	**(552)**
Foreign exchange movements	**—**	**—**	**—**	**—**	**—**	**—**	**(792)**	**(792)**
Other movements	**1**	**(12)**	**(49)**	**(60)**	**(399)**	**(459)**	**(402)**	**(861)**
Available capital resources at 31 December	**253**	**2,111**	**1,583**	**3,947**	**2,684**	**6,631**	**13,269**	**19,900**

1 New with-profit sub-fund (NWPSF) changes in management policy include increase in the value of the reattributed estate (RIEESA) as a result of the transfer of the non-profit business from RIEESA to NWPSF of £1.1 billion.

2 Included within transfers, acquisitions and disposals is £550 million of cash consideration paid from life operations to other non-life operations within the Group for the sale of Aviva Life & Pensions Ireland Limited and Aviva Powszechne Towarzystwo Emerytalne BZ WBK S.A.

Further analysis of the movement in the liabilities of the long-term business can be found in notes 41 and 42.

The analysis of movements in capital provides an explanation of the movement in available capital of the Group's life business for the year. This analysis is intended to give an understanding of the underlying causes of changes in the available capital of the Group's life business, and provides a distinction between some of the key factors affecting the available capital.

The negative shareholders' funds balance within the UK with-profit funds arises in NWPSF as a result of regulatory valuation and admissibility differences in the reattributed estate which is valued on a realistic regulatory basis compared to the disclosure on an IFRS basis.

NWPSF is fully supported by the reattributed estate of £2,111 million (this is known as RIEESA) at 31 December 2014 *(31 December 2013: £1,105 million)* held within NPSF1 (a non-profit fund within UKLAP included within other UK life operations) in the form of a capital support arrangement. This support arrangement will provide capital to NWPSF to ensure that the value of assets of NWPSF are at least equal to the value of liabilities calculated on a realistic regulatory basis, therefore it forms part of the NWPSF available capital resources.

The with-profit funds and the RIEESA use internal hedging to limit the impacts of equity market volatility.

In aggregate, the Group has at its disposal total available capital of £22.2 billion *(2013: £18.6 billion)*, representing the aggregation of the solvency capital of all of our businesses.

This capital is available to meet risks and regulatory requirements set by reference to local guidance and EU directives.

After effecting the year-end transfers to shareholders, the UK with-profit funds have available capital of £3.9 billion *(2013: £3.2 billion)* (including amounts held in RIEESA). Subject to certain conditions, the RIEESA capital can be used to write new non-profit business, but the primary purpose of this capital is to provide support for the UK with-profit business. The capital (including RIEESA) is comfortably in excess of the required capital margin, and therefore no further support is required by shareholders.

For the remaining life and general insurance operations, the total available capital amounting to £18.3 billion *(2013: £15.4 billion)* is higher than the minimum requirements established by regulators and, in principle, the excess is available to shareholders. In practice, management will hold higher levels of capital within each business operation to provide appropriate cover for risk.

The total available capital of £22.2 billion is arrived at on the basis of local regulatory guidance, which evaluates assets and liabilities prudently and includes the Group's unallocated divisible surplus of overseas life operations. This is a limitation of the Group Capital Statement which, to be more meaningful, needs to evaluate available capital on an economic basis and compare it with the risk capital required for each individual operation, after allowing for the considerable diversification benefits that exist in our Group.

Within the Aviva Group there exist intra-group arrangements to provide capital to particular business units. Included in these arrangements is a subordinated loan of £200 million from Aviva Life Holdings UK Limited to Aviva Annuity Limited to provide capital to support the writing of new business.

The available capital of the Group's with-profit funds is determined in accordance with the 'Realistic balance sheet' regime prescribed by the PRA's regulations, under which liabilities to policyholders include both declared bonuses and the constructive obligation for future bonuses not yet declared. The available capital resources include an estimate of the value of their respective estates, included as part of the unallocated divisible surplus. The estate represents the surplus in the fund that is in excess of any constructive obligation to policyholders. It represents capital resources of the individual with-profit fund to which it relates and is available to meet regulatory and other solvency requirements of the fund and, in certain circumstances, additional liabilities may arise.

The liabilities included in the balance sheet for the with-profit funds do not include the amount representing the shareholders' portion of future bonuses. However, the shareholders' portion is treated as a deduction from capital that is available to meet regulatory requirements and is therefore shown as a separate adjustment in the capital statement.

In accordance with the PRA's regulatory rules under its realistic capital regime, the Group is required to hold sufficient capital in its UK life with-profit funds to meet the PRA capital requirements, based on the risk capital margin (RCM). The determination of the RCM depends on various actuarial and other assumptions about potential changes in market prices, and the actions management would take in the event of particular adverse changes in market conditions.

57 – Capital statement continued

	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	31 December 2014 Estimated excess available capital £bn	31 December 2013 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 *(31 December 2013: £0.1 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of accrued bonuses are £33.0 billion *(31 December 2013: £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 *(31 December 2013: £1.4 billion, £0.2 billion and £2.5 billion for NWPSF, OWPSF and WPSF respectively)*.

2 Estimated realistic inherited estate at 31 December 2013 was £nil, £0.4 billion and £1.5 billion for NWPSF, OWPSF and WPSF respectively.

3 This represents the reattributed estate (RIEESA) of £2.1 billion at 31 December 2014 *(31 December 2013: £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.

Under the PRA regulatory regime, UK life with-profits business is required to hold capital equivalent to the greater of their regulatory requirement based on EU directives (regulatory peak) and the PRA realistic bases (realistic peak) described above.

For UK non-participating business, the relevant capital requirement is the minimum solvency requirement determined in accordance with PRA regulations. The available capital reflects the excess of regulatory basis assets over liabilities before deduction of capital resources requirement.

For UK general insurance businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the PRA requirements.

For overseas businesses in the European Economic Area (EEA), Canada, Hong Kong and Singapore, the available capital and the minimum requirement are calculated under the locally applicable regulatory regimes. The businesses outside these territories are subject to the PRA rules for the purposes of calculation of available capital and capital resource requirement.

For fund management and other businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the local regulator's requirements for the specific class of business.

The available capital resources in each regulated entity are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the Group. The principal restrictions are:

- **(i) UK with-profits fund – (NWPSF, OWPSF and WPSF)** – any available surplus held in each fund can be used to meet the requirements of the fund itself, be distributed to policyholders and shareholders or in the case of NWPSF and OWPSF, transferred via the capital support arrangement explained above (for OWPSF only to the extent support has been provided in the past). In most cases, with-profit policyholders are entitled to at least 90% of the distributed profits while the shareholders receive the balance. The latter distribution would be subject to a tax charge, which is met by the fund.
- **(ii) UK non-participating funds** – any available surplus held in these is attributable to shareholders. Capital in the non-profit funds may be made available to meet requirements elsewhere in the Group subject to meeting the regulatory requirements of the fund. Any transfer of the surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- **(iii) Overseas life operations** – the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. In several business units, Group companies and other parties jointly control certain entities; these joint venture operations may constrain management's ability to utilise the capital in other parts of the Group. Any transfer of available capital may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- **(iv) General insurance operations** – the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. Any transfer of available capital may give rise to a tax charge, subject to availability of tax relief elsewhere in the Group.

58 – 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.

58 – Risk management continued

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.

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 1 for details

58 – Risk management continued

The majority of non-rated debt securities within shareholder assets are held by our businesses in the UK. Of these securities 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 (*2013: £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 continues to hold a series of macro credit hedges to reduce the overall credit risk exposure, and has increased these hedges during 2014. The Group's maximum exposure to credit risk of financial assets, without taking collateral or these hedges into account, is represented by the carrying value of the financial instruments in the statement of financial position. These comprise debt securities, reinsurance assets, derivative assets, loans and receivables. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 27), reinsurance assets (note 44), loans (note 24) and receivables (note 28). The collateral in place for these credit exposures is disclosed in note 60; Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

To the extent that collateral held is greater than the amount receivable that it is securing, the table above shows only an amount equal to the latter. In the event of default, any over-collateralised security would be returned to the relevant counterparty.

(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 27(e) and 27(f). 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.

58 – Risk management continued

(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.

(x) Impairment of financial assets

In assessing whether financial assets carried at amortised cost or classified as available for sale are impaired, due consideration is given to the factors outlined in accounting policies (T) and (V). 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'.

		Financial assets that are past due but not impaired					
At 31 December 2014	**Neither past due nor impaired £m**	**0–3 months £m**	**3–6 months £m**	**6 months–1 year £m**	**Greater than 1 year £m**	**Financial assets that have been impaired £m**	**Carrying value £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**

		Financial assets that are past due but not impaired					
At 31 December 2013 Restated[1]	Neither past due nor impaired £m	0–3 months £m	3–6 months £m	6 months–1 year £m	Greater than 1 year £m	Financial assets that have been impaired £m	Carrying value £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 note1 for details. In addition, restated to exclude reinsurance assets measured at fair value through profit or loss.

Excluded from the tables above are financial and reinsurance assets carried at fair value through profit or loss that are not subject to impairment testing, as follows: £130.6 billion of debt securities (*2013: £125.7 billion)*, £35.4 billion of other investments (*2013 restated: £32.5 billion*), £20.9 billion of loans (*2013: £18.5 billion)* and £2.5 billion of reinsurance assets *(2013: £2.0 billion)*.

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.

58 – Risk management continued

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.

(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. Details of material guarantees and options are given in note 43.

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. In particular, a key objective is to match the duration of our annuity liabilities with assets of the same duration. These assets include corporate bonds, residential mortgages and commercial mortgages. Should they default before maturity, it is assumed that the Group can reinvest in assets of a similar risk and return profile, which is subject to market conditions. Interest rate risk is also managed in some business units using a variety of derivative instruments, including futures, options, swaps, caps and floors.

Some of the Group's products, principally participating contracts, expose us to the risk that changes in interest rates will impact on profits through a change in the interest spread (the difference between the amounts that we are required to pay under the contracts and the investment income we are able to earn on the investments supporting our obligations under those contracts). The primary markets where Aviva is exposed to this risk are the UK, France and Italy.

The low interest rate environment in a number of markets around the world has resulted in our current reinvestment yields being lower than the overall current portfolio yield, primarily for our investments in fixed income securities and commercial mortgage loans. We anticipate that interest rates may remain below historical averages for an extended period of time and that financial markets may continue to have periods of high volatility. Investing activity will continue to decrease the portfolio yield as long as market yields remain below the current portfolio level. We expect the decline in portfolio yield will result in lower net investment income in future periods.

Certain of the Group's product lines, such as protection, are not significantly sensitive to interest rate or market movements. For unit-linked business, the shareholder margins emerging are typically a mixture of annual management fees and risk/expense charges. Risk and expense margins will be largely unaffected by low interest rates. Annual management fees may increase in the short term as the move towards low interest rates increases the value of unit funds. However, in the medium term, unit funds will grow at a lower rate which will reduce fund charges. For the UK annuities business interest rate exposure is mitigated by closely matching the duration of liabilities with assets of the same duration.

The UK participating business includes contracts with features such as guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values. These liabilities are managed through duration matching of assets and liabilities and the use of derivatives, including swaptions. As a result, the Group's exposure to sustained low interest rates on this portfolio is not material. The Group's key exposure to low interest rates arises through its other participating contracts, principally in Italy and France. Some of these contracts also include features such as guaranteed minimum bonuses, guaranteed investment returns and guaranteed surrender values. In a low interest rate environment there is a risk that the yield on assets might not be sufficient to cover these obligations. For certain of its participating contracts the Group is able to amend guaranteed crediting rates. Our ability to lower crediting rates may be limited by competition, bonus mechanisms and contractual arrangements.

Details of material guarantees and options are given in Note 43. In addition, the following table summarises the weighted average minimum guaranteed crediting rates and weighted average book value yields on assets as at 31 December 2014 for our Italian and French participating contracts, where the Group's key exposure to sustained low interest rates arises.

	Weighted average minimum guaranteed crediting rate	Weighted average book value yield on assets	Participating contract liabilities £m
France	0.79%	3.91%	61,983
Italy	1.77%	3.74%	8,873
Other[1]	N/A	N/A	41,210
Total	N/A	N/A	112,066

1. "Other" includes UK participating business

58 – Risk management continued

Profit before tax on General Insurance and Health Insurance business is generally a mixture of insurance, expense and investment returns. The asset portfolio is invested primarily in fixed income securities and the reduction in interest rates in recent years has reduced the investment component of profit. The portfolio investment yield and average total invested assets in our general insurance and health business are set out in the table below.

	Portfolio investment yield[1]	Average assets £m
2012	3.70%	18,802
2013	3.10%	18,352
2014	2.76%	17,200

1 Before realised and unrealised gains and losses and investment expenses

The nature of the business means that prices in certain circumstances can be increased to maintain overall profitability. This is subject to the competitive environment in each market. To the extent that there are further falls in interest rates the investment yield would be expected to decrease further in future periods.

Sensitivity to changes in interest rates is given in section '(j) risk and capital management' below. This analysis shows an initial benefit to profit before tax and shareholders' equity from a 1% decrease in interest rates due to the increase in market value of the backing fixed income securities. However, in subsequent years the reduction in portfolio yield will result in lower net investment income. Further information on borrowings is included in note 50.

(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.

58 – 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. A maturity analysis of the contractual amounts payable for borrowings and derivatives is given in notes 50 and 59, respectively. Contractual obligations under operating leases and capital commitments are given in note 54.

(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

58 – 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 1 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 policy holder 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.

58 – 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. Further disclosure on financial guarantees and options embedded in contracts and their inclusion in insurance and investment contract liabilities is provided in Note 43.

(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 41 '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.

58 – 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.

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%.

58 – Risk management continued

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)

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)**

58 – Risk management continued

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

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.

59 – Derivative financial instruments and hedging

This note gives details of the various financial instruments we use to mitigate risk.

The Group uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. The objectives include managing exposure to price, foreign currency and / or interest rate risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the narrative and tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held (or issued) by the Group.

The fair values do not provide an indication of credit risk, as many over-the-counter transactions are contracted and documented under ISDA (International Swaps and Derivatives Association, Inc.) master agreements or their equivalent. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure. In addition, the Group has collateral agreements in place between the individual Group entities and relevant counterparties, refer to note 60 for further information on collateral and net credit risk of derivative instruments.

(a) Instruments qualifying for hedge accounting

The Group has formally assessed and documented the effectiveness of its instruments qualifying for hedge accounting in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*.

To reduce its exposure to foreign currency risk, the Group has designated a portion of its euro denominated debt as a hedge of the net investment in its European subsidiaries. The carrying value of the debt at 31 December 2014 was £1,292 million *(2013: £1,428 million)* and its fair value at that date was £1,359 million *(2013: £1,516 million)*.

The foreign exchange gain of £94 million *(2013: loss of £40 million)* on translation of the debt to sterling at the statement of financial position date has been recognised in the hedging instruments reserve in shareholders' equity. This hedge was fully effective throughout the current and prior years.

There were no cash flow or fair value hedges designated in the year.

(b) Derivatives not qualifying for hedge accounting

Certain derivatives either do not qualify for hedge accounting under IAS 39 or the option to hedge account has not been taken. These are referred to below as non-hedge derivatives.

(i) The Group's non-hedge derivative activity at 31 December 2014 and 2013 was as follows:

	2014			Restated[1] 2013		
	Contract/ notional amount £m	**Fair value asset £m**	**Fair value liability £m**	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	**5,999**	**54**	**(42)**	6,906	90	(12)
Interest rate and currency swaps	**2,237**	**141**	**(153)**	1,411	217	(130)
Options	**14,741**	**92**	**(48)**	7,000	54	(20)
Total	**22,977**	**287**	**(243)**	15,317	361	(162)
Interest rate contracts						
OTC						
Forwards	**356**	**—**	**(42)**	333	22	—
Swaps	**35,579**	**2,845**	**(2,087)**	28,051	803	(1,627)
Options	**36,195**	**312**	**(26)**	53,925	92	—
Exchange traded						
Futures	**1,943**	**13**	**(33)**	2,723	111	(36)
Total	**74,073**	**3,170**	**(2,188)**	85,032	1,028	(1,663)
Equity/Index contracts						
OTC						
Options	**1,132**	**6**	**(6)**	12	1	—
Exchange traded						
Futures	**3,764**	**88**	**(46)**	3,186	117	(13)
Options	**4,429**	**336**	**(18)**	5,015	256	(91)
Total	**9,325**	**430**	**(70)**	8,213	374	(104)
Credit contracts	**8,950**	**14**	**(89)**	6,071	18	(72)
Other	**16,393**	**187**	**(891)**	12,354	343	(250)
Totals at 31 December	**131,718**	**4,088**	**(3,481)**	126,987	2,124	(2,251)

1 Restated for the adoption of amendments to IAS32 – Financial Instruments:Presentation' – See note 1 for details

Swap option ("swaption") contracts are included within interest rate options above as management's intention in entering into and subsequent managing of the interest rate related swaption contracts most closely resembles option-type contracts.

Fair value assets are recognised as 'Derivative financial instruments' in note 27(a), while fair value liabilities are recognised as 'Derivative liabilities' in note 51.

The Group's derivative risk management policies are outlined in note 58.

59 – Derivative financial instruments and hedging continued

(ii) The contractual undiscounted cash flows in relation to non-hedge derivative liabilities have the following maturities:

	2014 £m	Restated[1] 2013 £m
Within 1 year	**336**	272
Between 1 and 2 years	**698**	168
Between 2 and 3 years	**313**	123
Between 3 and 4 years	**240**	96
Between 4 and 5 years	**234**	35
After 5 years	**3,627**	1,709
	5,448	2,403

1 Restated for the adoption of amendments to IAS32 – Financial Instruments:Presentation' – See note 1 for details

(c) Collateral

Certain derivative contracts, primarily interest rate and currency swaps, involve the receipt or pledging of cash and non-cash collateral. The amounts of cash collateral receivable or repayable are included in notes 28 and 51 respectively. Collateral received and pledged by the Group is detailed in note 60.

60 – Financial assets and liabilities subject to offsetting, enforceable master netting agreements and similar arrangements

(a) Offsetting arrangements

Financial assets and liabilities are offset in the statement of financial position when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

Aviva mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of the legal entities to facilitate Aviva's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aviva or its counterparty.

Derivative transactions requiring Aviva or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit default swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities. The derivative assets and liabilities in the table below are made up of the contracts described in detail in note 59.

Aviva participates in a number of stock lending and repurchase arrangements. In some of these arrangements cash is exchanged by Aviva for securities and a related receivable is recognised within 'Loans to Banks' (Note 24). These arrangements are reflected in the tables below. In instances where the collateral is recognised on the statement of financial position, the obligation for its return is included within 'payables and other financial liabilities'.

In other arrangements, securities are exchanged for other securities. The collateral received must be in a readily realisable form such as listed securities and is held in segregated accounts. Transfer of title always occurs for the collateral received. In many instances, however, no market risk or economic benefit is exchanged and these transactions are not recognised on the statement of financial position in accordance with our accounting policies, and accordingly not included in the tables below.

60 – Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements continued

	Amounts subject to enforceable netting arrangements						
		Offset under IAS 32		Amounts under a master netting agreement but not offset under IAS 32			
2014	**Gross Amounts**	**Amounts offset**	**Net amounts reported in the statement of financial position**	**Financial Instruments**	**Cash Collateral**	**Securities Collateral Received / Pledged**	**Net Amount**
Financial Assets							
Derivative Financial Assets	**4,467**	**(1,065)**	**3,402**	**(1,846)**	**(931)**	**(404)**	**221**
Loans to banks and repurchase arrangements	**3,763**	**—**	**3,763**	**—**	**—**	**(3,763)**	**—**
Total Financial Assets	**8,230**	**(1,065)**	**7,165**	**(1,846)**	**(931)**	**(4,167)**	**221**
Financial Liabilities							
Derivative Financial Liabilities	**(3,725)**	**1,065**	**(2,660)**	**2,108**	**338**	**146**	**(68)**
Other Financial Liabilities	**(1,859)**	**—**	**(1,859)**	**—**	**—**	**1,859**	**—**
Total Financial Liabilities	**(5,584)**	**1,065**	**(4,519)**	**2,108**	**338**	**2,005**	**(68)**

	Amounts subject to enforceable netting arrangements						
		Offset under IAS 32		Amounts under a master netting agreement but not offset under IAS 32			
2013 Restated[1]	Gross Amounts	Amounts offset	Net amounts reported in the statement of financial position	Financial Instruments	Cash Collateral	Securities Collateral Received / Pledged	Net Amount
Financial Assets							
Derivative Financial Assets	3,032	(1,556)	1,476	(945)	(270)	(182)	79
Loans to banks and repurchase arrangements	4,844	—	4,844	—	—	(4,844)	—
Other Financial Assets	435	—	435	—	(1)	(202)	232
Total Financial Assets	8,311	(1,556)	6,755	(945)	(271)	(5,228)	311
Financial Liabilities							
Derivative Financial Liabilities	(3,190)	1,556	(1,634)	1,198	79	211	(146)
Other Financial Liabilities	(1,119)	—	(1,119)	—	—	1,119	—
Total Financial Liabilities	(4,309)	1,556	(2,753)	1,198	79	1,330	(146)

1 Restated for the adoption of amendments to IAS32 – Financial Instruments:Presentation' – See note 1 for details

Derivative assets are recognised as 'Derivative financial instruments' in note 27(a), while fair value liabilities are recognised as 'Derivative liabilities' in note 51. £686 million *(2013: £648 million)* of derivative assets and £821 million *(2013: £617 million)* of derivative liabilities are not subject to master netting agreements and are therefore excluded from the table above.

Amounts receivable related to securities lending and reverse-repurchase arrangements totalling £3,763 million *(2013: £4,844 million)* is recognised within 'Loans to Banks' in note 24(a).

Other financial liabilities presented above represent liabilities related to repurchase arrangements recognised within "Obligations for repayment of cash collateral received" in note 51.

(b) Collateral

In the tables above, the amounts of assets or liabilities presented in the consolidated statement of financial position are offset first by financial instruments that have the right of offset under master netting or similar arrangements with any remaining amount reduced by the amount of cash and securities collateral. The actual amount of collateral may be greater than amounts presented in the tables above in the case of over collateralisation.

The total amount of collateral received which the Group is permitted to sell or repledge in the absence of default was £20,566 million *(2013: £16,914 million)*, all of which other than £2,896 million (*2013: £203 million*) is related to securities lending arrangements. £4,036 million (*2013: £5,310 million*) of collateral has been received related to balances recognised within 'Loans to Banks' (refer to note 24). The value of collateral that was actually sold or repledged in the absence of default was £nil *(2013: £nil)*.

The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Group's risk exposure.

61 – 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, the most material of which are listed in note 19(a)(iii). 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, movements in which may be found in note 19(a)(i).

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, as explained in note 49(b)(ii).

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties provided on behalf of related parties are given in note 53(f).

Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the executive and non-executive directors is as follows:

	2014 £m	2013 £m
Salary and other short-term benefits	**8.9**	6.7
Other long-term benefits	**4.1**	1.6
Post-employment benefits	**1.0**	1.1
Equity compensation plans	**1.9**	3.3
Termination benefits	**—**	1.1
Total	**15.9**	13.8

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' Remuneration Report.

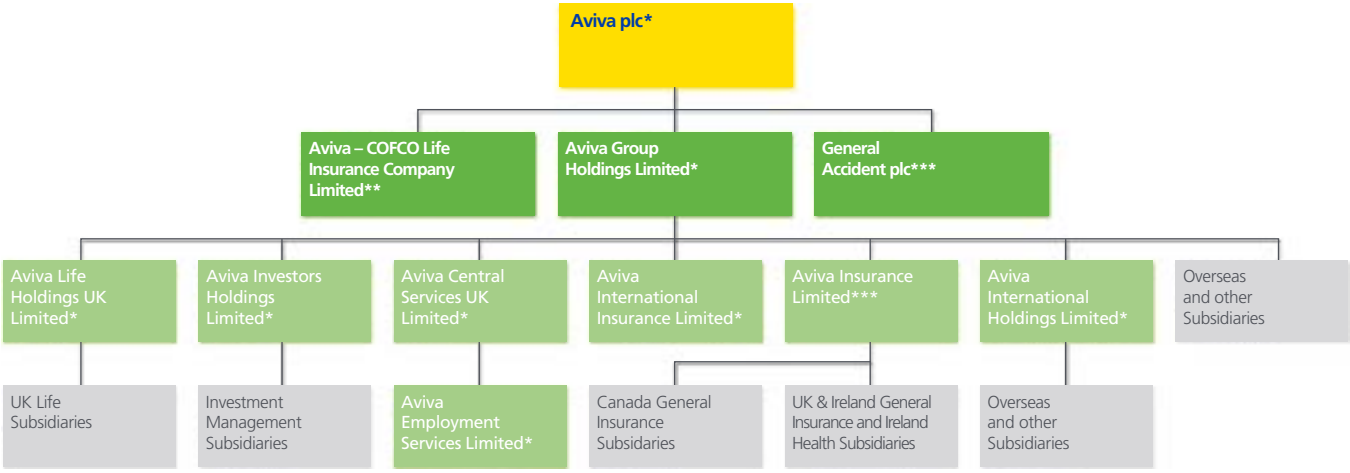
62 – Organisational structure

The following chart shows, in simplified form, the organisational structure of the Group as at 31 December 2014. Aviva plc is the holding company of the Group.

Parent company
Aviva plc

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

A complete list of the Group's subsidiaries is contained in the Group's annual return to Companies House.



* Incorporated in England and Wales
** Incorporated in People's Republic of China.
Aviva plc has a 50% interest in the joint venture
*** Incorporated in Scotland

United Kingdom
Aviva Annuity UK Limited
Aviva Central Services UK Limited
Aviva Consumer Products UK Limited
Aviva Employment Services Limited
Aviva Equity Release UK Limited
Aviva Health UK Limited
Aviva Insurance Limited
Aviva Insurance Services UK Limited
Aviva International Insurance Limited
Aviva Investors Global Services Limited
Aviva Investors Pensions Limited
Aviva Investors UK Fund Services Limited
Aviva Investors UK Funds Limited
Aviva Life & Pensions UK Limited
Aviva Life Services UK Limited
Aviva UKGI Investments Limited
Gresham Insurance Company Limited
The Ocean Marine Insurance Company Limited

Barbados
Victoria Reinsurance Company Ltd

Bermuda
Aviva Re Limited

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

France
Aviva France SA (99.99%) and its principal subsidiaries:
- Antarius S.A. (50%)
- Aviva Assurances S.A. (99.9%)
- Aviva Investors France S.A. (99.9%)
- Aviva Vie SA (99.9%)
- Aviva Epargne Retraite (99.9%)
- Union Financière de France Banque (Banking) (75.9%)

Hong Kong
Aviva Life Insurance Company Limited

Ireland
Aviva Health Group Ireland Limited (71%)
Aviva Life & Pensions Ireland Limited[1]

[1] On 1 January 2015, following approval from the High Court of Ireland in December 2014, the Ireland life business previously with Aviva Life & Pensions Ireland Limited was transferred to Aviva Life & Pensions UK Limited.

62 – Organisational structure continued

Italy
Aviva Italia Holding S.p.A and its principal subsidiaries:
- Avipop Assicurazioni S.p.A (50%)
- Avipop Vita S.p.A (50%)
- Aviva S.p.A (51%)
- Aviva Assicurazioni Vita S.p.A (80%)
- Aviva Italia S.p.A
- Aviva Vita S.p.A (80%)

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

Poland
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. (90%)
Aviva Towarzystwo Ubezpieczen na Zycie SA (90%)
Aviva Towarzystwo Ubezpieczen Ogolnych SA (90%)

Singapore
Aviva Ltd
Navigator Investment Services Limited

Spain
Aviva Vida y Pensiones, SA de seguros y reaseguros
Caja Espana Vida, Compania de Seguros y Reaseguros (50%)
Caja Granada Vida, de Seguros y Reaseguros, S.A. (25%)
Unicorp Vida, Compania de Seguros y Reaseguros (50%)
Caja Murcia Vida y Pensiones, de Seguros y Reaseguros S.A. (50%)

Associates and joint ventures
The Group has ongoing interests in the following operations that are classified as associates or joint ventures. Further details of those operations that were most significant in 2014 are set out in notes 19 and 20 to the financial statements.

United Kingdom
The Group has interests in several property limited partnerships. Further details are provided in notes 19, 20 and 26 to the financial statements.

China
Aviva-COFCO Life Insurance Co. Limited (50%)

India
Aviva Life Insurance Company India Limited (26%)

Indonesia
PT Astra Aviva Life (50%)

Turkey
AvivaSA Emeklilik ve Hayat A.S (41.3%)

Vietnam
Vietinbank Aviva Life Insurance Company Limited (50%)

63 – 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.

Note 4 details subsequent events relating to the acquisition and disposal of subsidiaries.

Income statement

For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Income			
Dividends received from subsidiaries	I	**1,172**	1,450
Interest receivable from Group companies	I	**60**	103
		1,232	1,553
Expenses			
Net investment expense		**(2)**	(5)
Operating expenses	B	**(162)**	(326)
Interest payable to Group companies	I	**(258)**	(326)
Interest payable on borrowings		**(314)**	(332)
Realised loss on loan		**—**	(78)
		(736)	(1,067)
Profit for the year before tax		**496**	486
Tax credit	C	**67**	116
Profit for the year after tax		**563**	602

Statement of comprehensive income

For the year ended 31 December 2014

	Note	2014 £m	2013 £m
Profit for the year		**563**	602
Other comprehensive income			
Items that may be reclassified subsequently to income statement			
Fair value gains on investments in subsidiaries and joint ventures	E	**866**	2,108
Items that will not be reclassified to income statement			
Remeasurements of pension schemes	E	**(1)**	(2)
Other comprehensive income, net of tax		**865**	2,106
Total comprehensive income for the year		**1,428**	2,708

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 117 to 129. The notes identified alphabetically on pages 242 to 246 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 137 to 237.

Statement of changes in equity

For the year ended 31 December 2014

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Retained earnings £m	Equity £m	Direct capital instruments and fixed rate tier 1 notes £m	Total equity £m
Balance at 1 January		**736**	**200**	**1,165**	**735**	**8,902**	**54**	**3,158**	**14,950**	**1,382**	**16,332**
Profit for the year		**—**	**—**	**—**	**—**	**—**	**—**	**563**	**563**	**—**	**563**
Other comprehensive income		**—**	**—**	**—**	**—**	**866**	**—**	**(1)**	**865**	**—**	**865**
Total comprehensive income for the year		**—**	**—**	**—**	**—**	**866**	**—**	**562**	**1,428**	**—**	**1,428**
Dividends and appropriations	16	**—**	**—**	**—**	**—**	**—**	**—**	**(551)**	**(551)**	**—**	**(551)**
Employee trust shares distributed in the year		**—**	**—**	**—**	**—**	**—**	**—**	**(18)**	**(18)**	**—**	**(18)**
Reserves credit for equity compensation plans		**—**	**—**	**—**	**—**	**—**	**39**	**—**	**39**	**—**	**39**
Shares issued under equity compensation plans		**1**	**—**	**7**	**—**	**—**	**(28)**	**24**	**4**	**—**	**4**
Redemption of direct capital instrument		**—**	**—**	**—**	**—**	**—**	**—**	**(57)**	**(57)**	**(490)**	**(547)**
Aggregate tax effect		**—**	**—**	**—**	**—**	**—**	**—**	**19**	**19**	**—**	**19**
Balance at 31 December		**737**	**200**	**1,172**	**735**	**9,768**	**65**	**3,137**	**15,814**	**892**	**16,706**

For the year ended 31 December 2013

	Note	Ordinary share capital £m	Preference share capital £m	Share premium £m	Merger reserve £m	Investment valuation reserve £m	Equity compensation reserve £m	Retained earnings £m	Equity £m	Direct capital instruments and fixed rate tier 1 notes £m	Total equity £m
Balance at 1 January		736	200	1,165	735	6,794	60	3,060	12,750	1,382	14,132
Profit for the year		—	—	—	—	—	—	602	602	—	602
Other comprehensive income		—	—	—	—	2,108	—	(2)	2,106	—	2,106
Total comprehensive income for the year		—	—	—	—	2,108	—	600	2,708	—	2,708
Dividends and appropriations	16	—	—	—	—	—	—	(538)	(538)	—	(538)
Employee trust shares distributed in the year		—	—	—	—	—	—	(33)	(33)	—	(33)
Reserves credit for equity compensation plans		—	—	—	—	—	37	—	37	—	37
Shares issued under equity compensation plans		—	—	—	—	—	(43)	47	4	—	4
Aggregate tax effect		—	—	—	—	—	—	22	22	—	22
Balance at 31 December		736	200	1,165	735	8,902	54	3,158	14,950	1,382	16,332

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 117 to 129. The notes identified alphabetically on pages 242 to 246 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 137 to 237.

Statement of financial position

At 31 December 2014

		2014 £m	2013 £m
Assets			
Non-current assets			
Investments in subsidiaries	A	**33,930**	33,095
Investment in joint venture		**208**	177
Loans owed by subsidiaries	I	**1,330**	1,040
Deferred tax assets	C	**201**	205
Current tax assets	C	**65**	93
		35,734	34,610
Current assets			
Loans owed by subsidiaries	I	**388**	42
Other amounts owed by subsidiaries	I	**274**	624
Other assets	D	**18**	347
Cash and cash equivalents		**33**	223
Total assets		**36,447**	35,846
Equity			
Ordinary share capital	31	**737**	736
Preference share capital	34	**200**	200
Called up capital		**937**	936
Share premium account	31b	**1,172**	1,165
Merger reserve	E	**735**	735
Investment valuation reserve	E	**9,768**	8,902
Equity compensation reserve	E	**65**	54
Retained earnings	E	**3,137**	3,158
Direct capital instruments and fixed rate tier 1 notes	35	**892**	1,382
Total equity		**16,706**	16,332
Liabilities			
Non-current liabilities			
Borrowings	F	**4,794**	4,569
Loans owed to subsidiaries	I	**10,366**	563
Provisions		**48**	39
		15,208	5,171
Current liabilities			
Borrowings	F	**516**	556
Loans owned to subsidiaries	I	**—**	9,975
Other amounts owed to subsidiaries	I	**3,885**	3,722
Other creditors		**132**	90
Total liabilities		**19,741**	19,514
Total equity and liabilities		**36,447**	35,846

Approved by the Board on 4 March 2015.

Thomas D. Stoddard
Chief Financial Officer

Company number: 2468686

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 117 to 129. The notes identified alphabetically on pages 242 to 246 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 137 to 237.

Statement of cash flows

For the year ended 31 December 2014

All the Company's operating cash requirements are met by subsidiary companies and settled through intercompany loan accounts. As the direct method of presentation has been adopted for these activities, no further disclosure is required. In respect of financing and investing activities, the following items pass through the Company's own bank accounts.

	2014 £m	2013 £m
Cash flows from investing activities		
Sale/(purchase) of financial investments	**290**	(294)
Interest received	**7**	—
Net cash generated from/(used in) investing activities	**297**	(294)
Cash flows from financing activities		
Funding provided from subsidiaries	**597**	1,283
New borrowings, net of expenses	**2,382**	2,137
Repayment of borrowings	**(2,070)**	(2,179)
Net advance/(repayment) of borrowings	**312**	(42)
Redemption of direct capital instrument	**(547)**	—
Preference dividends paid	**(17)**	(17)
Ordinary dividends paid[1]	**(447)**	(429)
Interest paid on direct capital instruments and fixed rate tier 1 notes	**(88)**	(92)
Interest paid on borrowings	**(301)**	(328)
Receipts under equity compensation plans	**5**	7
Treasury shares purchased for employee trusts	**—**	(32)
Proceeds from issue of ordinary shares	**8**	—
Net cash (used in)/generated from financing activities	**(478)**	350
Net (decrease)/increase in cash and cash equivalents	**(181)**	56
Cash and cash equivalents at 1 January	**223**	152
Exchange (losses)/gains on cash and cash equivalents	**(9)**	15
Cash and cash equivalents at 31 December	**33**	223

1 Ordinary dividends paid amounted to £449 million. £2 million of unclaimed and waived dividends has been set off against this above. See note 16 within the Group consolidated financial statements for further detail.

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 117 to 129. The notes identified alphabetically on pages 242 to 246 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 137 to 237.

A – Investments in subsidiaries

(i) Movements in the Company's investments in its subsidiaries are as follows:

	2014 £m	2013 £m
Fair value as at 1 January	**33,095**	31,023
Movement in fair value	**835**	2,072
At 31 December	**33,930**	33,095

Fair values are estimated using applicable valuation models underpinned by the Company's market capitalisation, and are classified as Level 2 in the fair value hierarchy described in note 23 to the Group consolidated financial statements.

(ii) At 31 December 2014, the Company has two wholly owned subsidiaries, both incorporated in the UK. These are General Accident plc and Aviva Group Holdings Limited. Aviva Group Holdings Limited is an intermediate holding company, whilst General Accident plc has preference shares listed on the London Stock Exchange. The principal subsidiaries of the Aviva Group at 31 December 2014 are set out in note 62 to the Group consolidated financial statements.

B – Operating expenses

(i) Operating expenses

Operating expenses comprise:

	2014 £m	2013 £m
Staff costs and other employee related expenditure (see below)	**65**	194
Other operating costs	**150**	156
Net foreign exchange gains	**(53)**	(24)
Total	**162**	326

(ii) Staff costs

Total staff costs were:

	2014 £m	2013 £m
Wages and salaries	**35**	84
Social security costs	**5**	8
Post-retirement obligations		
Defined contribution schemes	**6**	11
Equity compensation plans (see (iii) below)	**11**	11
Termination benefits	**8**	80
Total	**65**	194

(iii) Equity compensation plans

All transactions in the Group's equity compensation plans involve options and awards for ordinary shares of the Company. Full disclosure of these plans is given in the Group consolidated financial statements, note 32. The cost of such options and awards is borne by all participating businesses and, where relevant, the Company bears an appropriate charge. As the majority of the charge to the Company relates to directors' options and awards, for which full disclosure is made in the Directors' Remuneration Report, no further disclosure is given here.

C – Tax

(i) Tax credited to the income statement

The total tax charge comprises:

	2014 £m	2013 £m
Current tax		
For this year	**(64)**	(84)
Prior year adjustments	**(7)**	(7)
Total current tax	**(71)**	(91)
Deferred tax		
Origination and reversal of temporary differences	**4**	(49)
Changes in tax rates or tax laws	**—**	24
Total deferred tax	**4**	(25)
Total tax credited to income statement	**(67)**	(116)

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

No tax was charged or credited to other comprehensive income in 2014 or 2013.

(iii) Tax credited to equity

Tax credited to equity comprises £19 million (*2013: £22 million*) in respect of coupon payments on the direct capital instruments and fixed rate tier 1 notes.

(iv) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the Company as follows:

	2014 £m	2013 £m
Profit before tax	**496**	486
Tax calculated at standard UK corporation tax rate of 21.5% *(2013: 23.25%)*	**107**	113
Adjustment to tax charge in respect of prior years	**(5)**	(7)
Non-assessable dividend income	**(252)**	(337)
Disallowable expenses	**9**	13
Non-taxable loss on settlement of intra-group loan	**—**	17
Movement in deferred tax not recognised	**(2)**	—
Different local basis of tax on overseas profits	**2**	—
Change in future local statutory tax rates	**—**	32
Losses surrendered intra-group for nil value	**74**	53
Total tax credited to income statement	**(67)**	(116)

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 Company's deferred tax assets and liabilities as at 31 December 2014.

(v) Deferred tax

A deferred tax asset of £201 million *(2013: £205 million)*, principally arising in respect of deferred interest has been recognised at 31 December 2014 at 20%. The Company has unrecognised temporary differences of £45 million (*2013: £54 million*) to carry forward indefinitely against future taxable income.

(vi) Current tax assets

Current tax assets recoverable in more than one year are £65 million (*2013: £93 million*).

D – Other assets

In 2013, other assets included financial investments of £297 million, made up of UK Government Bonds which were subsequently sold during 2014. These financial investments were valued as Level 1 in the fair value hierarchy described in note 23 to the Group consolidated financial statements and were classified as other than trading as described in note 27.

E – Reserves

	Merger Reserve £m	Investment valuation reserve £m	Equity-compensation reserve £m	Retained earnings £m
Balance at 1 January 2013	735	6,794	60	3,060
Arising in the year:				
Profit for the year	—	—	—	602
Fair value gains on investments in subsidiaries and joint ventures	—	2,108	—	—
Remeasurements of pension schemes	—	—	—	(2)
Dividends and appropriations	—	—	—	(538)
Reserves credit for equity compensation plans	—	—	37	—
Trust shares distributed in the year	—	—	—	(33)
Issue of share capital under equity compensation scheme	—	—	(43)	47
Aggregate tax effect	—	—	—	22
Balance at 31 December 2013	**735**	**8,902**	**54**	**3,158**
Arising in the year:				
Profit for the year	**—**	**—**	**—**	**563**
Fair value gains on investments in subsidiaries and joint ventures	**—**	**866**	**—**	**—**
Remeasurements of pension schemes	**—**	**—**	**—**	**(1)**
Dividends and appropriations	**—**	**—**	**—**	**(551)**
Reserves credit for equity compensation plans	**—**	**—**	**39**	**—**
Trust shares distributed in the year	**—**	**—**	**—**	**(18)**
Issue of share capital under equity compensation scheme	**—**	**—**	**(28)**	**24**
Redemption of direct capital instrument	**—**	**—**	**—**	**(57)**
Aggregate tax effect	**—**	**—**	**—**	**19**
Balance at 31 December 2014	**735**	**9,768**	**65**	**3,137**

Tax of £19 million *(2013: £22 million)* is deductible in respect of coupon payments of £88 million *(2013: £92 million)* on the direct capital instruments and fixed rate tier 1 notes.

Details of the Merger reserve are given in the Group consolidated financial statements, note 36.

The remeasurement of pension schemes relates to a small unfunded defined benefit scheme which is closed to new entrants.

F – Borrowings

The Company's borrowings comprise:

	2014 £m	2013 £m
Subordinated debt	**4,594**	4,370
9.5% guaranteed bonds 2016	**200**	199
Commercial paper	**516**	556
	5,310	5,125

Maturity analysis of contractual undiscounted cash flows:

	2014			2013		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within 1 year	**516**	**304**	**820**	556	314	870
1 - 5 years	**200**	**1,149**	**1,349**	200	1,204	1,404
5 - 10 years	**—**	**1,340**	**1,340**	242	1,348	1,590
10 - 15 years	**1,188**	**1,322**	**2,510**	—	1,341	1,341
Over 15 years	**3,442**	**2,924**	**6,366**	4,165	2,950	7,115
Total contractual undiscounted cash flows	**5,346**	**7,039**	**12,385**	5,163	7,157	12,320

Where subordinated debt is undated, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £72 million *(2013: £73 million).*

The fair value of the subordinated debt at 31 December 2014 was £5,188 million *(2013: £4,707 million),* calculated with reference to quoted prices. The fair value of the 9.5% guaranteed bonds 2016 at 31 December 2014 was £223 million *(2013: £236 million),* calculated with reference to quoted prices. The fair value of the commercial paper is considered to be the same as its carrying value.

Further details of these borrowings and undrawn committed facilities can be found in the Group consolidated financial statements, note 50, with details of the fair value hierarchy in relation to these borrowings in note 23.

G – Contingent liabilities

Details of the Company's contingent liabilities are given in the Group consolidated financial statements, note 53.

H – Risk management

Risk management in the context of the Group is considered in the Group consolidated financial statements, note 58.

The business of the Company is managing its investments in subsidiary and joint venture operations. Its risks are considered to be the same as those in the operations themselves and full details of the major risks and the Group's approach to managing these are given in the Group consolidated financial statements, note 58. Such investments are held by the Company at fair value in accordance with accounting policy D.

The fair values of the subsidiaries and joint ventures are estimated using applicable valuation models, underpinned by the Company's market capitalisation. This uses the Company's closing share price at year end. Given that the key input into the valuation model is based on an observable current share price, and therefore sensitive to movements in that price, the valuation process is not sensitive to non-observable market assumptions.

Financial assets, other than investments in subsidiaries and the joint venture, largely consist of amounts due from subsidiaries. As at the balance sheet date, these receivable amounts were neither past due nor impaired.

Financial liabilities owed by the Company as at the balance sheet date are largely in respect of borrowings (details of which are provided in note F and the Group consolidated financial statements, note 50) and loans owed to subsidiaries. Loans owed to subsidiaries were within agreed credit terms as at the balance sheet date.

Interest rate risk

Loans to and from subsidiaries are at either fixed or floating rates of interest, with the latter being exposed to fluctuations in these rates. The choice of rates is designed to match the characteristics of financial investments (which are also exposed to interest rate fluctuations) held in both the Company and the relevant subsidiary, to mitigate as far as possible each company's net exposure.

All the Company's long term external borrowings are at fixed rates of interest and are therefore not exposed to changes in these rates. However, for short term commercial paper, the Company is affected by changes in these rates to the extent the redemption of these borrowings is funded by the issuance of new commercial paper or other borrowings. Further details of the Company's borrowings are provided in note F and the Group consolidated financial statements, note 50.

The effect of a 100 basis point increase/decrease in interest rates on floating rate loans due to and from subsidiaries and on refinancing short term commercial paper as it matures would be a decrease / increase in profit before tax of £100 million (*2013: decrease / increase of £109 million*). The net asset value of the Company's financial resources is not materially affected by fluctuations in interest rates.

Currency risk

The Company's direct subsidiaries are exposed to foreign currency risk arising from fluctuations in exchange rates during the course of providing insurance and asset management services around the world. The exposure of the subsidiaries to currency risk is considered from a Group perspective in the Group consolidated financial statements, note 58.

The Company faces exposure to foreign currency risk through some of its borrowings which are denominated in Euros. However, most of these borrowings have been on-lent to a subsidiary which holds investments in Euros, generating the net investment hedge described in the Group consolidated financial statements, note 59(a).

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 Company's main sources of liquidity are liquid assets held within the Company and its subsidiary Aviva Group Holdings Limited (AGH), and dividends received from the Group's insurance and asset management businesses. Sources of liquidity in normal markets also includes a variety of short and long-term instruments including commercial papers and medium and long-term debt. In addition to the existing liquid resources and expected inflows, the Company maintains significant undrawn committed borrowing facilities (£1,550 million) from a range of leading international banks to further mitigate this risk.

Maturity analysis of external borrowings and amounts due to and by subsidiaries are provided in notes F and I respectively.

I – Related party transactions

The Company receives dividend and interest income from subsidiaries and pays interest and fee expense to those subsidiaries in the normal course of business. These activities are reflected in the table below.

Loans to and from subsidiaries are made on normal arm's-length commercial terms. The maturity analysis of the related party loans is as follows:

Loans owed by subsidiaries

Maturity analysis	**2014 £m**	2013 £m
Within 1 year	**388**	42
1 – 5 years	**1,136**	832
Over 5 years	**194**	208
Total	**1,718**	1,082

I – Related party transactions continued

Loans owed to subsidiaries

Maturity analysis of contractual undiscounted cash flows:	2014			2013		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within 1 year	**—**	**132**	**132**	9,975	218	10,193
1 – 5 years	**10,366**	**264**	**10,630**	563	34	597
Over 5 years	**—**	**—**	**—**	—	—	—
Total	**10,366**	**396**	**10,762**	10,538	252	10,790

Other related party balances comprise dividends and interest receivable and payable, as well as intercompany balances for fees and other transactions in the normal course of business.

During the year the facility with General Accident plc was renewed, giving a total loan principal of £10,210 million with a maturity date of December 2017.

Dividends, loans, interest

Services provided to related parties

	2014		2013	
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m
Subsidiaries	**1,232**	**1,992**	1,553	1,706

The Company incurred expenses in the year of £179,000 (*2013: £130,000*) representing audit fees paid by the Company on behalf of subsidiaries. The Company did not recharge subsidiaries for these expenses.

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.

Services provided by related parties

	2014		2013	
	Expense incurred in year £m	**Payable at year end £m**	Expense incurred in year £m	Payable at year end £m
Subsidiaries	**258**	**14,251**	326	14,260

The related parties' payables are not secured and no guarantees were received in respect thereof. The payables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties given by the Company on behalf of related parties are given in note 53(f).

The directors and key management of the Company are considered to be the same as for the Group. Information on both the Company and Group key management compensation can be found in note 61.

J – Subsequent event

Refer to note 4(a) for further details on the proposed acquisition of Friends Life.

K – Statement of cash flows

Following a review of the classification of the cash flows, additional disclosure in respect of the receipts under equity compensation plans has been provided and comparative amounts have been amended from amounts previously reported. This has no impact on the total cash and cash equivalents balance.

Other information
Performance review

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Financial and operating performance

Our main activities are the provision of products and services in relation to long-term insurance and savings, fund management and general and health insurance.

Factors affecting results of operations

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

During the year, sterling strengthened against the euro, Canadian dollar and Polish zloty which has impacted the overall results and performance. See IFRS financial statements – note 2 – Exchange rates. In addition, the Group undertook the following actions which impacted the overall results and performance:

- The Group completed the sale of a number of operations during the year, including operations in Italy (Eurovita Assicurazioni S.p.A), Spain (CXG Aviva Corporacion Caixa Galicia de Sueguros Reaseguros, S.A.), Turkey (Aviva Sigorta A.S.), South Korea (Woori Aviva Life Insurance Co. Ltd), and the US (River Road Asset Management, LLC). See 'IFRS Financial statements - note 4 – Subsidiaries' for further details.
- The Group continued to undertake restructuring and transformation activity to align our business operations with our strategy. Integration and restructuring costs of £140 million (2013: £366 million) mainly include £94 million of Solvency II implementation costs (2013: £79 million). Compared to the prior year, integration and restructuring costs have reduced by £226 million principally driven by a significant reduction in transformation spend.
- In addition, there was a favourable movement of £1,662 million (2013: £674 million adverse) relating to the Group's staff pension schemes which has been recognised in other comprehensive income. This was principally due to the main UK staff pension scheme largely as a result of positive asset performance driven by a fall in interest rates, partly offset by an increase in the defined benefit obligation. See 'IFRS Financial statements – note 49 – Pension obligations' for further details.

Demographic trends

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

In our long-term insurance and savings business we make assumptions about key non-economic factors, such as the mortality rate that we expect to be experienced by our policyholders. In countries where the life expectancy is growing, this will need to be reflected in our pricing models as lower mortality rates will increase profitability of life insurance products but will reduce the returns on annuity products. We review our assumptions against our own experience and industry expectations.

Economic conditions

Our results are affected by the economic conditions in our geographic markets and, consequently, by economic cycles in those markets. High levels of general economic activity typically result in high levels of demand for, and sales of, our products and services. Economic activity in turn is affected by government monetary and fiscal policy as well as by global trading conditions and external shocks such as terrorist activity, war and oil price movements.

The benign financial market conditions experienced in 2013 continued during 2014, albeit with increased volatility in the second half of the year.

The economies where the Group has operations that were impacted in 2014 by estimated low or negative growth include: France 0.4%[1] and Italy (0.4)% [1]. Economic growth in the UK was encouraging at 2.6%[1] and the Canadian economy remained solid with estimated growth of 2.4%[1] in 2014. Some of our other markets experienced stronger growth, for example c.3%[1] in both Poland and Turkey, and 7.4%[1] in China.

The world economy is expected to grow c.3.5%[1] in 2015 and 3.7%[1] in 2016, slightly higher than the previous two years (growth was 3.3%[1] in both 2013 and 2014). Emerging markets are expected to sustain high growth, although lower than pre-crisis highs. The US is projected to continue leading the developed market recovery, with Canada and the UK also achieving reasonable growth, while eurozone growth is expected to be low, with downside risks.

Capital and credit market conditions

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

With-profits business

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

Shareholders' profits arising on with-profits business under IFRS depend on the total bonuses declared to policyholders on an annual basis.

The level of bonuses declared to policyholders is influenced by the actual returns on investments and our expectation of future rates of return. Whilst bonuses can never be negative, a predicted sustained fall in equity markets could lead to a reduction in regular and final bonus rates, thereby reducing both policyholder returns and shareholders' profit under IFRS.

In 2014 and 2013 we made increases in the majority of final bonus rates.

1 International Monetary Fund world economic outlook

General insurance and health underwriting cycle
Our general insurance and health business is comprised of our property and casualty insurance and health insurance operations. In 2014, general insurance and health sales accounted for 41% of Group net written premiums (NWP) from continuing operations. Demand for general insurance is usually price-sensitive because of the limited degree of product differentiation inherent in the industry. As a result, the price of insuring property and casualty risks is subject to a cycle (called an underwriting cycle). In periods when the price of risk is high, the high profitability of selling insurance attracts new entrants and hence new capital into the market. Increased competition, however, drives prices down. Eventually the business becomes uneconomic and some industry players, suffering from losses, exit the market whilst others fail, resulting in lower capital invested within the market. Decreased competition leads to increasing prices, thereby repeating the cycle. Our various general insurance markets are not always at the same stage of the underwriting cycle.

In the UK, the personal motor market has seen further rate reductions in 2014 reflecting intense competition and regulatory change. This follows a period of rate increases in previous periods in response to rising claims costs and frequencies. Challenging rating conditions also apply to other UK classes of business.

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

Natural and man-made disasters
Our general insurance business results are affected by the amount of claims we need to pay out which, in turn, can be subject to significant volatility depending on many factors, including natural and man-made disasters. Natural disasters arise from adverse weather, earthquakes and other such natural phenomena. Man-made disasters include accidents and intentional events, such as acts of terrorism. These events are difficult to predict with a high degree of accuracy, although they generally occur infrequently at a material level. Our exposure to large disasters is somewhat reduced through our focus on personal lines business and small to medium sized commercial risks in the general insurance business. The Group cedes the majority of its worldwide catastrophe risk to third-party reinsurers.

In 2014 our operations in Canada suffered from losses due to the severe winter in the first quarter of 2014 followed by hailstorms in August (see 'Market performance – Canada' below for further details) and our operations in France were also impacted by adverse weather.

Government policy and legislation
Changes in government policy and legislation applicable to our business in many of the markets in which we operate, particularly in the UK, may affect the results of our operations. These include changes to the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and the regulation of solvency standards. Such changes may affect our existing and future business by, for example, causing customers to cancel existing policies, requiring us to change our range of products and services, forcing us to redesign our technology, requiring us to retrain our staff or increase our tax liability. As a global business, we are exposed to various local political, regulatory and economic conditions, and business risks and challenges which may affect the demand for our products and services, the value of our investments portfolio and the credit quality of local counterparties. Our regulated business is subject to extensive regulatory supervision both in the UK and internationally. For details please refer to the section 'Shareholder information - Regulation'.

Exchange rate fluctuations
We publish our consolidated financial statements in pounds sterling. Due to our substantial non-UK operations, a significant portion of our operating earnings and net assets are denominated in currencies other than sterling, most notably the euro, Canadian dollar and the Polish zloty. As a consequence, our results are exposed to translation risk arising from fluctuations in the values of these currencies against sterling.

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

Movements in exchange rates may affect the value of consolidated shareholders' equity, which is expressed in sterling. Exchange differences taken to other comprehensive income arise on the translation of the net investment in foreign subsidiaries, associates and joint ventures. This aspect of foreign exchange risk is monitored centrally against limits that we have set to control the extent to which capital deployment and capital requirements are not aligned. We use currency borrowings and derivatives when necessary to keep currency exposures within these predetermined limits, and to hedge specific foreign exchange risks when appropriate; for example, in any acquisition or disposal activity.

During 2014, sterling strengthened against a number of currencies including the Euro and the Canadian dollar. This resulted in a foreign currency loss in other comprehensive income from continuing operations of £396 million *(2013: £35 million loss)*.

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

Acquisitions and disposals
Over the last three years we have completed and announced a number of transactions, some of which have had a material impact on our results. These transactions reflect our strategic objectives of narrowing our focus to businesses where we can produce attractive returns and exit businesses which we do not consider central to our future growth.

Activity in 2014
In May 2014, the Group restructured its existing business in Indonesia and reduced its ownership interest from 60% to 50% to form a 50-50 joint venture (Astra Aviva Life) between Aviva and PT Astra International Tbk.

On 27 June 2014, the Group completed the disposal of its 47% holding in Woori Aviva Life Insurance Co. Ltd in South Korea for consideration of £17 million.

On 30 June 2014, Finoa Srl, an Italian holding company in which the Group owns a 50% share, disposed of its entire interest in Eurovita Assicurazioni S.p.A for gross cash consideration of £36 million.

Also on 30 June 2014, the Group completed the sale of US equity manager River Road Asset Management, LLC ("River Road") to Affiliated Managers Group, Inc. for consideration of £75 million.

In October 2013, the Group completed the sale of its US Life subsidiary. 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.

On 13 November 2014 the Group 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"). The sale reduced the Group's holding in Aviva SA from 49.8% to 41.3% and continues to be recognised as a joint venture. The Group received cash proceeds of £40 million from the share sale resulting in a £23 million gain.

On 2 December 2014 the Group and Friends Life Group Limited ("Friends Life") announced that they had reached agreement on the terms of a recommended all share acquisition of Friends Life by the Group. 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.

On 11 December 2014, the Group completed the disposal of its 50% holding in Spanish subsidiary CXG Aviva Corporacion Caixa Galicia de Seguros y Reaseguros, S.A. for cash consideration of £221 million.

On 18 December 2014, the Group completed the sale of its Turkish general insurance operations resulting in a £17 million loss on sale.

Further details can be found in the section 'IFRS Financial statements – note 4 – Subsidiaries'.

Activity in 2013

On 8 January 2013, Aviva sold the remainder of its stake in Delta Lloyd at €12.65 per share resulting in gross cash proceeds of £353 million.

On 8 March 2013, the Group completed the disposal of its Irish long-term business subsidiary, Ark Life to Allied Irish Bank (AIB), and the acquisition of the non-controlling interest in Aviva Life Holdings Ireland Limited from AIB for total cash consideration of £117 million.

On 24 April 2013, the Group disposed of its entire holding in its Spanish long-term business subsidiary, Aseval to Bankia for cash consideration of £502 million.

In April 2013, the Group also completed the disposal of Aviva Zao, its Russian long-term business subsidiary, for consideration of £30 million, as well as completing the sale of its Malaysian joint ventures for cash consideration of £153 million.

In May 2013, the Group sold its Romania Pensions business to MetLife Inc. for consideration of £5 million.

On 2 October 2013, the Group completed the disposal of its US life and related internal fund management business to Athene Holding Ltd receiving consideration of £1.4 billion.

In November 2013, the Group reached a conditional agreement to sell its holding in Eurovita Assicurazioni S.p.A. to JC Flowers, subject to regulatory approval. Eurovita was classified as held for sale at 31 December 2013.

Further details can be found in the section 'IFRS Financial statements – note 4 – Subsidiaries'.

Basis of earnings by line of business

Our earnings originate from four main lines of business: our long-term insurance and savings business, which includes a range of life insurance and savings products; general insurance, which focuses on personal and commercial lines; health insurance and fund management, which manages funds on behalf of our long-term insurance and general insurance businesses, external institutions, pension funds and retail clients. These lines of business are present in our various operating segments to a greater or lesser extent.

In the UK, we have major long-term insurance and savings businesses and general insurance and health businesses; in Europe we have long-term insurance and savings businesses in all countries in which we operate, large general insurance businesses in France, Ireland and Italy, and smaller general insurance operations in several other countries and health businesses in France and Ireland; in Canada we have a leading general insurance operation; in Asia we predominantly have long-term insurance and savings businesses. Our fund management businesses operate across Europe, Asia, North America and the UK.

Long-term insurance and savings business

For most of our life insurance businesses, such as those in the UK and France, operating earnings are generated principally from our in-force books of business. Our in-force books consist of business written in prior years and on which we continue to generate profits for shareholders. Under IFRS, certain costs incurred in acquiring new business must be expensed, thereby typically giving rise to a loss in the period of acquisition, although the degree of this effect will depend on the pricing structure of product offerings. In certain higher growth markets, current year sales have a more significant effect on current year operating earnings.

UK with-profits business

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

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

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

Other participating business

Outside of the UK, most of our long-term operations write participating business. This is predominantly savings or pensions business, where the policyholders receive guaranteed minimum investment returns, and additional earnings are shared between policyholders and shareholders in accordance with local regulatory and policy conditions. This may also be referred to as 'with-profits' business.

Other long-term insurance and savings business

Non-profit business falls into two categories: investment type business and risk cover and annuity business.

Investment type business, which accounts for most of our non-profit business, includes predominantly unit-linked life and pensions business where the risk of investing policy assets is borne entirely by the policyholder. Operating earnings arise from unit-linked business when fees charged to policyholders based on the value of the policy assets exceed costs of acquiring new business and administration costs. Shareholders bear the risk of investing shareholder capital in support of these operations.

Risk cover business includes term assurance, or term life insurance business. Annuity business includes immediate annuities purchased for individuals or on a bulk purchase basis for groups of people. The risk of investing policy assets in this business is borne entirely by the shareholders. Operating earnings arise when premiums, and investment return earned on assets supporting insurance liabilities and shareholder capital, exceed claims and benefit costs, costs of acquiring new business and administration costs.

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

Fund management
Fund management operating earnings consist of fees earned for managing policyholder funds and external retail and institutional funds on behalf of clients, net of operating expenses.

Arrangements for the management of proprietary funds are conducted on an arm's length basis between our fund management and insurance businesses. Such arrangements exist mainly in the UK, France, Ireland and Canada. Proprietary insurance funds in most other countries are externally managed.

Other operations
Other operations includes our operations other than insurance and fund management, including Group Centre expenses.

Financial highlights

The following analysis is based on our consolidated financial statements and should be read in conjunction with those statements. In order to fully explain the performance of our business, we discuss and analyse the results of our business in terms of certain financial measures which are based on 'non-GAAP measures' and which we use for internal monitoring purposes. We review these in addition to GAAP measures, such as profit before and after tax.

The remainder of the financial performance section focuses on the activity of the Group's continuing operations. Details of the performance of the US Life business which was classified as discontinued and sold on 2 October 2013, can be found in the market performance section.

Non-GAAP measures
Sales
The total sales of the Group consist of long-term insurance and savings new business sales and general insurance and health net written premiums (excluding long-term health business).

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

- Insurance and participating investment business
  - This includes traditional life insurance, long-term health, annuity business and with-profits business.
  - There is an element of insurance risk borne by the Group therefore, under IFRS, these are reported within net written premiums.
- Non-participating investment business
  - This includes unit-linked business and pensions business.
  - The amounts received for this business are treated as deposits under IFRS and an investment management fee is earned on the funds deposited.
  - For new business reporting in the UK, companies continue to report non-participating investment business within their 'covered business' sales, in line with the historic treatment under UK GAAP.
- Non-covered business or investment sales:
  - These include retail sales of mutual fund type products.
  - There is no insurance risk borne by the Group therefore, under IFRS, these are treated as deposits and investment management fee income is earned on the funds deposited. These have never been treated as 'covered business' for long-term insurance and savings reporting so we show these separately as investment sales.

Sales is a non-GAAP financial measure and financial performance indicator that we report to our key decision makers in the businesses in order to help assess the value of new business from our customers and compare performance across the markets in which we operate.

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

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

For our long-term insurance and savings business, we believe that sales is an important measure of underlying performance and a better measure for new business than IFRS net written premiums. We consider that the use of sales over IFRS net written premiums provides a:

- Consistent treatment of long-term insurance and investment contracts: IFRS net written premiums do not include deposits received on non-participating investment contracts. Long-term insurance contracts and participating investment contracts both contain a deposit component, which are included in IFRS net written premiums, in addition to an insurance risk component. Therefore, to assess the revenue generated on a consistent basis between types of contracts, we evaluate the present value of new business sales of long-term insurance and investment products on the basis of total premiums and deposits collected, including sales of mutual fund type products such as unit trusts and open ended investment companies (OEICs).
- Better reflection of the relative economic value of regular premium contracts compared to single premium contracts: Sales recognise the economic value of all expected contractual cash flows for regular premium contracts in the year of inception, whereas IFRS net written premiums only recognise premiums received in the year.
- Better reflection of current management actions in the year: IFRS net written premiums include premiums on regular premium contracts which incepted in prior years, and therefore reflect the actions of management in prior years.

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

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

General insurance and health sales

General insurance and health (excluding long-term health business) sales are defined as IFRS net written premiums, which are premiums written during the year net of amounts reinsured with third parties. For sales reporting, we use the GAAP measure for this business.

The table below presents our consolidated sales for the three years ended 31 December 2014, 2013 and 2012 for our continuing operations, as well as the reconciliation of sales to net written premiums in IFRS.

Continuing operations	2014 £m	Restated[1] 2013 £m	Restated[1] 2012 £m
Long-term insurance, savings and health new business sales	**27,099**	26,012	26,150
General insurance and health sales (excluding long-term health)	**7,760**	8,173	8,366
Total sales	**34,859**	34,185	34,516
Less: Effect of capitalisation factor on regular premium long-term business	**(7,314)**	(6,807)	(6,738)
Share of long-term new business sales from JVs and associates	**(473)**	(660)	(592)
Annualisation impact of regular premium long-term business	**(214)**	(203)	(239)
Deposits taken on non-participating investment contracts and equity release contracts	**(5,641)**	(4,389)	(4,607)
Retail sales of mutual fund type products (investment sales)	**(4,977)**	(4,875)	(4,586)
Add: IFRS gross written premiums from existing long-term business	**4,786**	4,143	4,349
Less: long-term insurance and savings business premiums ceded to reinsurers	**(970)**	(905)	(930)
Total IFRS net written premiums	**20,056**	20,489	21,173
Analysed as:			
Long-term insurance and savings net written premiums	**11,756**	11,769	12,279
General insurance and health net written premiums	**8,300**	8,720	8,894
	20,056	20,489	21,173

1 Comparative has been restated to reflect changes in MCEV liquidity premium and an extension of the MCEV covered business.

- ***Effect of capitalisation factor on regular premium long-term business***

  PVNBP is derived from the single and regular premiums of the products sold during the financial period and is expressed at the point of sale. The PVNBP calculation is equal to total single premium sales received in the year plus the discounted value of regular premiums expected to be received over the term of the new contracts. The discounted value of regular premiums is calculated using the market consistent embedded value methodology proposed by the CFO Forum Principles.

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

- ***Share of long-term new business sales from joint ventures and associates***

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

- ***Annualisation impact of regular premium long-term business***

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

- ***Deposits taken on non-participating investment contracts and equity release contracts***

  Under IFRS, non-participating investment contracts are recognised in the Statement of Financial Position by recording the cash received as a deposit and an associated liability and are not recorded as premiums received in the IFRS income statement. Only the margin earned is recognised in the IFRS income statement.

- ***Retail sales of mutual fund type products (investment sales)***

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

- ***IFRS gross written premiums from existing long-term business***

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

Consolidated results of operations

The table below presents our consolidated sales from continuing operations for the three years ended 31 December 2014, 2013 and 2012.

Continuing operations	2014 £m	Restated[1] 2013 £m	Restated[1] 2012 £m
United Kingdom & Ireland Life	**12,444**	12,393	13,690
United Kingdom & Ireland GI	**4,028**	4,200	4,490
France	**5,739**	5,603	4,640
Poland	**630**	555	438
Italy, Spain and Other	**4,639**	4,430	4,182
Canada	**2,104**	2,250	2,176
Asia	**2,162**	1,980	2,014
Aviva Investors	**3,106**	2,741	2,819
Other group activities	**7**	33	67
Total sales	**34,859**	34,185	34,516

1 Comparative has been restated to reflect changes in MCEV liquidity premium and an extension of the MCEV covered business.

Sales (from continuing operations)

Year ended 31 December 2014

Total sales from continuing operations increased to £34,859 million *(2013: £34,185 million)* for the reasons set out in the market performance sections below.

Year ended 31 December 2013[1]

Total sales from continuing operations were stable at £34,185 million *(2012: £34,516 million)* for the reasons set out in the market performance sections below.

Adjusted operating profit

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

joint ventures and associates, integration and restructuring costs and exceptional items.

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

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

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

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

The table below presents our consolidated adjusted operating profit for the three years ended 31 December 2014, 2013 and 2012, as well as the reconciliation of adjusted operating profit to profit/loss before tax attributable to shareholders' profits under IFRS.

Continuing operations	**2014 £m**	2013 £m	2012 £m
United Kingdom & Ireland Life	**1,052**	1,124	903
United Kingdom & Ireland GI	**492**	465	480
France	**452**	448	422
Poland	**192**	184	167
Italy, Spain and Other	**295**	314	365
Canada	**191**	246	277
Asia	**78**	87	53
Aviva Investors	**63**	(26)	42
Other Group activities	**(642)**	(793)	(783)
Adjusted operating profit before tax attributable to shareholders' profit (excluding Delta Lloyd as an associate)	**2,173**	2,049	1,926
Share of Delta Lloyd's adjusted operating profit (before tax) as an associate	**—**	—	112
Adjusted operating profit before tax attributable to shareholders' profit	**2,173**	2,049	2,038
Integration and restructuring costs	**(140)**	(363)	(461)
Adjusted operating profit before tax after integration and restructuring costs	**2,033**	1,686	1,577
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business	**72**	(49)	(620)
Short-term fluctuation in return on investments on non long-term business	**261**	(336)	7
Economic assumption changes on general insurance and health business	**(145)**	33	(21)
Impairment of goodwill, associates and joint ventures and other amounts expensed	**(24)**	(77)	(60)
Amortisation and impairment of intangibles	**(90)**	(91)	(128)
Profit/(loss) on the disposal and re-measurement of subsidiaries and associates	**174**	115	(164)
Non-operating items before tax (excluding Delta Lloyd as an associate)	**248**	(405)	(986)
Share of Delta Lloyd's non-operating items (before tax) as an associate	**—**	—	(523)
Non-operating items before tax	**248**	(405)	(1,509)
Share of Delta Lloyd's tax expense, as an associate	**—**	—	107
Profit before tax attributable to shareholders' profits – continuing operations	**2,281**	1,281	175
Profit/(loss) before tax attributable to shareholders' profits – discontinued operations	**58**	1,538	(2,696)
Profit/(loss) before tax attributable to shareholders' profits	**2,339**	2,819	(2,521)

Adjusted operating profit before tax (from continuing operations)

Year ended 31 December 2014

Adjusted operating profit before tax increased by 6% to £2,173 million *(2013: £2,049 million)* for the reasons set out in the market performance section below.

Year ended 31 December 2013

Adjusted operating profit before tax increased by 1% to £2,049 million *(2012: £2,038 million)* for the reasons set out in the market performance section below.

Adjusting items (from continuing operations)

Year ended 31 December 2014

Life 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.

Short-term fluctuations on non-long term business were £261 million positive (*2013: £336 million negative*). The favourable movement in short-term fluctuations 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.

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.

The total charge for impairment of goodwill, joint ventures and associates for the year was £24 million (*2013: £77 million*).

Profit on disposal and remeasurement of subsidiaries, joint ventures and associates was £174 million *(2013: £115 million)*. See 'IFRS Financial Statements – note 4 – Subsidiaries' for further details.

Integration and restructuring costs from continuing operations were £140 million *(2013: £363 million)* and mainly included expenses associated with the Solvency II programme. Integration and restructuring costs reduced by 61%, driven by a significant reduction in transformation spend.

Further details on significant movements are outlined in the market performance sections below.

Year ended 31 December 2013

Life investment variances were £49 million negative *(2012: £620 million negative)*. Negative variances in the UK resulting mainly from increasing the allowance for credit defaults on commercial mortgages were partly offset by narrowing spreads on government and corporate bonds in Italy and Spain.

Short term fluctuations on non-long term business of £336 million negative *(2012: £7 million positive)* mainly reflected lower fixed income security market values.

Goodwill impairment charges were £48 million and there were impairment charges of £29 million on joint ventures and associates. The total charge for the year was £77 million *(2012: £60 million)*.

Profit on disposal and remeasurement of subsidiaries, joint ventures and associates was £115 million *(2012: £164 million loss)*. See 'IFRS Financial Statements – note 4 – Subsidiaries' for further details.

Integration and restructuring costs from continuing operations were £363 million *(2012: £461 million)* and mainly included expenses associated with the Group's transformation programme. Integration and restructuring costs reduced by 21% as the level of transformation activity in UK and Ireland's general insurance business in 2012 was not repeated and Solvency II implementation costs reduced to £79 million *(2012: £117 million)*.

Continuing operations	2014 £m	2013 £m	2012 £m
Income			
Gross written premiums	**21,670**	22,035	22,744
Premiums ceded to reinsurers	**(1,614)**	(1,546)	(1,571)
Premiums written net of reinsurance	**20,056**	20,489	21,173
Net change in provision for unearned premiums	**1**	134	(16)
Net earned premiums	**20,057**	20,623	21,157
Fee and commission income	**1,230**	1,279	1,273
Net investment income	**21,889**	12,509	21,135
Share of profit/(loss) of joint ventures and associates	**147**	120	(255)
Profit/(loss) on the disposal and re-measurement of subsidiaries, joint ventures and associates	**174**	115	(164)
	43,497	34,646	43,146
Expenses			
Claims and benefits paid, net of recoveries from reinsurers	**(19,474)**	(22,093)	(23,601)
Change in insurance liabilities, net of reinsurance	**(5,570)**	2,493	(430)
Change in investment contract provisions	**(6,518)**	(7,050)	(4,450)
Change in unallocated divisible surplus	**(3,364)**	280	(6,316)
Fee and commission expense	**(3,389)**	(3,975)	(4,457)
Other expenses	**(1,979)**	(2,220)	(2,843)
Finance costs	**(540)**	(609)	(653)
	(40,834)	(33,174)	(42,750)
Profit before tax	**2,663**	1,472	396
Tax attributable to policyholders' returns	**(382)**	(191)	(221)
Profit before tax attributable to shareholders' profits	**2,281**	1,281	175

Income (from continuing operations)

Year ended 31 December 2014

Net written premiums for continuing operations decreased by £433 million, or 2%, to £20,056 million *(2013: £20,489 million)*. Long-term insurance and savings remained broadly flat at £11,756 million *(2013: £11,769 million)* with lower sales in the UK and Spain (mainly due to the disposal of Aseval in 2013) offset by higher sales in France, Poland, Italy and Asia. General insurance and health premiums decreased by £420 million, or 5%, to £8,300 million *(2013: £8,720 million)*, mainly reflecting lower sales in the UK and Ireland.

Further details on significant movements are outlined in the market performance sections below.

Year ended 31 December 2013

Net written premiums for continuing operations decreased by £684 million, or 3%, to £20,489 million *(2012: £21,173 million)*. Long-term insurance and savings decreased by £510 million, or 4%, to £11,769 million *(2012: £12,279 million)* with lower sales in the UK, Ireland, Spain and Asia partly offset by higher sales in France, Poland and Italy. General insurance and health premiums decreased by £174 million, or 2%, to £8,720 million *(2012: £8,894 million)*, mainly reflecting lower sales in the UK and Ireland, partly offset by higher sales in Canada and Europe.

Net investment income (from continuing operations)

Year ended 31 December 2014

Net investment income from continuing operations was £21,889 million *(2013: £12,509 million)*. Compared to 2013, realised and unrealised gains were higher in 2014 primarily as a result of higher fixed income security market values due to lower interest rates.

Year ended 31 December 2013

Net investment income from continuing operations was £12,509 million *(2012: £21,135 million)*. Compared to 2012, unrealised gains were lower in 2013 primarily as a result of lower fixed income security market values partly offsetting growth in equity markets.

Other income (from continuing operations)

Year ended 31 December 2014

Other income, which consists of fee and commission income, share of profit/(loss) after tax of joint ventures and associates, and profit/(loss) on disposal and remeasurement of subsidiaries, joint ventures and associates, increased by £37 million, or 2%, to £1,551 million in 2014 *(2013: £1,514 million)*. This was mainly due to profits on disposal and remeasurement of subsidiaries of £174 million *(2013: £115 million profit)*, including profits on disposal of CxG in Spain (£132 million) and River Road (£35 million) in the United States.

Fee and commission income was broadly stable and the share of profits from joint ventures and associates was £147 million *(2013: £120 million)*.

Year ended 31 December 2013

Other income, which consists of fee and commission income, share of profit/(loss) after tax of joint ventures and associates, and profit/(loss) on disposal and remeasurement of subsidiaries, joint ventures and associates, increased by £660 million, or 77%, to £1,514 million in 2013 *(2012: £854 million)*. This was mainly due to profits on disposal and remeasurement of subsidiaries of £115 million *(2012: £164 million loss)*, including profits on disposal of Aseval in Spain (£197 million) and Ark Life in Ireland (£87 million), partly offset by a £178 million remeasurement loss relating to Eurovita in Italy following its classification as held for sale. Fee and commission income was stable and the share of profits from joint ventures and associates was £120 million *(2012: £255 million loss)*.

Expenses (from continuing operations)

Year ended 31 December 2014

Claims and benefits paid net of reinsurance in 2014 decreased by £2,619 million, or 12% to £19,474 million *(2013: £22,093 million)* mainly due to lower claims payments in our life businesses and the strengthening of sterling during 2014. In particular there were lower bond and pensions claims in the UK compared with prior year.

Change in insurance liabilities in 2014 was a charge of £5,570 million *(2013: £2,493 million credit)*, resulting from changes in economic and non-economic assumptions.

The change in investment contract provisions was a charge of £6,518 million *(2013: £7,050 million charge)* as a result of improved investment market conditions causing an increase in contract liabilities.

The change in unallocated divisible surplus ("UDS") was a charge of £3,364 million *(2013: £280 million credit)* primarily driven by Italy and France as a result of lower corporate and government bond yields during 2014.

Fee and commission expense, other expenses and finance costs decreased by £896 million to £5,908 million *(2013: £6,804 million)* mainly as a result of the Group's cost savings programme, lower fee and commission expenses primarily in the UK and lower finance costs due to the repayment of debt during the year. See 'IFRS Financial Statements – note 7 – Details of expenses' for further details.

Year ended 31 December 2013

Claims and benefits paid net of reinsurance in 2013 decreased by £1,508 million, or 6%, to £22,093 million *(2012: £23,601 million)* mainly reflecting lower claims payments in our life businesses.

Change in insurance liabilities in 2013 was a credit of £2,493 million *(2012: £430 million charge)*, resulting from changes in economic and non-economic assumptions.

The change in investment contract provisions was a charge of £7,050 million *(2012: £4,450 million charge)* as a result of improved investment market conditions causing an increase in contract liabilities.

The change in unallocated divisible surplus ("UDS") was a credit of £280 million *(2012: £6,316 million charge)*.
Fee and commission expense, other expenses and finance costs decreased by £1,149 million to £6,804 million *(2012: £7,953 million)* mainly as a result of the Group's cost savings programme. See 'IFRS Financial Statements – note 7 – Details of expenses' for further details.

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

Year ended 31 December 2014

Profit before tax attributable to shareholders was £2,281 million *(2013: £1,281 million)*. The increase was primarily due to lower expenses and positive investment variances.

Year ended 31 December 2013

Profit before tax attributable to shareholders was £1,281 million *(2012: £175 million)*. The increase was primarily lower expenses and positive investment variances.

Market performance

United Kingdom and Ireland

UK & Ireland life

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our UK and Ireland long-term businesses for the three years ended 31 December 2014, 2013 and 2012.

	2014 £m	Restated[1] 2013 £m	Restated[1] 2012 £m
Pensions	**5,803**	5,476	5,158
Annuities	**1,948**	2,327	3,211
Bonds	**174**	183	379
Protection	**1,103**	992	1,228
Equity release	**696**	401	434
Other	**2,285**	2,545	2,648
United Kingdom	**12,009**	11,924	13,058
Ireland	**435**	469	632
Long-term insurance, savings and health sales	**12,444**	12,393	13,690
IFRS net written premiums	**3,515**	4,228	5,623
Adjusted operating profit before tax			
United Kingdom	**1,016**	930	887
Ireland	**23**	22	5
Life business	**1,039**	952	892
General insurance and health – UK health	**11**	18	14
Fund management	**6**	23	11
Other operations	**(4)**	131	(14)
Total adjusted operating profit before tax	**1,052**	1,124	903
Profit before tax attributable to shareholders' profits	**980**	717	107

1 Comparative has been restated to reflect changes in MCEV liquidity premium and an extension of the MCEV covered business.

Year ended 31 December 2014

On a PVNBP basis, sales in the UK long-term insurance and savings business increased by £85 million, or 1%, to £12,009 million *(2013: £11,924 million)*. Volumes in the UK remained broadly flat year on year. There has been a significant decrease in individual annuities. This is primarily as a result of the changes announced by the UK Chancellor of the Exchequer in the Budget in March 2014 which are intended to give increased flexibility as to how customers can access their pension from April 2015. These changes are having a significant impact across the market and have seen many customers defer their decision regarding their pension, exacerbating the general market decline for individual annuities. This decrease has been partly offset by increases in bulk purchase annuities and equity release sales.

Pension sales were up 6% to £5,803 million *(2013: £5,476 million)*. Within this, sales of group pensions decreased to £3,679 million *(2013: £3,809 million)* whilst sales of individual pensions were £2,124 million *(2013: £1,667 million)* with growth in our platform (self-invested personal pension) business more than offset by lower sales of other individual pensions products.

Sales of annuities were down 16% to £1,948 million *(2013: £2,327 million)* due to the reasons outlined above. Protection sales were up 11% to £1,103 million *(2013: £992 million)*, reflecting higher sales of individual group business. Bond sales were down 5% to £174 million *(2013: £183 million)*. Equity release sales were 74% higher at £696 million *(2013: £401 million)* due to higher sales as a result of a strong market. Other sales (which include investment sales) decreased 10% to £2,285 *million (2013: £2,545 million)*, mainly as a result of the UK Retail Fund Management business being transferred from UK Life to Aviva Investors in May 2014. This was partly offset by an increase in the UK Platform business driven by new business volumes.

In Ireland, sales fell 7% to £435 million *(2013: £469 million)*.

IFRS net written premiums were down 17% to £3,515 million *(2013: £4,228 million)* primarily due to the impact of lower individual annuities sales.

Life business adjusted operating profit before tax increased by 9% to £1,039 million *(2013: £952 million)*. Within this, UK adjusted operating profit increased by 9% to £1,016 million *(2013: £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. Ireland adjusted operating profit was up to £23 million *(2013: £22 million)* as we continue to make progress in turning the business around.

Adjusted operating profit from other operations resulted in a £4 million loss *(2013: £131 million profit which included a £145 million one-off gain from plan amendments to the Ireland pension scheme)*.

IFRS profit before tax increased to £980 million *(2013: £717 million)*. This includes adjusted operating profits of £1,052 million *(2013: £1,124 million*). The increase in profit before tax was due to lower negative economic variances of £13 million *(2013: £414 million negative)*. 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.

Year ended 31 December 2013

On a PVNBP basis, sales in the UK long-term insurance and savings business decreased by £1,134 million, or 9%, to £11,924 million (*2012: £13,058 million)* [1]. Volumes in the UK reduced significantly during the year, reflecting focus on improving value and capital efficiency.

Pension sales were up 6% to £5,476 million *(2012: £5,158 million)*. Within this, sales of group pensions increased to £3,809 million *(2012: £3,231 million)* whilst sales of individual pensions were £1,667 million *(2012: £1,803 million)* with growth in our platform (self-invested personal pension) business more than offset by lower sales of other individual pensions products.

Sales of annuities were down 28% to £2,327 million *(2012: £3,211 million)*, and protection sales were down 19% to £992 million *(2012: £1,228 million)*, reflecting focus on improving value and capital efficiency. Bond sales were down 52% to £183 million *(2012: £379 million)*. Equity release sales were 8% lower at £401 million *(2012: £434 million)* due to increased competition in this market segment. Other sales were £2,545 million *(2012: £2,648 million)*.

In Ireland, sales fell 26% to £469 million *(2012: £632 million)*. Ark Life, which was sold in April 2013, closed to new business a year earlier in April 2012. Excluding Ark Life sales of £102 million in 2012, the fall in 2013 was mainly due to a focus on sales of more profitable products.

IFRS net written premiums were down 25% to £4,228 million *(2012: £5,623 million)* for the reasons set out above.

Life business adjusted operating profit before tax increased by 7% to £952 million *(2012: £892 million)*. Within this, UK adjusted operating profit increased by 5% to £930 million *(2012: £887 million)*, mainly reflecting cost reductions and pricing discipline. Ireland adjusted operating profit was up to £22 million *(2012: £5 million)* as we continue to make progress in turning the business around.

Adjusted operating profit from other operations of £131 million *(2012: £14 million loss)* included a £145 million one-off gain from plan amendments to the Ireland pension scheme.

IFRS profit before tax increased to £717 million *(2012: £107 million)*. This includes adjusted operating profits of £1,124 million *(2012: £903 million)*, which have increased for the reasons set out above. It also includes negative investment variances of £414 million, which arose mainly due to an increase in the allowance for credit defaults on commercial mortgages; lower integration and restructuring costs of £59 million *(2012: £71 million)*; and an £87 million profit arising on the sale of Ark Life.

UK & Ireland general insurance and health

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our UK and Ireland general insurance and health businesses for the three years ended 31 December 2014, 2013 and 2012.

	2014 £m	2013 £m	2012 £m
IFRS net written premiums/sales			
United Kingdom	**3,663**	3,823	4,062
Ireland	**365**	377	428
	4,028	4,200	4,490
Adjusted operating profit before tax			
United Kingdom	**455**	431	459
Ireland	**33**	40	29
General insurance and health business	**488**	471	488
Other operations	**4**	(6)	(8)
Total adjusted operating profit before tax	**492**	465	480
Profit before tax attributable to shareholders' profits	**406**	387	248

Year end 31 December 2014

UK & Ireland general insurance and health NWP decreased by 4% to £4,028 million *(2013: £4,200 million)*. Within this, UK general insurance sales fell 4% to £3,663 million *(2013: £3,823 million)*: personal lines NWP was down 5% to £2,152 million *(2013: £2,276 million)* reflecting underwriting discipline in a soft market, and commercial lines NWP was down 2% to £1,511 million *(2013: £1,547 million)* reflecting management actions to focus on profitability. Ireland general insurance and health NWP was £365 million *(2013: £377 million)*.

Adjusted operating profit before tax from general insurance and health business was up 4% to £488 million *(2013: £471 million)*. An improvement in the underwriting result to £204 million *(2013: £123 million)*, driven by expense savings and favourable prior year claims development, was partly offset by the fact that 2013 benefitted from benign large loss experience and lower interest income on an internal loan (see 'Other Group Activities' below).

IFRS profit before tax has increased to £406 million *(2013: £387 million)*. This included adjusted operating profits of £492 million *(2013: £465 million)*, which increased for the reasons set out above.

The increase in IFRS profit before tax is mainly due to lower integration and restructuring costs of £11 million *(2013: £24 million)*. The impact of positive short term fluctuations in investments was £82 million *(2013: £74 million negative)* and in 2014 this mainly arose due to a decrease in risk free rates increasing fixed income security market values. This was offset by an adverse impact from a decrease in the swap rate used to discount latent claims reserves and periodic payment orders.

Year end 31 December 2013

UK & Ireland general insurance and health NWP decreased by 6% to £4,200 million *(2012: £4,490 million)*. Within this, UK general insurance sales fell 6% to £3,823 million *(2012: £4,062 million)*: personal lines NWP was down 5% to £2,276 million *(2012: £2,397 million)* reflecting underwriting discipline in a soft market, and commercial lines NWP was down 7% to £1,547 million *(2012: £1,665 million)* reflecting management actions to focus on profitability. Ireland general insurance and health NWP was £377 million *(2012: £428 million)*.

Adjusted operating profit before tax from general insurance and health business was down 3% to £471 million *(2012: £488 million)*. An improvement in the underwriting result to £123 million *(2012: £42 million)*, which benefited from benign weather, favourable large loss experience and lower expenses, was more than offset by lower longer-term investment returns due mainly to the revised terms of an internal loan (the impact of this is neutral at an overall Group level).

IFRS profit before tax has increased to £387 million *(2012: £248 million)*. This included adjusted operating profits of £465 million *(2012: £480 million)*, which decreased for the reasons set out above. The increase in IFRS profit before tax is mainly due to lower integration and restructuring costs of £24 million *(2012: £170 million)*. The impact of negative short-term fluctuations in investments was £74 million *(2012: £17 million positive)* and in 2013 this arose mainly due to an increase in risk free rates reducing fixed income security market values. This was partly offset by a favourable impact from an increase in the swap rate used to discount latent claims.

France

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in France for the three years ended 31 December 2014, 2013 and 2012.

	2014 £m	Restated[1] 2013 £m	2012 £m
Sales			
Long-term insurance and savings business	**4,633**	4,498	3,638
General insurance and health net written premiums	**1,106**	1,105	1,002
Total sales	**5,739**	5,603	4,640
IFRS net written premiums	**5,684**	5,565	4,702
Adjusted operating profit before tax			
Long-term insurance and savings business	**394**	385	335
General insurance and health	**78**	84	95
Other operations	**(20)**	(21)	(8)
Total adjusted operating profit before tax	**452**	448	422
Profit before tax attributable to shareholders' profits	**462**	457	482

1 Comparative has been restated to reflect changes in MCEV liquidity premium and extension of the MCEV covered business.

Year ended 31 December 2014

The weakening of the Euro affected all metrics from a Group perspective.

On a PVNBP basis, long-term insurance and savings business sales in France increased by £135 million, or 3%, to £4,633 million *(2013: £4,498 million[1])*, with higher sales of unit-linked products. General insurance and health sales were broadly flat year on year at £1,106 million *(2013: £1,105 million)*. On a constant currency basis general insurance and health net written premiums increased by 5% benefitting from rating and other management actions. IFRS net written premiums were up 2% to £5,684 million *(2013: £5,565 million)* for similar reasons.

Adjusted operating profit before tax remained stable at £452 million *(2013: £448 million)* but improved by 6% on a constant currency basis. Within this, life profits increased by 2% to £394 million *(2013: £385 million)*, mainly reflecting increased margins. General insurance and health profits decreased to £78 million *(2013: £84 million)* largely due to adverse weather events and higher healthcare claims costs.

IFRS profit before tax increased to £462 million *(2013: £457 million)*, which includes the higher adjusted operating profits discussed above. The increase in IFRS profit includes lower integration and restructuring costs of £15 million *(2013: £25 million)* which offset less favourable investment variances of £41 million *(2013: £55 million)*.

Year ended 31 December 2013

On a PVNBP basis, long-term insurance and savings business sales in France increased by £860 million, or 24%, to £4,498 million *(2012: £3,638 million)*, with higher sales in both savings (particularly unit-linked) and protection products. General insurance and health sales were up 10% to £1,105 million *(2012: £1,002 million)*, benefiting from rating and other management actions. IFRS net written premiums were up 18% to £5,565 million *(2012: £4,702 million)* for similar reasons.

Adjusted operating profit before tax increased by 6% to £448 million *(2012: £422 million)*. Within this, life profits increased by 15% to £385 million *(2012: £335 million)*, mainly reflecting increased margins. General insurance and health profits decreased to £84 million *(2012: £95 million)* with the reduction largely due to adverse weather, partly offset by higher profits from the health business.

IFRS profit before tax decreased to £457 million *(2012: £482 million)*. This includes the higher adjusted operating profits discussed above. The reduction in profits is due mainly to higher restructuring costs of £25 million *(2012: £11 million)*, and lower favourable investment variances of £55 million *(2012: £96 million favourable)*.

Poland

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in Poland for the three years ended 31 December 2014, 2013 and 2012.

	2014 £m	2013 £m	2012 £m
Sales			
Long-term insurance and savings business	**573**	486	373
General insurance and health net written premiums	**57**	69	65
Total sales	**630**	555	438
IFRS net written premiums	**482**	475	433
Adjusted operating profit before tax			
Long-term insurance and savings business	**180**	164	153
General insurance and health	**9**	9	9
Other operations	**3**	11	5
Total adjusted operating profit before tax	**192**	184	167
Profit before tax attributable to shareholders' profits	**196**	178	176

Year ended 31 December 2014

Life and pensions sales on a PVNBP basis were up 18% to £573 million *(2013: £486 million)*, mainly benefitting from changes in pensions legislation in Lithuania and an increase in sales of higher margin protection products. General insurance net written premiums were £57 million *(2013: £69 million)*. Total net written premiums increased 1% to £482 million *(2013: £475 million)* due to improved sales of life products partially offset by decreased sales in general insurance business.

Adjusted operating profit increased by 4% to £192 million *(2013: £184 million)*. Life profits increased by 10% to £180 million *(2013: £164 million)* mainly due to a one-off regulatory pension change of £39 million. General insurance profits remained flat at £9 million *(2013: £9 million)*. Profit before tax attributable to shareholders was £196 million, an increase of 10% *(2013: £178 million)*.

Year ended 31 December 2013

Life and pensions sales on a PVNBP basis were up 30% to £486 million *(2012: £373 million)*, mainly due to increased sales of unit-linked products and pensions following changes in pensions legislation. General insurance net written premiums were £69 million *(2012: £65 million)*. Total net written premiums increased 10% to £475 million *(2012: £433 million)* due mainly to higher life and pensions sales.

Adjusted operating profit increased by 10% to £184 million *(2012: £167 million)*. Life profits increased by 7% to £164 million *(2012: £153 million)* due to lower expenses and higher assets under management. General insurance profits were stable at £9 million *(2012: £9 million)*.

Profit before tax attributable to shareholders was £178 million, an increase of 1% *(2012: £176 million)*.

Italy, Spain and Other

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in Italy, Spain and Other for the three years ended 31 December 2014, 2013 and 2012.

	2014 £m	2013 £m	2012 £m
Sales			
Long-term insurance and savings business			
Italy – excluding Eurovita	**2,473**	1,975	1,805
Spain – excluding Aseval & CxG	**1,054**	1,055	991
Other	**495**	544	470
Eurovita, Aseval & CxG	**224**	429	470
Total long-term insurance and savings business	**4,246**	4,003	3,736
General insurance and health			
Italy & Other	**393**	427	446
Total sales	**4,639**	4,430	4,182
IFRS net written premiums	**3,444**	3,193	3,036
Adjusted operating profit before tax			
Long-term insurance and savings business			
Spain	**126**	150	215
Italy	**142**	142	159
Other	**10**	10	7
	278	302	381
General insurance and health			
Italy & other	**26**	19	(6)
Other operations	**(9)**	(7)	(10)
Total adjusted operating profit before tax	**295**	314	365
Profit/(loss) before tax attributable to shareholders' profits	**489**	509	273

Year ended 31 December 2014

The weakening of the Euro affected all metrics from a Group perspective.

Total long-term insurance and savings sales increased by £243 million, or 6%, to £4,246 million *(2013: £4,003 million)* mainly due to increased sales in Italy.

In Italy (excluding Eurovita), life sales increased by £498 million, or 25%, to £2,473 million *(2013: £1,975 million)* driven by higher sales of with-profits products.

In Spain (excluding Aseval & CxG), life sales remained relatively stable at £1,054 million *(2013: £1,055 million)*.

Other life sales, which mainly includes sales in our Turkey Life joint venture, decreased by £49 million, or 9%, to £495 million *(2013: £544 million)*.

General insurance sales decreased by £34 million, or 8%, to £393 million *(2013: £427 million)* driven by lower sales in Turkey. Premiums in Italy were broadly stable.

IFRS net written premiums for the segment increased £251 million, or 8%, to £3,444 million *(2013: £3,193 million)* for the reasons described above.

Total adjusted operating profit decreased by £19 million, or 6%, to £295 million *(2013: £314 million)*. This was mainly due to lower life profits in Spain (mainly reflecting the Aseval and CxG disposals). In Italy, excluding Eurovita, life profits were up 13% (19% in constant currency) driven by improved product mix.

Profit before tax attributable to shareholders' profits decreased by £20 million to £489 million *(2013: £509 million)*. This includes lower adjusted operating profits described above and positive life investment variances, which were lower than prior year, at £101 million *(2013: £267 million)* arising from narrowing spreads on government and corporate bonds. It also included profit on disposal of subsidiaries, including CxG and Eurovita, of £125 million and impairment charges of £nil *(2013: £48 million)*.

Year ended 31 December 2013

Total long-term insurance and savings sales increased by £267 million, or 7%, to £4,003 million *(2012: £3,736 million)*.

In Italy (excluding Eurovita), life sales increased by £170 million, or 9%, to £1,975 million *(2012: £1,805 million)* driven by higher sales of unit-linked and with-profits products.

In Spain (excluding Aseval, CxG), life sales increased by £64 million, or 6%, to £1,055 million *(2012: £991 million)*.

Other life sales, which mainly include sales in our Turkey Life joint venture, increased £74 million, or 16%, to £544 million *(2012: £470 million)*.

General insurance sales decreased by £19 million, or 4%, to £427 million *(2012: £446 million)* driven by lower sales in Turkey. Premiums in Italy were stable.

Net written premiums for the segment increased £157 million, or 5%, to £3,193 million *(2012: £3,036 million)* for the reasons described above.

Total adjusted operating profit decreased £51 million, or 14%, to £314 million *(2012: £365 million)*. This was mainly due to lower life profits in Spain (mainly reflecting the Aseval disposal) and Italy, partly offset by higher general insurance profits.

Profit before tax attributable to shareholders' profits was £509 million *(2012: £273 million)*. This includes adjusted operating profits, positive life investment variances of £267 million *(2012: £nil)* arising from narrowing spreads on government and corporate bonds and a goodwill impairment charge of £48 million *(2012: £108 million charge)*.

Canada

The table below presents sales, net written premiums, adjusted operating profit and IFRS profit before tax attributable to shareholders for the three years ended 31 December 2014, 2013 and 2012.

	2014 £m	2013 £m	2012 £m
IFRS net written premiums/sales	**2,104**	2,250	2,176
Adjusted operating profit before tax			
General insurance	**189**	246	277
Other operations	**2**	—	—
Total adjusted operating profit before tax	**191**	246	277
Profit before tax attributable to shareholders' profits	**253**	104	245

Year ended 31 December 2014

The weakening of the Canadian dollar affected all metrics from a Group perspective.

General insurance net written premiums decreased by 6% to £2,104 million *(2013: £2,250 million)*. On a constant currency basis, net written premiums increased by 6% mainly due to new business growth in Western Canada along with rating increases on commercial lines and improved retention on personal lines.

Adjusted operating profit was £191 million (*2013: £246 million)*, a 22% reduction compared to the prior year. On a constant currency basis, profit decreased by 12%. The reduction in profits included lower underwriting profits of £83 million *(2013: £117 million)*, reflecting higher large losses and lower prior year reserve releases partly offset by expense savings in all lines and an improvement in the underwriting result for commercial lines. In addition weather experience, although better than 2013, impacted profits, with a harsher winter in the first quarter of the year followed by hail storms in Alberta in August.

Profit before tax attributable to shareholders was £253 million *(2013: £104 million)*. Lower operating profits were more than offset by positive short-term investment variances of £65 million *(2013: £122 million negative)* reflecting higher fixed income security market values.

Year ended 31 December 2013

General insurance net written premiums increased by 3% to £2,250 million *(2012: £2,176 million)* driven by rating increases in personal and commercial property and growth in new business volumes across most lines.

Adjusted operating profit was £246 million *(2012: £277 million)*, an 11% reduction compared to the prior year. The reduction was driven by a negative £62 million impact from the severe flooding in Alberta and Toronto during the year (there was also a further adverse impact of £67 million from these

floods in the results of our internal reinsurance business – see "other group activities" below), partly offset by lower expenses and favourable prior year reserve development. Long-term investment return was down £11 million to £135 million reflecting lower reinvestment yields.

Profit before tax attributable to shareholders was £104 million *(2012: £245 million)*, reflecting the lower operating profits and negative short-term investment variances of £122 million *(2012: £10 million negative).*

Asia

The table below presents the sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS for the three years ended 31 December 2014, 2013 and 2012.

	2014 £m	Restated[1] 2013 £m	2012 £m
Sales			
Long-term insurance, savings and health business			
Singapore	**1,336**	914	688
Other Asia – excluding Malaysia	**615**	809	1,018
Malaysia	**—**	16	59
Total long-term savings sales	**1,951**	1,739	1,765
General insurance and health (excluding long-term health)			
Singapore	**56**	70	88
Other Asia	**9**	19	32
Total general insurance and health sales (excluding long-term health)	**65**	89	120
Investment sales	**146**	152	129
Total sales	**2,162**	1,980	2,014
IFRS net written premiums	**781**	532	636
Adjusted operating profit before tax			
Long-term insurance and savings business			
Singapore	**82**	83	64
Other Asia	**5**	13	5
General insurance and health			
Singapore	**(3)**	(3)	(4)
Other Asia	**1**	4	(1)
Other operations	**(7)**	(10)	(11)
Total adjusted operating profit before tax	**78**	87	53
Profit before tax attributable to shareholders' profits	**38**	98	62

1 Comparative has been restated to reflect changes in MCEV liquidity premium and extension of the MCEV covered business.

Year ended 31 December 2014

Long term insurance and savings sales in Asia (excluding Malaysia) increased by 12% to £1,951 million *(2013: £1,739 million)* due to higher health sales in Singapore and higher protection sales in China partly offset by lower sales in other markets. General insurance and health net written premiums excluding long-term health were £65 million *(2013: £89 million)*, down 27%.

Total net written premiums were £781 million *(2013: £532 million)*, up £249 million or 47%, for the same reasons.

Adjusted operating profits decreased by 10% to £78 million *(2013: £87 million)*, mainly due to the disposal of the Group's South Korean business and investment in the Group's Indonesian joint venture.

Profit before tax attributable to shareholders was £38 million *(2013: £98 million)* including negative investment variances of £11 million *(2013: £29 million positive).*

Year ended 31 December 2013

Long term insurance and savings sales in Asia decreased by 1% to £1,739 million *(2012: £1,765 million)*. Higher sales in Singapore were more than offset by lower sales in other Asian markets. General insurance and health net written premiums were £89 million *(2012: £120 million)*, down 26%, with the decrease reflecting the withdrawal of some unprofitable health products in Singapore and the disposal of our Sri Lankan business in 2012. Total net written premiums were £532 million *(2012: £636 million)*, down £104 million or 16%, for the same reasons.

Adjusted operating profits increased by 64% to £87 million *(2012: £53 million)*, mainly due to higher life profits of £96 million *(2012: £69 million)* driven by higher earnings on the in-force portfolio and favourable experience in China.

Profit before tax attributable to shareholders was £98 million *(2012: £62 million)*.

Aviva Investors

The table below presents the sales, adjusted operating profit, profit before tax attributable to shareholders' profits under IFRS and assets under management of Aviva Investors for the three years ended 31 December 2014, 2013 and 2012. As set out in 'IFRS Financial statements – note 4 – subsidiaries', River Road was sold during 2014. The results of the internal asset management operations of Aviva Investors North America which were sold during 2013 with the US life business have been classified within discontinued operations.

	2014 £m	2013 £m	2012 £m
Sales[1]			
Long-term insurance and saving business (including UK retail collectives)[1]	**881**	58	92
Investment sales (excluding UK retail collectives)[1]	**2,225**	2,683	2,727
Total sales	**3,106**	2,741	2,819
Adjusted operating profit before tax			
Fund management operating profit[1]	**79**	68	39
Long-term insurance and savings business – Pooled Pensions operating profit	**2**	2	3
Other operations	**(18)**	(96)	—
Total adjusted operating profit/(loss) before tax	**63**	(26)	42
Profit before tax attributable to shareholders' profits	**83**	(89)	2
Assets under management (continuing operations)	**245,898**	240,507	236,336

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.

Year ended 31 December 2014

Fund management operating profits were £79 million *(2013: £68 million)*, mainly due to the transfer of UK retail fund management business from UK Life and higher performance fees, partly offset by the impact of the disposal of River Road. Assets under management increased by £5.4 billion to £245.9 billion, driven by favourable market returns which more than offset net redemptions and the impact of the disposal of River Road. Profit before tax was £83 million *(2013: £89 million loss),* which included a £35 million profit on disposal of River Road and lower integration and restructuring costs.

In February 2015, Aviva Investors reached a settlement with the FCA for certain systems and controls failings that happened between 2005-2013 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 Aviva Investors' adjusted operating profit from other operations.

Year ended 31 December 2013

Fund management operating profits were £68 million *(2012: £39 million)* driven by higher revenues, reflecting positive market movements and performance fees, and lower costs. Assets under management were up £4.2 billion to £240.5 billion, driven by capital appreciation which more than offset negative net flows. Loss before tax was £89 million *(2012: £2 million profit)*, mainly due to the reasons set out below.

In 2013 we found evidence of improper allocation of trades in fixed income securities in Aviva Investors. This occurred between 2005- 2013. These breaches of our dealing policy involved late

allocation of trades which favoured external hedge funds to the detriment of certain Aviva UK Life funds. The relevant regulatory authorities were notified at an early stage and have been kept fully apprised of the issue. A thorough review of internal control processes relating to the dealing policy was carried out by management and reviewed by PwC. Measures to improve controls were implemented.

The total adverse impact on Group adjusted operating profit from this activity was £132 million. This reflected the compensation of £126 million expected to be claimed in respect of these breaches and other associated costs of £6 million. Of this total, £96 million reflected compensation expected to be claimed from, and other associated costs within, Aviva Investors. Compensation of £36 million relating to this matter was expected to be claimed from a group holding company. These amounts are shown in 2013 operating profit in 'Other operations'.

Other Group activities (from continuing operations)

The table below presents net written premiums, adjusted operating losses and loss before tax attributable to shareholders' profits from other group activities for the three years ended 31 December 2014, 2013 and 2012.

	2014 £m	2013 £m	2012 £m
IFRS net written premiums	**18**	46	77
Adjusted operating profit before tax			
General Insurance	**9**	(51)	22
Corporate centre	**(132)**	(150)	(136)
Group debt costs and other interest	**(463)**	(502)	(537)
Delta Lloyd Associate	**—**	—	112
Other Group operations	**(56)**	(90)	(132)
Total adjusted operating loss before tax	**(642)**	(793)	(671)
Profit/(loss) before tax attributable to shareholder's profits	**(626)**	(1,080)	(1,420)

Year ended 31 December 2014

Net written premiums from our reinsurance business were £18 million *(2013: £46 million)*. This is primarily as a result of reinsurance previously written with Aviva Re being written in the external market.

Adjusted operating profit from general insurance was £9 million *(2013: £51 million loss)*. The improvement compared to prior year was mainly due to the impact of the floods in Canada on our reinsurance business in prior year.

Corporate centre costs were £132 million *(2013: £150 million)*. Group debt costs and other interest decreased to £463 million *(2013: £502 million)*, mainly due to lower internal debt costs. The impact of this is neutral of an overall Group level.

Losses from other operations were £56 million (2*013: £90 million)*. 2013 included a non-recurring amount of £36 million for compensation expected to be claimed from a group holding company (see Aviva Investors above).

Loss before tax attributable to shareholders' profits was £626 million *(2012: £1,080 million loss)*. The improvement in 2014 was mainly due to lower operating losses, lower integration and restructuring costs, and positive investment variances.

Year ended 31 December 2013

Net written premiums from our reinsurance business were £46 million *(2012: £77 million)*.

Adjusted operating loss from general insurance was £51 million *(2012: £22 million profit)*. The decrease was mainly due to a £67 million impact from the floods in Canada in our reinsurance business.

Corporate centre costs were £150 million *(2012: £136 million)*. Group debt costs and other interest decreased to £502 million *(2012: £537 million)*, mainly due to lower internal debt costs following the revision of terms to an internal loan (the impact of this is neutral at an overall Group level).

Losses from other operations were £90 million *(2012: £132 million)*, which included £36 million of compensation claimed from a group holding company (see Aviva Investors above).

Loss before tax attributable to shareholders' profits was £1,080 million *(2012: £1,420 million)*. The improvement in 2013 was mainly due to the disposal of the Delta Lloyd Associate.

Discontinued operations

United States

The table below presents IFRS net written premiums, adjusted operating profit and profit/(loss) before tax attributable to shareholders for the three years ended 31 December 2014, 2013 and 2012.

On 2 October 2013 the Group completed the sale of its United States life and related internal asset management businesses (US Life) to Athene Holding. See 'IFRS Financial Statements – note 4 – Subsidiaries' for further details. The results of US Life are presented as discontinued operations for all periods presented.

	2014 £m	2013 £m	2012 £m
IFRS net written premiums	**—**	1,489	3,589
Adjusted operating profit before tax			
Long-term insurance and savings business	**—**	272	200
Other operations	**—**	(13)	(16)
Fund management	**—**	31	55
Total adjusted operating profit before tax	**—**	290	239
Profit/(loss) before tax attributable to shareholders' profits	**58**	1,538	(2,696)

Year ended 31 December 2014

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 resulted in a net £58 million gain.

Year ended 31 December 2013

The results for 2013 were for the 9 month period to 2 October 2013. 2012 represents a full year's results. Net written premiums were £1,489 million *(2012: £3,589 million)*. Adjusted operating profit before tax was £290 million *(2012: £239 million)*, driven mainly by higher life profits of £272 million *(2012: £200 million)*.

Profit before tax of £1,538 million *(2012: £2,696 million loss)* reflects the adjusted operating profits above. It also includes positive investment variances of £452 million *(2012: £342 million)*, which were driven mainly by the impact of favourable equity market performance on embedded derivatives, and profits on disposal of £808 million *(2012: £2,359 million loss)* mainly reflecting currency translation and investment valuation reserves recycled to the income statement on completion.

Selected consolidated financial data

This data is derived from our consolidated financial statements which 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).

On 2 October 2013 the Group completed the sale of its US Life and related internal asset management operations, which have been shown as discontinued operations in the income statement, statement of comprehensive income and statement of cash flows. In 2014, the Group paid a settlement related to the purchase price adjustment, which in conjunction with the aggregate development of other provisions has been presented as discontinued operations.

The results presented as discontinued operations for 2011 and preceding years also include the results of Delta Lloyd N.V., which was deconsolidated during 2011. Between May 2011 and July 2012 Delta Lloyd was accounted for as an associate within continuing operations. In July 2012, following a further sell-down, the Group's shareholding fell below 20% and from July 2012 Delta Lloyd was treated as a financial investment within continuing operations at fair value through profit and loss. The Group sold its remaining shareholding in Delta Lloyd in January 2013.

Restatements

Amendments to IAS 32 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. The statement of financial position comparatives have been restated to reflect this. There is no impact on results or total equity for any period presented as a result of the restatement. For further details please see note 1.

Income statement data

Amounts in accordance with IFRS Continuing operations	**2014 £m**	2013 £m	2012 £m	2011 £m	2010 £m
Income					
Gross written premiums	**21,670**	22,035	22,744	26,255	27,192
Premiums ceded to reinsurers	**(1,614)**	(1,546)	(1,571)	(1,548)	(1,606)
Premiums written net of reinsurance	**20,056**	20,489	21,173	24,707	25,586
Net change in provision for unearned premiums	**1**	134	(16)	(236)	(72)
Net earned premiums	**20,057**	20,623	21,157	24,471	25,514
Fee and commission income	**1,230**	1,279	1,273	1,465	1,451
Net investment income	**21,889**	12,509	21,135	4,373	16,746
Share of profit/(loss) after tax of joint ventures and associates	**147**	120	(255)	(123)	141
Profit/(loss) on the disposal and re-measurement of subsidiaries, joint ventures and associates	**174**	115	(164)	565	163
	43,497	34,646	43,146	30,751	44,015
Expenses					
Claims and benefits paid, net of recoveries from reinsurers	**(19,474)**	(22,093)	(23,601)	(24,380)	(22,240)
Change in insurance liabilities, net of reinsurance	**(5,570)**	2,493	(430)	(2,284)	(2,837)
Change in investment contract provisions	**(6,518)**	(7,050)	(4,450)	1,478	(9,212)
Change in unallocated divisible surplus	**(3,364)**	280	(6,316)	2,721	362
Fee and commission expense	**(3,389)**	(3,975)	(4,457)	(4,326)	(5,500)
Other expenses	**(1,979)**	(2,220)	(2,843)	(2,779)	(2,116)
Finance costs	**(540)**	(609)	(653)	(711)	(634)
	(40,834)	(33,174)	(42,750)	(30,281)	(42,177)
Profit before tax	**2,663**	1,472	396	470	1,838
Tax attributable to policyholders' returns	**(382)**	(191)	(221)	178	(394)
Profit before tax attributable to shareholders' profits	**2,281**	1,281	175	648	1,444
Tax attributable to shareholders' profits	**(601)**	(403)	(261)	(159)	(358)
Profit/(loss) after tax from continuing operations	**1,680**	878	(86)	489	1,086
Profit/(loss) after tax from discontinued operations	**58**	1,273	(2,848)	(357)	841
Total profit/(loss) for the year	**1,738**	2,151	(2,934)	132	1,927

Amounts in accordance with IFRS	**Per share**	Per share	Per share	Per share	Per share
Profit/(loss) per share attributable to equity shareholders:					
Basic (pence per share)	**50.4p**	65.3p	(109.1)p	8.3p	51.7p
Diluted (pence per share)	**49.6p**	64.5p	(109.1)p	8.1p	50.8p
Continuing operations - Basic (pence per share)	**48.4p**	22.0p	(11.2)p	13.6p	38.9p
Continuing operations - Diluted (pence per share)	**47.7p**	21.8p	(11.2)p	13.4p	38.2p

	Per share	Per share	Per share	Per share	Per share
Dividends paid per share	**18.1**	15.0	19.0	26.0	25.5

	Millions	Millions	Millions	Millions	Millions
Number of shares in issue at 31 December	**2,950**	2,947	2,946	2,906	2,820
Weighted average number of shares in issue for the year[1]	**2,943**	2,940	2,910	2,845	2,784

1 Weighted average number of shares in issue for the year is calculated after deducting shares owned by employee share trusts.

Selected consolidated financial data continued

Statement of financial position data

Amounts in accordance with IFRS	2014 £m	Restated 2013 £m	Restated 2012 £m	Restated 2011 £m	Restated 2010 £m
Total assets	**285,719**	281,627	317,120	314,374	371,794
Gross insurance liabilities	**113,445**	110,555	113,091	147,379	174,742
Gross liabilities for investment contracts	**117,245**	116,058	110,494	113,366	120,745
Unallocated divisible surplus	**9,467**	6,713	6,931	650	3,428
Core structural borrowings	**5,310**	5,125	5,139	5,255	6,066
Other liabilities	**27,976**	32,159	70,105	32,361	49,088
Total liabilities	**273,443**	270,610	305,760	299,011	354,069
Total equity	**12,276**	11,017	11,360	15,363	17,725

History and development of Aviva

General

Aviva plc, a public limited company incorporated under the laws of England and Wales, is the holding company of the Aviva Group. The Group provides customers with long-term insurance and savings, general and health insurance, and fund management products and services. Our purpose is to free people from fear of uncertainty, in a rapidly changing world. The long-term strategic framework for Aviva is based on our investment thesis of cash flow plus growth.

Our history

The Group was formed by the merger of CGU plc and Norwich Union plc on 30 May 2000. CGU plc was renamed CGNU plc on completion of the merger, and subsequently renamed Aviva plc on 1 July 2002. CGU plc and Norwich Union plc were both major UK-based insurers operating in the long-term insurance business and general insurance markets. Both companies had long corporate histories.

CGU plc was formed in 1998 from the merger of Commercial Union plc and General Accident plc. General Accident plc was incorporated in 1865. Commercial Union was incorporated in 1861 and in 1905 acquired Hand in Hand, which was incorporated in 1696.

Norwich Union plc was founded as a mutual society in 1797, and had expanded as a global business by the 20th century. In 1997 it demutualised and became an English public limited company.

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.

During 2014 the Group has undertaken a number of disposals as we have continued the process of streamlining our business. Further details of these can be found in the section 'IFRS Financial statements - note 4 - Subsidiaries'.

Business overview

Our aims and strategy

Aviva has a focused, clear, simple and differentiated business strategy. In 2013, we set out our new purpose and values and the theses that shape how we work and our priorities. These were defined as:

- Investment thesis - cash flow plus growth for investors
- Customer thesis - simplicity and convenience for our customers, which we called 'simplicity your way'
- Distribution thesis - ownership, diversity, and digital priorities for distribution
- People thesis - achievement, potential and collaboration for our people

Our thinking was encapsulated in our Strategic Framework. This framework has helped provide clear direction for turning around our business. Our Strategic Anchor builds on this framework to provide a clear statement of our business strategy to help us make decisions to compete in our rapidly evolving world. It comprises the "what we do, how we do it and where we do it" of our business strategy.

Aviva's long-term strategic anchor has three elements:

- **True Customer Composite**
  Aviva is the only composite of scale in the United Kingdom and one of the few in the world that can offer a full range of insurance and asset management products, underpinned by one of the most recognised insurance brands in the United Kingdom.
- **Digital First**
  This is how Aviva is capitalising on being a composite insurer. It is how customers increasingly want to do business with Aviva. If there is a choice of where to invest, it will be digital first across any channel.
- **Not everywhere**
  Aviva is not interested in geographic regions but individual markets where it has scale and profitability or a distinct competitive advantage. It will focus on markets, like the United Kingdom, where it believes it will win.

Our business

Overview

Our business operates across four main market sectors - life insurance and savings; general insurance, health insurance and fund management, providing services to over 29 million customers worldwide. We operate in 16 different countries and have approximately 26,000 employees.

The Group's operating segments are determined along market reporting lines. The operating segments are: UK & Ireland; France; Poland; Italy, Spain and Other; Canada; Asia; and Aviva Investors. These reflect the management structure whereby a member of the Executive Management team is accountable to the Group Chief Executive Officer (CEO) for the operating segment for which they are responsible. Due to the size of the UK & Ireland segment, it has been split into separate life and general insurance segments, which undertake long-term insurance and savings business and general insurance respectively. Aviva Investors, our fund management business, operates across most markets providing fund-management services to third-party investors and to our long-term insurance businesses and general insurance operations.

In October 2013 the Group completed the sale of its United States life, savings and related internal fund management business, which has been classified as a discontinued operation for the purposes of reporting financial performance.

Life insurance and savings business

Long-term insurance and savings business accounted for approximately 78% of our total worldwide sales from continuing operations for the year ended 31 December 2014. We reported total long-term insurance and savings new business sales from continuing operations of £27.1 billion[1].

Market position

In the UK we have a market share of 9.6[2]% based on annual premium equivalent (APE) as at 30 September 2014. We also have life insurance businesses in Ireland, France, Italy, Spain, Poland, Turkey and Asia. Further details of our position in each market are set out in the market sections below.

Brands and products

We have operated under the "Aviva" brand globally since 2010.

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

- Pensions – is a means of providing income in retirement for an individual and possibly his or her dependants. Our pension products include personal and group pensions, stakeholder pensions and income drawdown.
- Annuities – is 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 asset accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked.

1 See 'financial and operating performance' for further details.
2 Association of British Insurers (ABI) Stats published Q3 2014.

- Protection – is an insurance contract that protects the policyholder or his or her dependants against financial loss on death or ill-health. Our product ranges include term assurance, mortgage life insurance, flexible whole life and critical illness cover.
- Bonds and savings – are accumulation products with single or regular premiums and unit-linked or guaranteed investment returns. Our product ranges include single premium investment bonds and regular premium savings plans.
- Investment sales – comprise retail sales of mutual fund type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).
- Other – includes equity release.

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

General insurance and health insurance

General insurance and health insurance accounted for 22% of our total worldwide sales for the year ended 31 December 2014. In the year ended 31 December 2014, we reported general and health insurance net written premiums of £8.3 billion.

Market position

We are a leading general insurer in the United Kingdom and Canada with 10.5%[3] and 7.8%[4] market share respectively. We also have general insurance operations in France, Italy, Ireland, and Poland. We sell health products in the UK, Ireland, France, Singapore and Indonesia. In the year ended 31 December 2014, 50% of our total general insurance and health new business was written in the UK.

Brands and products

Our general insurance business operates under the Aviva brand globally and concentrates on the following products:

- Personal lines - motor, household, travel and creditor;
- Commercial lines - fleet, liability and commercial property insurance;
- Health insurance - private health insurance, income protection and personal accident insurance, as well as a range of corporate healthcare products; and
- Corporate and specialty risks - products for large clients or where the risk is specialised.

Fund management

Aviva Investors, our fund management business, provides fund management services to Aviva's long-term insurance and savings, and general insurance operations as well as to third-party investors. The fund management operations are in the UK, Europe, Asia and North America. All sales of retail fund management products are included in our long-term insurance and savings business sales.

The sale of the Aviva Group's U.S. based boutique asset management company, River Road Asset Management LLC, was announced in March 2014 and completed on 30 June 2014.

Market position

Aviva Investors was ranked 46th[5] globally by assets under management. Total worldwide funds managed by Aviva Investors at 31 December 2014 was £246 billion. The substantial majority of this relates to Aviva's insurance and savings operations.

Brands and products

Aviva Investors operates under a single brand across the majority of the Aviva Group's markets. Its products cover a broad range of asset classes. In Europe, this includes open-ended collective
investment schemes which are domiciled in France, Luxembourg and Poland; while in the United Kingdom, this includes segregated mandates and specialist funds for pension schemes, local authorities and insurance companies, as well as retail and wholesale products. Other offerings include specialist property funds and money market funds.

Distribution

Customers can buy our products through a range of distribution channels, including:

- Direct – In many of our markets, customers can buy our products over the telephone or via the internet. This method of distribution is most commonly available for simple, low cost products which do not require advice.
- Direct sales force - In some of our European and Asian markets we operate direct sales forces that only sell Aviva's products and the sales forces receive commission on the products they sell.
- Intermediaries - We offer a range of long-term insurance, savings, retirement, general insurance and health insurance products which can be bought through an intermediary, such as an independent financial adviser or an insurance broker. Intermediaries receive a commission on sales of Aviva's products.
- Corporate partnerships, bancassurance and joint ventures - Aviva is a corporate partner for many organisations, including banks and other financial institutions, who wish to offer their customers insurance products. We have various distribution agreements with bancassurance partners and joint ventures across the markets in which we operate. In return for offering our products to their customers, the bank or joint venture partners receive a commission as a percentage of sales and in some cases achieve extra commission if agreed target levels of sales are met. Certain agreements have a profit sharing element based on a predetermined percentage. In some cases, if the agreed targets are not met, certain terms of the contract can be renegotiated. Under the joint venture agreements, the cost of running the venture are often split between the partners.

Further details of the distribution channels specific to each market are included in the following market analysis.

UK & Ireland Life

Business overview and strategy

The UK and Irish businesses are managed under a single management structure and work is progressing to leverage the scale and expertise that we believe exists in the UK to benefit the Irish business.

The UK business is a leading long-term insurance and savings provider with an overall market share of 9.6%[2,] based on annual premium equivalent (APE) data as at 30 September 2014. The Irish business is a large life and pensions provider in Ireland.

Our strategy in the UK is to continue to improve cash generation and deliver profitable growth. We will exploit what we believe is our market leading expertise in specific areas of the market which include Retirement, Corporate Benefits for SME businesses, Protection and Health.

In addition, we are managing our back book to deliver good service for customers and increased value for our shareholders.

Our Irish long-term business is now focused primarily on distribution through intermediaries. On the 1st January 2015, following approval from the High Court of Ireland in December 2014, the Irish business, (previously within Aviva Life and

3 Datamonitor UK Insurance Competitor Analytics 2014.
4 Market Security Analysis & Research Inc, 2013 online database.
5 Towers Watson World 500 largest asset manager's study 2013.

Pensions Ireland Ltd) was transferred to Aviva Life and Pensions UK Ltd (UKLAP) becoming a branch of UKLAP.

Market and competition

Over the last few years, the Retail Distribution Review and Auto-Enrolment have transformed the way that long-term savings products are bought and sold.

The changes to annuities announced by the UK Chancellor of the Exchequer in the Budget in March 2014 are intended to give increased flexibility as to how customers can access their pension from April 2015. These changes are having a significant impact across the market and have seen many customers defer their decision regarding their pension, exacerbating the general market decline for individual annuities.

In addition, The Department of Work and Pensions (DWP) announced a charge cap of 75 basis points from April 2015, plus the removal of active member discounts (AMDs) from April 2016. We implemented these changes in 2014, ahead of the regulatory requirement.

The UK long-term savings market is highly competitive and we consider our main competitors to be Standard Life, Prudential, Legal & General, Scottish Widows, Just Retirement and Royal London.

The growth in the life and pensions market in Ireland was evident in 2013 and has continued into 2014. The life insurance market in Ireland is relatively concentrated. We consider our main competitors to be Bank of Ireland Life, Irish Life, Zurich Life and Friends First.

Products

In the UK, we provide a comprehensive product range focused on both the consumer and corporate markets. The pensions and 'at retirement' products we offer include personal pensions, equity release, annuities and income drawdown. Our annuity offerings include immediate life, enhanced, fixed-term annuities and with-profits pension annuities. We provide a number of traditional life insurance products, including level-term, decreasing-term (with or without critical illness), guaranteed whole life insurance, and guaranteed lifelong protection plans. Our savings and investment products include ISAs, investment bonds, funds, base rate trackers, investments with guarantees and with-profits products.

In Ireland, our long-term insurance and savings business offers a wide range of products with our focus being on protection, annuities and a focused set of accumulation products. Our protection products include life insurance, mortgage protection, specified illness and guaranteed and whole life cover products. The pension range covers retirement and investment products including open market annuities, enhanced annuities and government personal retirement savings accounts (PRSA) schemes.

Distribution

We have a multi-distribution strategy, which means we sell our products through intermediaries, corporate partners, in the workplace, and directly to customers. We are a leading provider in the UK intermediary market with 10.7%[2] share. The direct to consumer platform is due to be launched in early 2015, offering new retirement propositions and investment products.

In the UK, we have exclusive distribution deals for the sale of protection products with Royal Bank of Scotland, Barclays, Santander, Tesco and the Post Office.

We remain committed to building on our existing relationships and distribution partnerships as well as to growing our workplace and direct channels.

UK & Ireland General Insurance

Business overview and strategy

The UK and Irish businesses are managed under a single management structure and work is progressing to leverage the scale and expertise that we believe exists in the UK to benefit the Irish business.

We are a leading general insurer in both the UK and Ireland with market shares of 10.5%[3] and 13.3%[6] respectively. We employ around 7,000 people and operate from a number of locations throughout the UK and Ireland, including Norwich, Perth, Glasgow, London and Dublin.

We focus on personal and commercial insurance. In the UK we hold top three positions in the motor and property markets[3]. We believe our key strengths include underwriting and pricing sophistication, claims and cost management and excellent customer service. Our aim is to deliver cash and profitable growth by focussing on the fundamentals of the insurance business to maximise underwriting returns and we have a portfolio strategy to deliver greater stability of earnings.

Market and competition

The UK is the 5th largest non-life insurance market in the world[7]. In 2013, the top four companies had a 31.4%[3] share of the general insurance market.

The UK and Ireland general insurance markets are cyclical in nature and remain very competitive, particularly in personal lines, where the market is highly commoditised.

Following significant premium rate increases in recent years in response to rising claims costs and frequencies, the UK personal motor market has continued to see rate reductions in 2014 reflecting intense competition and regulatory change. Challenging economic conditions also apply to other UK classes of business, although there are some signs of rates hardening in the commercial market. In Ireland, the market remains challenging, reflecting the economic downturn, increased competition and market contraction of 6% in 2013[6].

In the UK our main competitors are Direct Line Group, RSA, The Admiral Group, AXA, Zurich, LV, Allianz and Ageas. In Ireland, our competitors include RSA, AXA, Zurich, FBD, Allianz and Liberty.

Products

We provide a wide range of general insurance products both in the UK and Ireland. In the UK we have a business mix of approximately 60% personal lines and 40% commercial lines. Our UK personal products include motor, home and travel insurance. Our UK commercial products include motor, property and liability insurance for small and medium size enterprises (SMEs) and the larger UK Corporate and Specialty Risks market.

In Ireland our products include property, motor, travel, agricultural and business insurance and our health insurance business provides products for both the personal and commercial sector.

Distribution

We have a multi-distribution strategy. Our personal products are sold directly to customers over the phone and through our websites, via brokers and through corporate partnerships. Our Quotemehappy and General Accident insurance products are also available through price comparison websites. For commercial insurance, we focus on broker distribution and believe that independent brokers remain the best source of advice for business customers.

6 Irish Insurance Federation, 2013
7 Swiss Re Sigma Study (World Insurance 2013)

France

Business overview and strategy

France is the second largest insurance market in Europe[7]. We have a significant presence in the French Life insurance market and we operate through two main companies: Aviva Vie and Antarius (JV structure with Crédit Du Nord). 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.

We are ranked 10th in general insurance as measured by gross written premiums according to L'Argus de l'Assurance as at 31 December 2013. Our strategy is to deliver sustainable dividends to Group by increasing profitability in our life business and targeted growth in profitable general insurance segments.

Market and competition

The life insurance market is driven by individual savings and dominated by bancassurance, which has accounted for around 60% of the life insurance market over the past decade[8]. We believe that customer confidence in financial markets has been affected but that over a longer period, multi-funds policies and unit-linked funds are the best insurance vehicles for performance. We believe the long-term insurance and savings market in France has longer-term growth potential due to the ageing population and the growing need for private pensions.

The general insurance market in France is mature and highly competitive. For several years, price competition was high as insurers sought market share, particularly in the personal lines market. During the last couple of years, we believe the market has entered a phase of price increases that currently makes up the majority of its marginal growth.

Products

We provide a wide range of insurance solutions: life and long-term savings, general insurance and asset management through Aviva Investors France. The products sold through our life channel are long-term savings, pensions and regular premium products, with a focus on the unit-linked market and a broad range of protection products, primarily for individuals.

We have a longstanding relationship with the Association Française d'Epargne et de Retraite (AFER) which is the largest retirement savings association in France with over 700,000 members as at December 2013, to manufacture and distribute the AFER savings product.

In the general insurance market our product range includes household, motor, health and legal protection products and also a range of insurance products for small to medium sized entities, farms, craftsmen and tradesmen, and specific products for building firms and motor fleets.

Distribution

We have developed a multi-distribution model combining retail, direct and bancassurance networks through owned distribution channels, independent networks and partnerships. Our retail network sell through 900 tied agents, a direct sales force made up a direct sales force made up of approximately 1,100 Union Financiere de France (UFF) consultants and direct advisors (Aviva France also holds a majority stake in UFF), and through brokers in the life, health and construction markets. Direct distribution is managed through the Eurofil brand for personal general insurance, the Aviva Direct brand for protection and Epargne Actuelle for the AFER product. We operate in the bancassurance market through our partnership with Crédit du Nord, a subsidiary of Société Générale, selling life, savings and protection products.

8 Fédération Française des Sociétés d'Assurance.

Poland

Business overview and strategy

As at 30 September 2014, our Polish life operation is the fourth largest life insurer in Poland, with a market share of 7% based on gross written premium[9]. Our general insurance business is the fourteenth largest with a market share of 1% on the same basis. Our focus in Poland is to grow the value of new business and in general insurance we aim to grow our portfolio while maintaining portfolio quality and combined operating ratio level.

Market and competition

The Polish market for protection products has seen significant growth since 1999, although penetration rates remain relatively low according to KNF statistics. We expect the insurance market in Poland to continue to grow as its economy matures.

In December 2013, the Polish parliament passed a new Pension Act following the government review of the Pillar II Pensions System which came in force in February 2014. This Act gave the state-run pension system a prominent role in managing the country's pension funds and has significant implications for the private pension providers which include a decrease in assets under management and lower contributions received from pension fund members. Our pension business remains second largest in the Polish market[9].

Products

Our life business in Poland provides a broad range of unit-linked, annuities, bonds and savings products and health insurance. For institutions we offer group life insurance and employee pension programmes, which are both unit-linked products. We offer a standard product as part of our privately managed Pillar II pensions business. We offer general insurance products to both commercial entities and individuals. For individuals we offer home, accident and travel insurance, which are primarily sold by tied agents, as well as motor insurance, which is sold primarily through our direct operation. For institutions we offer selected commercial lines risks.

Distribution

The direct sales force and bancassurance are the main distribution channels for most of the Polish group and is made up of over 2,000 tied insurance agents. Our biggest relationship is with Bank Zachodni WBK (a subsidiary of Banco Santander) that sells both life and general insurance products through the bank's network of over 800 branches[10]. We also co-operate with independent insurance agencies and brokers. Our mutual funds are also sold in brokerage houses and our individual products are supported by call centre and website sales.

Italy, Spain and Other

Italy

Business overview and strategy

We are Italy's 10th largest life insurer, with a market share of 2.99%[11] based on 2013 premiums (excluding Eurovita Assicurazioni S.p.A ("Eurovita")) and the 12th largest general insurance company with a market share of 1.37%[11]. We have approximately 2.2 million customers across both the Life and General Insurance businesses[11]. In Protection, we have11%[12] market share.

During 2014 we continued with our transformation plan in order to:

- Transform the operating and business model;
- Improve the product pricing and mix as well as combined operating ratio; and
- Rationalise the group structure and capital employed.

9 Polish Financial Supervision Authority ("KNF")
10 BZ WBK Bank Zachodni 3Q14 results
11 Associazione Nazionale fra le Imprese Assicuratrici ("ANIA")
12 Istituto per la Vigilanza sulle Assicurazioni ("IVASS")

During 2014 Aviva Italy restructured its joint venture arrangements with UBI Banca and UniCredit. In addition, the respective distribution agreements with UBI and Unicredit have been renegotiated to 2020. In November 2013, Aviva announced a conditional agreement to sell its entire 39% stake in Eurovita to JC Flowers. The sale completed on 30 June 2014.

Market and competition
The Italian life market is dominated by the top 10 providers which represented around 82% of the total market share in 2013[11]. The life insurance industry in Italy reported an increase in volumes as of 30 June 2014, with gross written premiums up by 24% compared to the same period in 2013[11]. The general insurance segment decreased by 3.70% in the same period, mainly driven by a 7% decline in Motor[11].

Products
Our long-term insurance and savings business offers a wide range of products covering protection, bonds and savings and pensions. In 2014 we continued to focus on less capital intensive products, with only zero minimum guarantee rate new products sold since July 2014. We have reviewed our unit-linked product range, and further improved our protection offering.

Our general insurance business in Italy mainly provides motor and home insurance products to individuals, as well as commercial risk insurance to small businesses.

Distribution
Our products are distributed through bancassurance partnerships with UniCredit Group, Banco Popolare Group and Unione di Banche Italiane (UBI). These partnerships give us access to more than 3,500 branches. In addition, we also have approximately 1,500 active financial advisers, and 600 insurance (multi-mandate) agents and brokers as at 30 June 2014.

Spain
Business overview and strategy
We are Spain's 6th largest long-term insurer by gross written premiums with a market share of 5% as at 30 September 2014[13]. We sell protection, long-term savings and pensions, health and accident insurance through a bancassurance network based on joint ventures with four banks. We also sell through Aviva Vida y Pensiones, the wholly-owned Aviva branded long-term insurance company and through our Spanish mutual insurance company Pelayo.

During 2014, we announced the sale of our holding in our joint venture CxG Aviva to Novacaixagalicia Banco. The transaction completed on 11 December 2014.

Our strategy is to maintain the franchise value in Spain and to further develop our retail operations with new distribution agreements. The ongoing focus in on less capital intensive products.

Market and competition
The Spanish market is significantly affected by the current economic climate and the financial sector continues to be under pressure as a result of the ongoing banking restructuring process and mergers taking place. Any opportunities arising from these will be considered on their merits. In relation to distribution agreements with bancassurance partners, we are protected financially within our contracts with Spain's savings banks (the cajas) from any detrimental effect arising from these mergers.

The top positions in the long-term life insurance market are dominated by bank-owned or bank-insurer joint ventures, with the overall bancassurance channel accounting for more than 69% of gross written premiums at the end of 2013 in the Spanish life insurance market[13].

Customers in Spain are accustomed to receiving advice through banking channels, and we continue to use our relationship with our partners to capitalise on this whilst developing our retail agents and broker distribution network.

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

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

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

Other
The Italy, Spain, and Other segment includes our business in Turkey.

Aviva's business in Turkey sells life and savings products including unit-linked pensions through its life joint venture, AvivaSA, which is one of Turkey's largest private life and pensions providers. The general insurance operations in Turkey were sold on 18 December 2014.

Aviva announced in September 2014 its intention to offer to the public market a minority stake in AvivaSA and on 10 November 2014, Aviva announced the closing of the initial public offering of ordinary shares of Aviva S.A. The Company listed as "AVISA" on Borsa Istanbul from 13 November 2014.

Separately, AvivaSA and Akbank agreed to extend their exclusive 15 year bancassurance agreement for another seven years, until 2029. Akbank will continue to sell AvivaSA's life and pensions products on an exclusive basis through its leading banking network in Turkey.

Canada
Business overview and strategy
We are Canada's 2nd largest general insurer[4]. Through our distribution partners we provide a range of personal and commercial lines general insurance products to nearly two million policyholders. We have a 7.8% market share and a top five position in all major provinces[4]. We employ approximately 3,500 people and operate from a head office in Toronto, with other offices located throughout Canada.

We believe that we are well placed for continued growth and that our success is underpinned by our strategic priorities:
- Continuing to focus and deliver on the insurance fundamentals of pricing, risk selection, distribution, claims indemnity and expense management;
- Broadening our distribution reach and strengthening our business mix;
- Building a 'Digital First' mindset across all aspects of our business; and
- Better engaging all of our people in embedding our culture and values.

We believe the transformation of our personal lines business over the last few years has ensured the business is highly competitive. We expect that continued refinement to our

13 Investigación Co-operativa entre Entidades Asegurados y Fordos de Pensiones ("ICEA")

models will allow us to leverage this position to positively react to market opportunities. We will continue to address increasing customer demand for choice, simplicity and self-service by working with our broker partners on processes and technology solutions in order to help them compete with other channels.

Market and competition

Canada is the 8th largest non-life insurance market[7] in the world and is established and stable. The four largest provinces generate around 85% of total premiums with Ontario, the largest, representing 40% of total Canadian premiums[4].

The Canadian general insurance industry is highly fragmented with many small players and no dominant consumer brand. Steady consolidation has resulted in the top five companies representing 40% of the market and the top two companies, Intact Financial and Aviva, controlling 23% of the market[4].The rest of the industry includes several national carriers as well as smaller, provincially based or niche companies.

Whilst direct and affinity channels are gradually increasing in market share, the traditional broker channel accounts for 66% of distribution[4]. In addition to the growth of direct and affinity channels, insurance carriers are increasingly supporting and controlling distribution through investment in brokers.

Products

The general insurance products that we provide through our Canadian companies are:

- Personal, home and motor insurance;
- Small and medium-size enterprise commercial insurance, including motor, property, liability, boiler and machinery, and surety; and
- Niche personal insurance products including holiday and park model trailers, hobby farms, boats as well as antique, classic and custom cars.

Distribution

We operate in Canada through a distribution network focused on approximately 1,600 independent group and retail brokers who distribute our core personal and commercial line products. In addition, we work closely with both independent and wholly owned specialty brokers to distribute specialty personal line products.

Asia

Business overview and strategy

In Asia, we are focused on growth in China and South East Asia. Increasing the value of our new business remains our first priority in Asia. We are achieving this through scale benefits and by focusing our product mix on higher margin products.

In Singapore, our life business is a leading insurer in the market[14], providing employee benefit and individual life insurance through diversified distribution channels. We also have general insurance operations in Singapore and are considered the market leader in online personal motor insurance[15].

In China, through our 50% joint venture with COFCO Group, we are ranked number 7 among 27 foreign life insurers in terms of APE as at 30 September 2014[16]. We have a presence in 12 provinces and over 50 branches. We operate a multi-distribution platform including agency, bancassurance, direct marketing, and brokerage channels offering a wide range of protection and savings products.

In Indonesia, we signed an agreement in January 2014 to form a 50% joint venture with PT Astra International Tbk which completed in May 2014. As part of this agreement, we entered into a bancassurance distribution arrangement with Permata Bank which was launched in December 2014.

In Hong Kong, our wholly owned subsidiary operates through the bancassurance, IFA, and agency channels, with a focus on Bancassurance through its preferred relationship with DBS Bank.

In Taiwan and Vietnam, through our joint ventures with First Financial Holding and VietinBank, respectively, we aim to grow our bancassurance businesses and diversify our distribution networks over the next few years.

In India, with a distribution network of 121 branches, we operate in partnership with the Dabur Group through a 26% interest in Aviva Life Insurance Company India Ltd. As at 31 October 2014, we ranked 9th among the private life insurance companies in India based on Total APE (including Group Business)[17].

During 2014 we completed the disposal of our South Korean business.

Market and competition

The Asian markets are strategically important to Aviva, owing to large populations in fast-growing economies, coupled with relatively low insurance penetration rates and social coverage. Life insurance penetration (as measured by insurance premium as a proportion of GDP) in most Asian countries is typically less than 5% (1.6% in China and Indonesia, 0.6% in Vietnam, and 4.4% in Singapore)[7].

The Asian markets are expected to deliver GDP growth of 6.4%[18] in 2015, ranging from 3% in Singapore to 7% in China[19].

Products

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

Distribution

Across Asia, we operate a multi-distribution strategy. In Singapore, we have a core bancassurance relationship with DBS Bank and also own a majority interest in PIAS, a leading financial advisory firm. In China, our products are sold mainly through telemarketing, bancassurance, and agents. In Indonesia, group business is sold through our direct sales force and individual business is primarily sold through our bancassurance channel. In Taiwan and Vietnam, bancassurance is the main distribution channel. We are also investing in other channels such as direct marketing and digital to differentiate ourselves from competitors.

Aviva Investors

Business overview and strategy

Aviva Investors offers a range of fund management services, operating in the UK, Europe, North America and Asia and had £246 billion in assets under management as at 31 December 2014 (*31 December 2013: £241 billion*).

Our largest clients are the long-term insurance, savings, and general insurance businesses of Aviva, to whom we provide bespoke asset management services across a broad spectrum of asset classes.

We provide external clients with bespoke segregated solutions or offer access to a variety of fund ranges. Our principal target clients for the larger segregated solutions tend

14 Latest available competitor results (30 June 2014)
15 The General Insurance Association of Singapore
16 APE data released by National Insurance Industry Communication Club
17 http://www.irda.gov.in/ADMINCMS/cms/frmGeneral_List.aspx?DF=MBFL&mid=3.1.8
18 Asian Development Bank, Asian Development Outlook 2014 update
19 IMF World Economic Outlook, October 2014

to be large pension funds and financial institutions such as insurance companies and banks.
During 2014 we sold our holding in US equity manager River Road Asset Management, LLC ("River Road").

Our strategy is to offer a range of investment propositions that deliver outcomes that our clients value. Our key objectives are to significantly improve profitability by focusing on capabilities and propositions that build on our heritage in managing long-term savings.

Market and competition
At the end of 2013, the global asset management market stood at circa USD$69 trillion in size, almost half of which was accounted for by North America, and nearly a third by Europe[20]. The global market is highly fragmented, with the top ten managers accounting for around a third of the total assets, and hundreds of other managers accounting for the remainder. As such, the dynamics in all large markets are highly competitive. Aviva Investors is ranked 46th in 'The World's 500 Largest Asset Managers'[5].

Our main competitors are large global asset managers, in addition to other UK and European insurer-owned asset managers with whom we compete on a product by product basis.

Products
Our products cover a broad range of asset classes. In Europe, we have a range of open-ended collective investment schemes which are domiciled in France, Luxembourg and Poland. These funds have different share classes depending on the size and type of investor. Our traditional distribution model for these funds focuses on wholesale distributors, asset allocators and small to mid-size institutional investors.

In the UK, we largely sell segregated mandates and specialist funds to pension schemes, local authorities and insurance companies. We also supply products to the retail and wholesale markets, principally through UK domiciled equity, bond and real estate funds. In addition, we have a range of pooled pension funds which are aimed at the smaller pension fund market. These funds are normally defined benefit schemes and tend to be advised by investment consultants.

In 2014 Aviva Investors launched two funds in its Multi-Strategy range as part of a focus to deliver outcome oriented solutions that aim to meet the identified financial goals of investors.

We also have a range of specialist property funds and six money market funds, domiciled in Ireland and France.

Distribution
Aviva Investors has a Global Business Development team based in 15 locations with clients around the world. We manage relationships with a diverse range of clients including corporate and public sector pension funds, sovereign wealth funds, financial institutions, charities, insurance companies, wealth managers and national and local government bodies.

Our distribution model for our open-ended collective investment schemes focuses on wholesale distributors, asset allocators and small to mid-size institutional investors. In the UK, our retail products are promoted to investors via independent financial advisors, fund platforms, fund supermarkets and discretionary asset managers.

Our property funds are targeted at specialist real estate buyers and large institutions (mostly pension funds and local authorities), and our money market funds are sold by a specialist sales team and target corporate treasury functions.

20 Boston Consulting Group, Global Asset Management 2014

Analysis of investments

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

For additional information on our financial investments, see 'IFRS Financial statements – Note 27 – Financial investments'.

Investment strategy

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

Long-term insurance and savings business

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

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

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

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

General insurance and health business

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

Property partnerships

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

Analysis of investments

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

Investments held at 31 December 2014 and 31 December 2013 are listed below:

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	Carrying value in the statement of financial position £m
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**
Total	**71,454**	**106,086**	**59,283**	**236,823**	**—**	**236,823**
Total %	**30.2%**	**44.8%**	**25.0%**	**100.0%**	**—**	**100.0%**
2013 Restated	69,294	106,798	53,940	230,032	(2,675)	227,357
2013 Restated %	30.2%	46.4%	23.4%	100.0%	—	100.0%

As the table indicates, approximately 25.0% of total investments can be directly attributed to shareholders. The apportionment of our shareholder assets is predominantly weighted towards debt securities and loans. In comparison, policyholder and participating funds contain a greater proportion of equities and other investments (e.g. unit trusts), reflecting the underlying investment mandates.

We carry investments on our statement of financial position at either fair value or amortised cost. At 31 December 2014, approximately 98% of the Group's total investments were carried at fair value on the statement of financial position.

Financial investment balances included in the remainder of these disclosures include financial investments of operations classified as held for sale. For more information about financial investments analysed according to their accounting classification and valuation approach, as well as the cost, unrealised gains and losses, impairments, fair value and other information concerning financial investments, see 'IFRS Financial statements– Note 27 – Financial investments'.

Debt securities

Participating fund asset and shareholder debt securities analysed by credit rating and sector

Participating fund asset and shareholder debt securities analysed by credit rating and product type as at 31 December 2014 are set out in the table below. Government and corporate debt securities are further analysed by type of issuer.

	Ratings						
2014 – Participating fund assets	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**
Non-UK Government	**6,758**	**14,121**	**1,655**	**9,502**	**339**	**63**	**32,438**
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**
Certificate of deposits	**—**	**396**	**175**	**2**	**61**	**49**	**683**
Structured	**731**	**65**	**187**	**81**	**16**	**1**	**1,081**
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%**
2013	10,236	27,796	13,733	23,289	2,421	3,135	80,610
2013 %	12.7%	34.5%	17.0%	28.9%	3.0%	3.9%	100.0%

Analysis of investments continued

2014 – Shareholder assets	AAA £m	AA £m	A £m	BBB £m	Less than BBB £m	Non-rated £m	Total £m
	Ratings						
Government							
UK Government	—	5,760	51	—	—	137	5,948
Non-UK Government	4,545	3,631	996	1,189	2	3	10,366
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
Certificate of deposits	—	8	9	—	—	125	142
Structured	308	400	136	8	56	11	919
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%
2013	5,551	9,633	8,842	6,074	472	2,788	33,360
2013 %	16.6%	28.9%	26.5%	18.2%	1.4%	8.4%	100.0%

We grade debt securities according to external credit ratings issued at the balance sheet date. The credit rating used for each individual security is the median rating of the available ratings from the major credit rating agencies. If a credit rating is available from only one of these rating agencies then this rating is used. If an individual security has not been given a credit rating by any of the major rating agencies, the security is classified as 'non-rated'.

For the table above we have expressed our rating using a rating scale whereby investment grade debt securities are classified within the range of AAA (extremely strong) to BBB (good) ratings, with AAA being the highest possible rating. Debt securities which fall outside this range are classified as less than BBB. This rating scale is analogous with that used by major rating agencies.

At 31 December 2014, the proportion of our shareholder debt securities that are investment grade increased to 91.3% *(2013: 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; and
- 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 *(2013: £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.

Total wrapped credit

In respect of the wrapped credit investments, the table below shows the credit rating of the securities as they are officially rated, and an estimate of their rating without the guarantee. As rating agencies do not provide credit ratings for individual wrapped credit securities without consideration of the insurance guarantee, the credit ratings disclosed in the table below are based on internal best estimates.

	2014				2013			
	Rating with insurance guarantee		Rating without insurance guarantee		Rating with insurance guarantee		Rating without insurance guarantee	
	Fair value £m	% of total	Fair value £m	% of total	Fair value £m	% of total	Fair value £m	% of total
Wrapped credit								
AAA	—	0.0%	—	0.0%	—	0.0%	—	0.0%
AA	18	3.3%	—	0.0%	18	3.8%	18	3.8%
A	346	64.2%	269	50.0%	293	61.8%	184	38.8%
BBB	90	16.7%	135	25.0%	83	17.5%	107	22.6%
Less than BBB	38	7.1%	—	0.0%	34	7.2%	33	7.0%
Non-rated	47	8.7%	135	25.0%	46	9.7%	132	27.8%
Not available without insurance guarantee	—	0.0%	—	0.0%	—	0.0%	—	0.0%
	539	100.0%	539	100.0%	474	100.0%	474	100.0%
RMBS agency								
AAA	—	—	—	—	—	—	—	—

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 change 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 *(2013: £4.9 billion)*. Gross of non-controlling interests, 98% of our shareholder asset exposure to Italy arises from 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

Equity securities

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

2014	**Policyholder £m**	**Participating £m**	**Shareholder £m**	**Total £m**
Public utilities	**2,324**	**602**	**3**	**2,929**
Banks, trusts and insurance companies	**4,821**	**2,321**	**133**	**7,275**
Industrial, miscellaneous and all other	**19,101**	**5,881**	**147**	**25,129**
Non-redeemable preferred shares	**78**	**9**	**199**	**286**
Total	**26,324**	**8,813**	**482**	**35,619**
Total %	**73.9%**	**24.7%**	**1.4%**	**100.0%**
2013	25,836	10,544	1,000	37,380
2013 %	69.1%	28.2%	2.7%	100.0%

At 31 December 2014, shareholder investment in equity securities amounted to £482 million, and of our £7,275 million exposure to equity investments in banks, trusts and insurance companies, £133 million relates to shareholder investments.

Other investments

The table below analyses other investments by type.

2014	**Policyholder £m**	**Participating £m**	**Shareholder £m**	**Total £m**
Unit trusts and other investment vehicles	**26,443**	**2,698**	**499**	**29,640**
Derivative financial instruments	**46**	**2,769**	**1,273**	**4,088**
Deposits and credit institutions	**373**	**56**	**110**	**539**
Minority holdings in property management undertakings	**—**	**609**	**145**	**754**
Other	**319**	**13**	**5**	**337**
Total	**27,181**	**6,145**	**2,032**	**35,358**
Total %	**76.9%**	**17.4%**	**5.7%**	**100.0%**
2013 Restated	26,588	4,461	1,468	32,517
2013 Restated %	81.8%	13.7%	4.5%	100.0%

Property

Our global headquarters are located in St. Helen's, 1 Undershaft, London, England, EC3P 3DQ. In addition, we have major offices in the following locations:

- UK: UK Life, York; UK General Insurance, Norwich; Aviva Investors, London;
- Asia: Singapore;
- North America: Scarborough, Ontario, Canada.
- Europe: Paris, France; Dublin, Ireland; Madrid, Spain; Warsaw, Poland; and Milan, Italy.

As of 31 December 2014, we owned and occupied land and buildings for our own use with a total book value of £316 million *(2013: £257 million)*. We believe that these facilities are adequate for our present needs in all material respects. We also hold other properties, both directly and indirectly, for investment purposes, valued at £7,521 million at 31 December 2014 (*2013: £8,207 million)*. The decrease is due mainly to deconsolidation of certain property limited partnerships in 2014.

Contractual obligations

Contractual obligations with specified payment dates at 31 December 2014 included the following:

	Less than one year £m	Between one & three years £m	Between three & five years £m	After five years £m	Total £m
Insurance and investment contracts					
Long-term business					
– Insurance contracts - non-linked[1]	**7,879**	**14,412**	**11,802**	**77,937**	**112,030**
– Investment contracts - non-linked[2]	**56,212**	**—**	**—**	**—**	**56,212**
– Linked business[2]	**75,341**	**—**	**—**	**—**	**75,341**
General Insurance[3]	**6,030**	**3,647**	**1,804**	**2,967**	**14,448**
	145,462	**18,059**	**13,606**	**80,904**	**258,031**
Other contractual obligations[4]					
Borrowings	**1,227**	**1,016**	**810**	**12,714**	**15,767**
Operating lease obligations	**92**	**156**	**134**	**421**	**803**
Capital commitments	**102**	**3**	**—**	**—**	**105**
Payables and other financial liabilities[5]	**8,893**	**498**	**296**	**4,292**	**13,979**
Net assets attributable to unit holders	**9,482**	**—**	**—**	**—**	**9,482**
Total	**165,258**	**19,732**	**14,846**	**98,331**	**298,167**

Reconciliation to the statement of financial position	£m
Total contractual obligations above	**298,167**
Effect of discounting contractual cash flows for insurance contracts	**(27,341)**
Contractual undiscounted interest payments[6]	**(8,045)**
Difference between carrying value of borrowings and undiscounted cash flows of principal	**(344)**
Contractual cash flows under operating leases and capital commitments	**(908)**
Difference between derivative liabilities contractual cash flows and carrying value	**(1,967)**
Liabilities of operations classified as held for sale	**2**
Unallocated divisible surplus[7]	**9,467**
Provisions[8]	**879**
Current and deferred tax liabilities	**1,260**
Other liabilities	**2,273**
Total liabilities per statement of financial position	**273,443**

1. Amounts shown in respect of long-term insurance contracts represent estimated undiscounted cash flows for the Group's life assurance contracts. In determining the projected payments, account has been taken of the contract features, in particular that the amount and timing of the contractual payments reflect either surrender, death or contract maturity. In addition, the undiscounted amounts shown include the expected payments based on assumed future investment returns on assets backing insurance and investment contract liabilities. The projected cash flows exclude the unallocated divisible surplus of with-profits funds (see below).
2. All linked contracts and almost all non-linked investment contracts may be surrendered or transferred on demand. For such contracts the earliest contractual maturity is therefore at the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. Although we expect surrenders, transfers and maturities to occur over many years, the total liability for linked and non-linked investment contracts is shown in the less than one year column above.
3. Amounts shown in respect of general insurance contracts are based on undiscounted estimates of future claim payments, including for those classes of business for which discounted provisions are held, see 'Financial statements IFRS – Note 41 – Insurance liabilities'. The timing of cash flows reflects a best estimate of when claims will be settled.
4. The Group has no material finance leases for property and equipment.
5. Includes obligations for repayment of collateral received under stock lending arrangements and derivative transactions amounting to £5,577 million.
6. When subordinated debt is undated or loan notes perpetual, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £72 million. Contractual undiscounted interest payments are calculated using fixed interest rates or prevailing market floating rates as applicable.
7. The unallocated divisible surplus represents the excess of assets over liabilities, including policyholder 'asset share' liabilities in the UK, which reflect the amount payable under the realistic Peak 2 reporting regime of the Prudential Regulatory Authority. Although accounted for as a liability, as permitted by IFRS 4, there is currently no expected payment date for the unallocated divisible surplus.
8. Provisions include pension obligations, which have been excluded from the contractual obligations table above, due to the uncertainty of the amount and timing of future cash flows. The Group operates both funded defined benefit and funded defined contribution pension schemes, full details of which are provided in 'IFRS Financial Statements – Note 49 – Pension obligations'. We have a contractual obligation to fund these schemes. However, the amount and timing of the Group's cash contributions to these schemes is uncertain and will be affected by factors such as future investment returns and demographic changes. Our cash funding of defined contribution schemes is based on percentages of salary. Our cash contribution to defined benefit schemes is agreed in advance with scheme trustees. The Company and trustees have agreed to a long-term funding plan where contributions, together with anticipated growth on scheme investments are expected to eliminate the funding deficits over time. Contributions to these and the other schemes are regularly reviewed in light of changes in expectations of investment returns and other assumptions. The discounted scheme liabilities have an average duration of 20 years in the main UK scheme, 19 years in the RAC scheme, 20 years in the Irish scheme and 12 years in the Canadian scheme.

Risk management objectives

As a global insurance group, risk management is at the heart of what we do and is the source of value creation as well as a vital form of control. It is an integral part of maintaining financial stability for our customers, shareholders and other stakeholders.

Our sustainability and financial strength are underpinned by an effective risk management process which helps us identify major risks to which we may be exposed, establish appropriate controls and take mitigating actions for the benefit of our customers and investors. The Group's risk strategy is to invest its available capital to optimise the balance between return and risk whilst maintaining an appropriate level of economic (i.e. risk-based) capital and regulatory capital in accordance with our risk appetite. Consequently, our risk management objectives are to:

- Embed rigorous risk management throughout the business, based on setting clear risk appetites and staying within these;
- Allocate capital where it will make the highest returns on a risk-adjusted basis; and
- Meet the expectations of our customers, investors and regulators that we will maintain sufficient capital surpluses to meet our liabilities even if a number of extreme risks materialise.

Aviva's risk management framework has been designed and implemented to support these objectives. The key elements of our risk management framework comprise our risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles & 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. These elements are expanded in the IFRS Financial statements – Note 58.

Principal risks and uncertainties

In accordance with the requirements of the FCA Handbook (DTR 4.1.8) we provide a description of the principal risks and uncertainties facing the Group here and in note 58 to the IFRS Financial statements. Our disclosures covering 'risks relating to our business' in line with reporting requirements of the Securities Exchange Commission (SEC) provide more detail and can be found in the shareholder information section 'Risks relating to our business'.

Risk environment

The benign financial market conditions experienced in 2013 continued during 2014, albeit with increased volatility in the second half of the year as a result of concerns over eurozone growth and deflation, China economic slowdown, the severe fall in the price of oil and other commodities, the prospect of an end to US monetary policy easing and geopolitical concerns over Russia, Ukraine and the Middle East. These concerns are likely to continue into 2015 with the potential to cause further financial market volatility and divergence amongst developed economies (US compared to eurozone in particular) in monetary policy, interest rates and economic growth, and exacerbate macroeconomic imbalances in the global economy. However, even for those western economies (including the UK) expected to grow strongly, high levels of debt will continue to act as a brake on growth and the low interest rate environment compared to historic norms is likely to persist in the intermediate future at least.

2014 saw significant changes in UK public policy over long term savings and pension provision, most notably the announcement in March 2014 in the Budget ending compulsory annuitisation. In 2015 general elections in the UK, Poland, Spain and Canada will exacerbate uncertainty over public policy and, in the UK, uncertainty over continued membership of the European Union.

In November 2014 the Group's designation as a Global Systemically Important Insurer (G-SII) was re-confirmed. Among other policy requirements, this will result in additional loss absorbency capital requirements, which are still under development, to be applied from January 2019, if the Group remains a G-SII.

In April 2014 the implementation date of Solvency II was finally confirmed in law as 1 January 2016, with the formal approval of the Omnibus II amendments. On-going work on the "Level 2" Delegated Acts, Implementing Technical Standards and Supervisory Guidelines, to be finalised in 2015, have reduced the level of uncertainty over the final capital impact on the Group. However, some uncertainty remains including over the outcome of the Group's application to use an internal model to calculate its capital requirement.

Risk profile

The types of risk to which the Group is exposed have not changed significantly over the year and remain credit, market, insurance, asset management, liquidity, operational and reputational risks as described in note 58 of the IFRS financial statements.

Reflecting Aviva's objective of building financial strength and reducing capital volatility, the Group continued to take steps to amend its risk profile, successfully completing a number of management actions in progress at the 2013 year-end. These include the disposal of the Group's interest in Eurovita resulting in a reduction in exposure to Italian sovereign and corporate debt, partly offset by an increase in exposures due to a reduction in minority interests in the Group's remaining Italian businesses following their restructure during the year, and in addition the disposal of our Turkish general insurance business, South Korean Life business and one of our Spanish joint ventures, CxG. Restrictions on non-domestic investment in sovereign and corporate debt from Greece, Italy, Portugal and Spain remain in place. However, in light of the improving economic situation in Ireland, we have made a modest increase in our exposure to Irish sovereign debt during the year. As described in note 58 to the IFRS Financial statements, a number of foreign exchange, credit and equity hedges are also in place. These are used to mitigate the Group's credit and equity exposure, and enable the Group to accept other credit risks offering better risk adjusted returns while remaining within appetite. In addition, the Group reduced its exposure to longevity risk 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.

During 2014, the Group continued to pay-down the inter-company loan between Aviva Insurance Limited (AIL) and Aviva Group Holdings (AGH) from £4.8 billion at 31 December 2013 to £3.2 billion at 31 December 2014. At the end of February 2015, the balance of the loan stood at £2.8 billion with plans to reduce the balance by end of 2015 to the level at which we estimate AIL would no longer rely on the loan to meet its stressed liabilities, equating currently to a balance of approximately £2.2 billion.

In 2014, the Group established Aviva International Insurance Limited (AII) as its primary on-shore internal reinsurance mixing vehicle with the conclusion of 10% and 5% quota share internal reinsurance treaties covering the Group's UK annuity and general insurance businesses respectively. The Group has plans to significantly increase the amount of business ceded to AII. The objective of these plans is to promote capital efficiency and realise the benefits of group diversification of risk through lower solo capital requirements in the ceding entities.

The successful completion of the sale of Eurovita in Italy and our general insurance business in Turkey means that the Group has largely completed its strategy set out in 2012 of focusing on fewer businesses, allowing capital to be redeployed to businesses that enhance the Group's return on risk based capital.

On 2 December 2014, the Group and Friends Life Group Limited ("Friends Life") announced they had reached agreement on the terms of the 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 completed, the principal impact on the Group's risk profile of the transaction will be to increase our exposure to equity price risk and UK life insurance risks, in particular lapse risk.

During 2014 the Group has continued to reduce its financial leverage consistent with the requirements for achieving the Group's target credit rating of AA. We expect a further reduction following the completion of the proposed acquisition of Friends Life (though clearly execution risk remains).

Low interest rate environment

The Group continues to be adversely impacted by the low interest rate environment in a number of markets around the world. This has resulted in reduced interest spread on participating contracts (the difference between the amounts that we are required to pay under the contracts and the investment income we are able to earn on the investments supporting our obligations under those contracts), and current reinvestment yields being lower than the overall current portfolio yield, primarily for our investments in fixed income securities and commercial mortgage loans. We anticipate that interest rates may remain below historical averages for an extended period of time and that financial markets may continue to have periods of high volatility. As a result we continue to rebalance the Group's revenues towards product lines, such as protection, that are not significantly sensitive to interest rate or market movements. Further information on the Group's exposure to low interest rates is included in the sensitivity analysis in Note 58 of the IFRS Financial Statements.

Capital management

Capital management objectives

The primary objective of capital management is to optimise the balance between return and risk, whilst maintaining economic and regulatory capital in accordance with risk appetite. Aviva's capital and risk management objectives are closely interlinked, and support the dividend policy and earnings per share growth, whilst also recognising the critical importance of protecting policyholder and other stakeholder interests.

Overall capital risk appetite, which is reviewed and approved by the Aviva Board, is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. Risk appetite is expressed in relation to a number of key capital and risk measures, and includes an economic capital risk appetite of holding sufficient capital resources to enable the Group to meet its liabilities in extreme adverse scenarios, on an ongoing basis, calibrated at a level consistent with a AA range credit rating.

In managing capital we seek to:

- maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to support new business growth and satisfy the requirements of our regulators and other stakeholders giving both our customers and shareholders assurance of our financial strength;
- optimise our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;
- retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit facilities and access to a range of capital markets;
- allocate capital rigorously across the Group, to drive value adding growth through optimising risk and return; and
- declare dividends with reference to factors including growth in cash flows and earnings.

In line with these objectives, the capital generated and invested by the Group's businesses is a key management focus. Capital is measured and managed on a number of different bases. These are discussed further in the following sections.

Accounting basis:

Capital employed by segment and financing of capital

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

	2014 £m	2013 £m
Long-term savings	**10,579**	11,224
General insurance and health	**6,007**	5 ,986
Fund management	**298**	237
Corporate and other business[1]	**702**	(1,305)
Total capital employed	**17,586**	16,142
Financed by:		
Equity shareholders' funds	**10,018**	7,964
Non-controlling interests	**1,166**	1,471
Direct capital instruments and fixed rate tier 1 notes	**892**	1,382
Preference shares	**200**	200
Subordinated debt	**4,594**	4,370
Senior debt	**716**	755
Total capital employed	**17,586**	16,142

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 agreement between Aviva Group Holdings and Aviva Insurance Limited (AIL).

2 Internal capital management mechanisms 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.

3 Certain subsidiaries, subject to satisfying stand-alone capital and liquidity requirements, loan funds to corporate and holding entities. These loans satisfy arm's length criteria and all interest payments are made when due.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings.

At 2014 we had £17.6 billion *(2013: £16.1 billion)* of total capital employed in our trading operations measured on an IFRS basis.

In July 2014 we issued €700 million of Lower Tier 2 subordinated debt. This bond has a 30 year term and may be called from July 2024. The proceeds were used to redeem a €700 Direct Capital Instrument at its first call date in November 2014.

Regulatory capital – overview

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 we have a regulatory obligation to have a positive position at all times.

This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the UK and Ireland with-profit life funds. The minimum solvency requirement for our European businesses is based on the Solvency 1 Directive. In broad terms, for EU operations, this is set at 4% and 1% of non-linked and unit-linked life reserves respectively and for our general insurance portfolio of business is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For our business in Canada a risk charge on assets and liabilities approach is used.

Regulatory capital – Group

European Insurance Groups Directive

	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 a change in the model used to value certain equity release assets and the consequential impact on the liabilities that they back, offset by the higher cost of replacing mortgages after a fall in the risk free interest rate.

Regulatory capital – UK Life with-profits fund

The available capital of the with-profits funds is represented by the realistic inherited estate. The estate represents the assets of the long-term with-profits funds less the realistic liabilities for non-profit policies within the funds, less asset shares aggregated across the with-profits policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs, guarantees and promises. Realistic balance sheet information is shown below for the three main UK with-profit funds: Old With-Profit Sub-Fund (OWPSF), New With-Profit Sub-Fund (NWPSF) and 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 consolidated IFRS statement of financial position at 31 December 2014 and 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	31 December 2014 Estimated excess available capital £bn	31 December 2013 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 *(31 December 2013: £0.1 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of accrued bonuses are £33.1 billion *(31 December 2013: £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 *(31 December 2013: £1.4 billion, £0.2 billion and £2.5 billion for NWPSF, OWPSF and WPSF respectively)*.

2 Estimated realistic inherited estate at 31 December 2013 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 *(31 December 2013: £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.

Investment mix

The aggregate investment mix of the assets in the three main with-profits funds at 31 December 2014 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.

Economic capital

We use a risk-based capital model to assess economic capital requirements and to aid in risk and capital management across the Group. The model is based on a framework for identifying the risks to which business units, and the Group as a whole, are exposed. Where appropriate, businesses also supplement these with additional risk models and stressed scenarios specific to their own risk profile. When aggregating capital requirements at business unit and Group level, we allow for diversification benefits between risks and between businesses, with restrictions to allow for non-fungibility of capital where appropriate. This means that the aggregate capital requirement is less than the sum of capital required to cover all of the individual risks. The capital requirement reflects the cost of mitigating the risk of insolvency to a 99.5% confidence level over a one year time horizon (equivalent to events occurring in 1 out of 200 years) against financial and non-financial tests.

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

Solvency II

In April 2014, the implementation date of Solvency II was confirmed in law as 1 January 2016, with the formal approval of the Omnibus II amendments.

Following the approval of Omnibus II in a plenary vote of the European Parliament on 11 March 2014, Solvency II is fully expected to come into effect on 1 January 2016. The text of the Solvency II Delegated Act (Level 2) was published in the Official Journal of the European Union on 17 January 2015 and the regulation entered into force on the following day.

Aviva continues to actively participate in the consultation on the Level 3 text through the key European industry working groups and respond on the relevant PRA consultation papers through the ABI, whilst engaging with the PRA and HM Treasury throughout. This includes consideration of the role of transitionals once Solvency II comes into effect.

Rating agency

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

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

The Group's overall financial strength is reflected in our credit ratings. The Group's rating from Standard and Poor's is A+ (strong) with a Stable outlook; A1 (good) with a Stable outlook[1] from Moody's; and A (excellent) with the outlook under review with developing implications from A.M. Best. These ratings incorporate the rating agency views on the proposed acquisition of Friends Life.

Financial flexibility

The Group's borrowings are comprised primarily of long dated hybrid instruments with maturities spread over many years, minimising refinancing risk. In addition to central liquid asset holdings of £0.8 billion, the majority of which was held within Aviva Group Holdings Limited at the 2014 year end, the Group also has access to unutilised committed credit facilities of £1.6 billion provided by a range of leading international banks.

1 Note that Moody's assign a Negative outlook to Aviva Life & Pensions UK Limited.

Corporate responsibility key performance indicators

Key indicators

Indicator	2011	2012	2013	**2014**	2014 target
Trust and Transparency					
Ⓐ% of employees who confirm that they have read, understood, and accepted the Business Ethics Code annually; and all employees in Aviva France who are obliged to comply with the Business Ethics Code as a term of their employment	89%	88%	95%	**96%**	100%
% of business that are in or above the upper quartile relative to the local market average (NPS score)	42%	25%	33%	**50%**	Improve past performance
Environment and climate change					
Ⓐ% of CO_2e emissions offset annually	100%	100%	100%	**100%**	Offset 100% CO_2e emissions at group level
Ⓐ% reduction of CO_2e emissions relative to our 2010 baseline	New KPI	New KPI	New KPI	**32%**	20%
ⒶCO_2e emissions (tonnes) – absolute	156,383	112,763	105,317	**83,924**	Reduce relative CO_2e emissions by 5%
ⒶCO_2e emissions (tonnes) – relative	n/a	n/a	87,669	**83,924**	
Ⓐ Water consumption (m^3) – absolute	509,657	529,960	459,634	**468,097**	Reduce by 4%
Ⓐ Waste generated (tonnes) – absolute	8,645	11,468	11,481	**9,255**	Reduce by 4%
People					
Ⓐ% of women in senior management (including subsidiary boards)	20%	22%	21%	**21%**	n/a
% of employees who feel Aviva is a place where people from diverse backgrounds can succeed	78%	76%	75%	**76%**	*Improve from previous year
% of employees who rate us favourably on engagement index	68%	68%	56%	**65%**	*Improve from previous year
Suppliers					
Ⓐ% of managed supply that has agreed to the supplier Code of Behaviour	31%	30%	28%	**43%**	Increase scope/% from previous year
Ⓐ% of managed supply that has been engaged on CR during the term of their contract with Aviva	New KPI	71%	63%	**83%**	Increase scope/% from previous year
Community development					
Ⓐ Amount of community investment	£12.4m	£11m	£6.2m	**£6.3m**	Maintain or improve investment
% of employees participating in volunteering	20%	18%	27%	**23%**	Increase % of employees volunteering
Number of employee hours spent volunteering	60,390	56,357	41,223	**40,220**	Increase volunteering hours
Total beneficiaries of corporate responsibility programmes.	New KPI	New KPI	New KPI	**511,629**	n/a

Ⓐ Denotes that this KPI has been assured by PricewaterhouseCoopers LLP

Change	Met target	2015 target	Notes
1%	N	100%	Business ethics: All employees are required to complete annual training of the Code except in France where the Code is included as part of their employment contracts. While our target remains at 100% it is inevitable that not all employees will be able to sign the code each year due to maternity leave, sick leave etc.
17%	Y	Improve past performance	Customers: The percentage figures from previous years have been restated to provide a like for like comparison. Therefore, the restated figures are based on those markets within which Aviva has continued to operate from 2011, which are: UK, Ireland, Canada, France, Italy, Spain, Poland, Lithuania, Singapore, China, and India.
=	Y	Offset 100% CO_2e emissions at group level	The CO_2e emissions baseline and annual absolute CO_2e emissions have been restated. We removed the previously reported UK outsourced data centre emissions from our footprint due to data integrity issues. Absolute CO_2e data – CO_2e data includes emissions from our buildings, business travel, water and waste to landfill.
N/A	Y		
(20)%	Y	Reduce relative CO_2e by 5%	Relative CO_2e data – The relative comparison uses the 2014 basis for reporting (as above), and the adjusted relative data for 2013 encompassing structural changes that occurred in 2013.
(4)%	N		
2%	N	Reduce by 4%	Our 2010 baseline, which we use to understand our progress on a long term basis is 123,512 tCO_2e. We have exceeded our long term CO_2e reduction target of 20% by 2020, from the restated baseline.
(19)%	Y	Reduce by 4%	
=	n/a	n/a	People: The data reflected here comes from our annual employee survey. The survey provider changed for 2014 to Karian and Box. The only 2015 target relates to our engagement index due to a review with our KPIs while the strategy evolves.
1%	Y	n/a	
9%	Y	Improve from previous year	*Due to the change in supplier and the benchmark availability, we changed target to 'Improve from previous year'.
15%	Y	Increase scope/% from previous year	Suppliers: The scope of 'managed supply' included in the indicator has grown this year from UK only in 2012 to all Aviva businesses that are operating the shared service model. This is a population of 256 suppliers (some of which adopted the model in H2 2014).
20%	Y	Increase scope/% from previous year	
1.6%	Y	Maintain or improve investment	
(4)%	N	Increase % of employees volunteering	
(2.4)%	N	Increase volunteering hours	
n/a	n/a	Increase number of beneficiaries	Beneficiaries of CR programmes: This includes the number of children benefitted by our Street to School programme as well as beneficiaries from various community projects supported by Aviva.

Independent Limited Assurance Report to the Directors of Aviva plc

The Board of Directors of Aviva plc ("Aviva") engaged us to provide limited assurance on the information described below and set out in Aviva's Annual Report and Accounts for the year ended 31 December 2014.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 31 December 2014 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This conclusion is to be read in the context of what we say in the remainder of our report.

Selected Information

The scope of our work was limited to assurance over the information marked with the symbol Ⓐ in Aviva's Annual Report and Accounts 2014 (the "Selected Information" as found on pages 280 and 281).

The Selected Information was assessed against the Reporting Criteria found at http://www.aviva.com/corporate-responsibility/reports/[1]. Our assurance does not extend to information in respect of earlier periods or to any other information included in the Annual report and accounts 2014.

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' and, in respect of the CO_2 emissions, in accordance with International Standard on Assurance Engagements 3410 – 'Assurance engagements on greenhouse gas statements' issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Our independence and quality control

We applied the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We applied International Standard on Quality Control (UK & Ireland) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our work was carried out by an independent team with experience in sustainability reporting and assurance.

Understanding reporting and measurement methodologies

The Selected Information needs to be read and understood together with the Reporting Criteria, which Aviva is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time. The Reporting Criteria used for the reporting of the Selected Information are as at 31 December 2014.

Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- made enquiries of Aviva's management, including the Corporate Responsibility (CR) team and those with responsibility for CR management and group CR reporting;
- evaluated the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information. This included analysing and visiting head offices in two markets out of sixteen markets, selected on the basis of their inherent risk and materiality to the group, to understand the key processes and controls for reporting site performance data to the group CR team;
- performed limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported; and
- considered the disclosure and presentation of the Selected Information.

Aviva's responsibilities

The Directors of Aviva are responsible for:

- designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing objective Reporting Criteria for preparing the Selected Information;
- measuring and reporting the Selected Information based on the Reporting Criteria; and
- the content of the Annual Report and Accounts 2014.

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Directors of Aviva.

This report, including our conclusions, has been prepared solely for the Board of Directors of Aviva in accordance with the agreement between us, to assist the Directors in reporting Aviva's corporate responsibility performance and activities. We permit this report to be disclosed in the Annual Report and Accounts for the year ended 31 December 2014, to assist the Directors in responding to their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors and Aviva for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP,
Chartered Accountants, London
4 March 2015

1 The maintenance and integrity of Aviva's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on Aviva's website.

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Other information
Shareholder information

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Company address

The Company's registered office is St Helens, 1 Undershaft, London, EC3P 3DQ.
The Company's telephone number is +44 (0)20 7283 2000.

Share capital

The Company has two classes of shares in issue:

- Ordinary shares of £0.25 each which constitute equity security and hold voting rights;
- Cumulative irredeemable preference shares of £1 each, which entitle holders to attend and vote at general meetings only when dividends on such shares are in arrears. Cumulative irredeemable preference shareholders may also attend general meetings and vote on particular proposals when such proposals relate to an alteration of the rights attaching to such shares, a reduction of capital (other than through a redemption or repurchase of shares) or a winding up of business. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares.

Issued share capital

The Company had an aggregate issued and outstanding ordinary share capital of £737 million as of 31 December 2014. The following table sets out information about the issued and outstanding classes of equity as of 31 December 2014.

	Shares issued and outstanding			Shares covered by outstanding options		
Share class	**2014 Million**	2013 Million	2012 Million	**2014 Million**	2013 Million	2012 Million
Ordinary shares, nominal value 25p	**2,950**	2,947	2,946	**17**	20	25
8.375% Cumulative irredeemable preference shares, nominal value £1	**100**	100	100	**—**	—	—
8.75% Cumulative irredeemable preference shares, nominal value £1	**100**	100	100	**—**	—	—

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the Company's current articles of association reflect this. Directors are still limited as to the number of shares they can allot, as the allotment authority continues to be required under the Act, save in respect of employee share schemes. Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

The Company is not permitted under English law to hold its own ordinary shares. Whilst the Company is presently authorised to repurchase up to 294 million ordinary shares, any shares that are repurchased must be cancelled. Details of the Company's dividends are set out below under 'Dividend data'. The Company's preference shares rank, as to the payment of dividends and capital, as set out in note 34 of the IFRS Financial statements.

Share options and awards

The Company maintains a number of active stock option and share award schemes. Details of any outstanding awards under these schemes are set out in 'IFRS Financial statements – note 32 – Group's share plans'. Details of any discretionary plans are set out in Note 32 and/or the Directors' remuneration report.

The matching share plan

Under the Aviva all employee share ownership plan (AESOP), eligible employees can invest up to statutory limits, currently £150 per month out of their gross salary in the Company's shares. A matching element was introduced in April 2013 through which the Company matches every purchased share with two matching shares for the first £40 of a participant's monthly contribution. Matching shares are subject to forfeiture if purchased shares are withdrawn from the AESOP within three years of purchase, as long as the employee remains employed by the Company. Participants are also eligible to receive dividend shares through the AESOP.

Aviva Group employee share ownership scheme

Aviva Group operates an Irish Revenue approved share scheme for employees of the Aviva Group in Ireland. Under the Aviva Group Employee Share Ownership Scheme, eligible employees can elect to forego some of their gross bonus and gross salary (up to a maximum of €12,700 per tax year) in exchange for the Company's shares. The shares are held in trust for three years.

Aviva France employee profit sharing scheme

Aviva France operates an employee profit sharing scheme where employees are given an award based on a percentage of salary, which can be either received in cash or invested in one of four mutual funds. One of the four mutual funds is invested solely in Aviva plc ordinary shares. Any investment in a mutual fund must be held for at least five years.

Save as you earn scheme

The Aviva savings related share option scheme 2007 allows eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. In order to exercise these options, participants must have saved through a 3, 5 or 7 year tax-advantaged savings contract, subject to a statutory savings limit, currently £500 per month. From 2012, only 3 and 5 year contracts have been offered and Aviva's current policy is to apply a savings limit of £250 per month.

An Aviva Ireland save as you earn scheme allows eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. In order to exercise these options, participants must have saved through a 3 or 5 year tax-approved savings contract, subject to a statutory savings limit, currently €500 per month.

Shares to satisfy options and awards

From July 2008 until 2014, it was the Company's practice to satisfy all awards and options using shares purchased in the market and held by employee trusts except where local regulations made it necessary to issue new shares. During 2014 the Company has moved to a general practice of issuing new shares except where it is necessary to use shares held by an employee share trust.

At 31 December 2014, 2,585,824 shares were held by the employee share trusts as compared to 8,561,382 at 31 December 2013, in both instances following the share purchases and distributions to individual employees throughout the year. These shares have an aggregate nominal value of £646,456 and market value £12,528,317 as of 31 December 2014, compared to £2,140,346 and £38,500,535 at 31 December 2013, respectively. Shares held by separate employee share trusts on behalf of specific individuals have not been included in these amounts. Further details are given in 'IFRS Financial statements – Note 33 – Shares held by employee trusts.'

Additional information

For the purposes of Listing Rule (LR) 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

Section in LR 9.8.4C R	Topic	Location in the annual report and accounts
1	Interest capitalised	N/A
2	Publication of unaudited financial information	N/A
3	Requirement deleted from the listing rules	
4	Details of long-term incentive schemes	N/A
5	Waiver of emoluments by a director	N/A
6	Waiver of future emoluments by a director	N/A
7	Non pre-emptive issues of equity for cash	N/A
8	Item (7) in relation to major subsidiary undertakings	N/A
9	Parent participation in a placing by a listed subsidiary	N/A
10	Contracts of significance	N/A
11	Provision of services by a controlling shareholder	N/A
12	Shareholder waivers of dividends	IFRS Financial Statements – note 33
13	Shareholder waivers of future dividends	IFRS Financial Statements – note 33
14	Agreements with controlling shareholders	N/A

History of share capital

The following table sets out information about the history of the Company's ordinary shares over the last three full calendar years.

	Number of shares outstanding
At 1 January 2012	**2,905,712,938**
Shares issued under the Group's Employee and Executive Share Option Schemes[1]	3,335,566
Shares issued in lieu of dividends[2]	36,923,757
At 31 December 2012	**2,945,972,261**
Shares issued under the Group's Employee and Executive Share Option Schemes[1]	967,361
At 31 December 2013	**2,946,939,622**
Shares issued under the Group's Employee and Executive Share Option Schemes[1]	3,547,718
At 31 December 2014	**2,950,487,340**

1. For more information on our various option schemes, see note 32 in the financial statements.
2. The issue of shares in lieu of cash dividends is considered a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

There were no changes to the voting rights of any class of shares during 2012, 2013 and 2014, other than issuances in connection with our various employee option schemes and under the Company's scrip dividend scheme. The Company did not issue shares for consideration other than cash during 2012, 2013 and 2014. In addition, at the Company's general meetings in 2012, 2013 and 2014, shareholders authorised the limited dis-application of section 561 of the Companies Act 2006 to permit the Company to issue new equity securities for cash without applying shareholders' statutory pre-emptive rights.

Related party disclosures

Related party transactions

For more information relating to related party transactions, including more information about the transactions described below, please see 'IFRS Financial Statements – note 61 – Related party transactions'.

Subsidiaries

Transactions between the Company and its subsidiaries are eliminated on consolidation.

Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Group, including the executive and non-executive directors is as follows:

	2014 £m	2013 £m	2012 £m
Salary and other short-term benefits	**8.9**	6.7	6.0
Post-employment benefits	**1.0**	1.1	1.9
Equity compensation plans	**1.9**	3.3	4.8
Termination benefits	**—**	1.1	1.5
Other long term benefits	**4.1**	1.6	0.8
Total	**15.9**	13.8	15.0

Various directors and key management of Aviva may from time to time purchase insurance, asset management or annuity products, from Aviva Group companies in the ordinary course of business on substantially the same terms, including interest rates and security requirements, as those prevailing at the time for comparable transactions with other persons.

Apart from the disclosed transactions discussed above and in the 'Governance' section of this report, no director had an interest in shares, transactions or arrangements that requires disclosure under applicable rules and regulations.

Other related parties

The Group received income from and paid expenses to other related parties from transactions made in the normal course of business. Loans to other related parties are made on normal arm's length commercial terms.

Services provided to other related parties

	2014		2013		2012	
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m	Income earned in year £m	Receivable at year end £m
Associates	**7**	**—**	3	11	—	9
Joint ventures	**28**	**154**	51	56	23	54
Employee pension schemes	**11**	**3**	12	9	12	6
	46	**157**	66	76	35	69

In addition to the amounts disclosed for associates and joint ventures above, at 31 December 2014 amounts payable at year-end were £nil *(2013: £nil)*, and expenses incurred during the period were £2 million *(2013: £3 million)*.

Transactions with joint ventures in the UK relate to the property management undertakings, the most material of which are listed in note 19(a)(iii). 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, movements in which may be found in note 19(a)(i).

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, as explained in note 49(b)(ii).

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties provided on behalf of related parties are given in note 53(f).

Loans to joint ventures

We make loans to our property management joint ventures to fund property developments which we undertake with our joint venture partners. Movements in these loans may be found in 'IFRS Financial Statements – Note 19 – Interests in, and loans to, joint ventures'. Total loans at 31 December 2014 and at the end of each of the last three financial years are shown in the table below:

	2014 £m	2013 £m	2012 £m
Loans to joint ventures	**73**	24	43

Dividend data

The Company has a policy to pay a progressive dividend with reference to growth in cash flows and earnings. Under UK company law, we may only pay dividends if the Company has 'distributable profits' available. 'Distributable profits' are accumulated, realised profits not previously distributed or capitalised, less accumulated, unrealised losses not previously written off based on IFRS. Even if distributable profits are available, we pay dividends only if the amount of our net assets is not less than the aggregate of our called-up share capital and undistributable reserves and the payment of the dividend does not reduce the amount of our net assets to less than that aggregate.

As a holding company, the Company is dependent upon dividends and interest from our subsidiaries to pay cash dividends. Many of the Company's subsidiaries are subject to insurance regulations that restrict the amount of dividends that they can pay to us.

Historically, the Company has declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). Subject to the restrictions set out above, the payment of interim dividends on ordinary shares is made at the discretion of our Board, whilst payment of any final dividend requires the approval of the Company's shareholders at a general meeting. Preference shares are irredeemable and dividends on preference shares are made at the discretion of our Board.

The Company pays cash dividends in pounds sterling, although the articles of association permit payment of dividends on ordinary shares in other currencies and in forms other than cash, such as ordinary shares. If dividends on ordinary shares held by the American Depositary Shares (ADS) depositary are paid in pounds sterling, the ADS depositary will convert the pounds sterling that it receives on behalf of the ADS holders into US dollars according to the prevailing market rate on the date that the ADS depositary actually receives the dividends.

From the 2009 interim dividend to the 2012 interim dividend, shareholders on record were provided the opportunity to elect to receive dividends in the form of newly issued ordinary shares through the Aviva Scrip Dividend Scheme. For the 2012 final and subsequent dividends, the Aviva Scrip Dividend Scheme has been withdrawn.

An interim dividend is generally paid in November of each year. A final dividend is typically proposed by the Company's Board after the end of the relevant year and generally paid in

May[1]. The following table shows certain information regarding the dividends that we paid on ordinary shares for the periods indicated in pounds sterling and converted into US dollars at the noon buying rate in effect on each payment date.

Year	Interim dividend per share (pence)	Interim dividend per share (cents)	Final dividend per share (pence)	Final dividend per share (cents)
2009	9.00	14.75	15.00	23.55
2010	9.50	15.20	16.00	25.80
2011	10.00	15.70	16.00	25.27
2012	10.00	15.85	9.00	13.67
2013	5.60	9.01	9.40	15.79
2014	**5.85**	**9.15**	**12.25**	**na**

Guarantees, securitised assets and off-balance sheet arrangements

As a normal part of our operating activities, various Group companies have given financial guarantees and options, including interest rate guarantees, in respect of certain long-term assurance and fund management products, as set out in Note 43 to the IFRS Financial Statements. These are accounted for on-balance sheet as either part of the host insurance contract or as financial instruments under IFRS.

Information on operating lease commitments can be found in Note 54(b) to the IFRS Financial Statements.

It is standard business practice for our Group companies to give guarantees, indemnities and warranties in connection with disposals of subsidiaries, joint ventures and associates to third parties. As of 31 December 2014, we believe no material loss will arise in respect of these guarantees, indemnities and warranties. Principal warranties include the accuracy and completeness of the statement of financial position at an agreed specified date, details of outstanding litigation, regulatory matters, material contractual commitments, the position on tax filings and other customary matters together with any specific items identified during due diligence. In addition, specific clauses cover such items as regulatory approvals and licences, the basis of calculation regarding actuarial insurance liabilities, reinsurance contracts and the status of employee pension plans. Their exact terms are tailored to each disposal and are set out in the respective sale and purchase agreement. Similarly, the open warranty periods, within which the purchaser could claim, and limits on the maximum amount potentially recoverable will vary for each item covered in each disposal.

We have received notice of a number of claims on recent disposals, and where appropriate, hold provisions in respect of such claims. There are also open claim periods on other recent disposals in respect of which we have neither received, nor have any reason to believe we will receive, any claims. Accordingly, as of 31 December 2014, we believe that appropriate provisions have been made regarding known and expected material warranty and indemnity claims relating to recent disposal activity.

We have loans receivable, secured by mortgages, which have then been securitised through non-recourse borrowings by special purpose entities in our UK Life business, as set out in Note 25 to the IFRS Financial Statements. These special purpose entities have been consolidated and included in the statement of financial position, as we retain the residual interest in them.

Limited liability partnerships classified as joint ventures

As part of their investment strategy, the UK and certain European long-term business policyholder funds have invested in a number of property limited partnerships (PLP), either directly or via property unit trusts (PUT), through a mix of capital and loans. The PLPs are managed by general partners (GP), in which the long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary.

Accounting for the PUTs and PLPs as subsidiaries, joint ventures, associates or other financial investments depends on whether the Group is deemed to have control or joint control over the PUTs and PLPs' shareholdings in the GPs and the terms of each partnership agreement are considered along with other factors that determine control.

Note 19 to the IFRS Financial Statements provides a list of the principal PLPs accounted for as joint ventures, as well as summarised information on the income, expenses, assets and liabilities of the Group's interests in its joint ventures in aggregate. In respect of these PLPs, there are no significant contingent liabilities to which we are exposed, nor do we have any significant contingent liabilities in relation to our interests in them. External debt raised by the PLPs is secured on their respective property portfolios, and the lenders are only entitled to obtain payment of both interest and principal to the extent there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder and shareholders' funds of any companies in the Aviva Group. At 31 December 2014, we had £70 million capital commitments to these PLP joint ventures.

Liquidity and capital resources

Treasury function

The treasury function of our business is managed by our centralised treasury team, headed by the Group treasurer. The Group treasurer acts as owner of Group business standards for liquidity and foreign exchange risk management within the Group risk governance and oversight framework. Changes in policy require the agreement of the Chief Risk Officer. These policies are independently implemented and monitored by each of our businesses. Our central treasury team is split into distinct functions: a Group team, which develops our overall treasury strategy and our treasury team at Aviva Investors, which manages and monitors our treasury and cash flow positions for our holding companies. Each business unit is responsible for monitoring its own cash and liquidity positions, as well as its ongoing funding requirements. It is our policy to make the majority of our financing arrangements at the parent company level for our business units, primarily through external borrowings and equity offerings. This enables us to achieve the efficiencies afforded by our collective size. A number of our business units also raise debt on their own behalf.

Our principal objective in managing our liquidity and capital resources is to maximise the return on capital to shareholders, while enabling us to pay dividends, service our debt and our holding companies' cash flows. In the context of a financial services company where our working capital is largely representative of our liquidity, we believe that our working capital is sufficient for our present operational requirements. For additional information, see 'IFRS Financial statements – Note 58 – Risk management – liquidity risk'.

Extraordinary market conditions

Starting in mid-September 2008, the global financial markets experienced unprecedented disruption, adversely affecting the business environment in general, as well as financial services companies in particular. Markets have improved but continue to be fragile. A return to adverse financial market conditions could significantly affect our ability to meet liquidity needs and obtain capital, although management believes that we have liquidity and capital resources to meet business requirements under current and stressed market conditions.

At 31 December 2014, total consolidated cash and cash equivalents net of bank overdrafts amounted to £22,564

1 In December 2014, the directors proposed a final dividend subject to shareholder approval.

million, a decrease of £3,425 million from £25,989 million in 2013.

Processes for monitoring and managing liquidity risk, including liquidity stress models, have been enhanced to take into account the extraordinary market conditions, including the impact on policyholder and counterparty behaviour, the ability to sell various investment assets and the ability to raise incremental funding from various sources. Management has taken steps to strengthen liquidity in light of its assessment of the impact of market conditions and intends to continue to monitor liquidity closely.

Management of capital resources

We seek to maintain an efficient capital structure using a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings. This structure is consistent with our risk profile and the regulatory and market requirements of our business.

In managing our capital, we seek to:

- Match the profile of our assets and liabilities, taking into account the risks inherent in each business;
- maintain financial strength to support new business growth whilst still satisfying the requirements of policyholders, regulators and rating agencies;
- retain financial flexibility by maintaining strong liquidity, access to a range of capital markets and significant unutilised committed credit lines;
- allocate capital efficiently to support growth and repatriate excess capital where appropriate; and
- manage exposures to movements in exchange rates by aligning the deployment of capital by currency with our capital requirements by currency.

We are subject to a number of regulatory capital tests and employ realistic scenario tests to allocate capital and manage risk. The impact of these regulatory capital tests on our ability to transfer capital around the Group through dividends and capital injections is discussed later in this section under the headings 'Sources of liquidity' and 'Capital injections'.

At 31 December 2014, the Group had £17.6 billion *(31 December 2013: £16.1 billion)* of total capital employed on an IFRS basis in our trading operations which is financed by a combination of equity shareholders' funds, preference capital, a direct capital instrument, subordinated debt and internal and external borrowings.

In addition to external funding sources, we have a number of internal debt arrangements in place. All internal loans satisfy arm's length criteria and all interest payments have been made when due.

Management of debt

Aviva plc is the principal financing vehicle in our centralised funding strategy. We aim to manage our external debt in line with rating agency limits applicable for entities with a rating in the AA range. We aim to maintain a balance of fixed and floating rate debt, and manage the maturity of our borrowings and our undrawn committed facilities to avoid bunching of maturities. We aim to maintain access to a range of funding sources, including the banking market, the commercial paper market and the long-term debt capital markets. We issue debt in a variety of currencies, predominantly sterling and euros, based on investor demand at the time of issuance and management of the Group's foreign exchange translation exposures in the statement of financial position.

In July 2014, we issued €700 million of Lower Tier 2 subordinated debt callable in 2024. In November 2014, we repaid a €700 million direct capital instrument at its first call date.

At 31 December 2014, our total external borrowings, including subordinated debt and securitised mortgage loans, amounted to £7.4 billion *(2013: £7.8 billion).* Of the total borrowings, £5.3 billion *(2013: £5.1 billion)* are considered to be core borrowings and are included within the Group's capital employed. The balance of £2.1 billion *(2013: £2.7 billion)* represents operational debt issued by operating subsidiaries. We also have substantial committed credit facilities available for our use. At 31 December 2014, we had undrawn committed credit facilities expiring within one year of £0.4 billion *(2013: £0.4 billion)* and £1.2 billion in credit facilities expiring after more than one year *(2013: £1.1 billion)*. Of these facilities, £750 million was allocated in 2014 *(2013: £750 million)* to support our commercial paper programme.

Further information on the maturity profile, currency and interest rate structure of our borrowings is presented in 'IFRS Financial statements – Note 50 – Borrowings'. Commercial paper is issued for terms up to 12 months and is generally reissued at maturity. The earliest repayment date for other debt instruments is a €500 million subordinated debt instrument with a first call date of 29 September 2015 at the option of the Company. At this time Aviva will have the option of repaying the debt or accepting a step-up in the coupon credit margin and deferring repayment until future coupon dates. This debt is perpetual, with no fixed redemption date.

The table below presents our debt position for the periods indicated:

	2014 £m	2013 £m
Core structural borrowings		
Subordinated debt	**4,594**	4,370
Debenture loans	**200**	199
Commercial paper	**516**	556
	5,310	5,125
Operating borrowings		
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)
Total	**7,378**	7,819

In the UK, we have raised non-recourse funding secured against books of mortgages. This funding has been raised through the use of special-purpose entities. The beneficial interest in the books of mortgages has been passed to these special-purpose entities. These entities, which are owned by independent trustees, have funded this transfer through the issue of loan notes.

The value of the secured assets and the corresponding non-recourse funding was £1,372 million *(2013: £1,313 million)*. We continue to receive fees from these special purpose entities in respect of loan administration services.

These special purpose entities have been consolidated as we retain the residual interest in them. The transactions and reasons for consolidation are discussed further within 'IFRS Financial statements – Note 25 – Securitised mortgages and related assets'.

Undrawn borrowings

At 31 December 2014, we had £1.6 billion *(2013: £1.5 billion)* undrawn committed central borrowing facilities available to us, provided by a range of leading international banks, all of which have investment grade credit ratings. We have allocated £750 million to support the credit rating of Aviva's commercial paper programme. Undrawn borrowings are analysed below:

	2014 £m	2013 £m
Expiring within one year	**350**	400
Expiring beyond one year	**1,200**	1,100
Total	**1,550**	1,500

Our committed central borrowing facilities have two financial covenants:

- Borrowings (excluding non-recourse indebtedness) may not exceed total shareholders' funds. The definition of borrowings is specified in each credit facility. At 31 December 2014 borrowings were no more than 45% of total shareholders' funds for all facilities.
- Total shareholders' funds to exceed 32% of non-life net written premiums for the previous 12 months. At 31 December 2014, total shareholders funds were 190% of non-life net written premiums.

Total shareholders' funds are defined as the aggregate of nominal share capital of Aviva and the IFRS retained profits and reserves, plus the value of in-force long-term business, on a consolidated basis.

Sources of liquidity

In managing our cash flow position, we have a number of sources of liquidity, including:

- dividends from operating subsidiaries;
- external debt issuance;
- internal debt and central assets; and
- funds generated by the sale of businesses.

One of our principal sources of liquidity is dividends from our subsidiaries. The level of dividends is based on two primary factors: the financial performance and the local solvency and capital requirements of our individual business units.

The table below shows liquid resources provided to Group Centre during the year. Cash remittances include amounts received from UKGI in February 2015 in respect of 2014 activity:

Amounts received in respect of 2014 activity	**£m**
UK & Ireland life	**437**
France	**245**
Poland	**106**
Italy	**32**
Spain	**68**
Other Europe	**3**
Canada	**138**
Asia	**23**
Other[1]	**66**
	1,118
UK & Ireland general insurance & health[2]	**294**
Total	**1,412**

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

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.

Under UK company law, dividends can only be paid if a company has distributable reserves sufficient to cover the dividend. At 31 December 2014, Aviva plc itself had distributable reserves of £3,137 million, which would have covered four years of historic dividend payments to our shareholders. In UK Life, our largest operating subsidiary, distributable reserves, which could be paid to Aviva plc via its intermediate holding company, are created mainly by the statutory long-term business profit transfer to shareholders. While the UK insurance regulatory laws applicable to UK Life and our other UK subsidiaries impose no statutory restrictions on an insurer's ability to declare a dividend, the rules require maintenance of each insurance company's solvency margin, which might impact their ability to pay dividends to the parent company. Our other life and general insurance, and fund management subsidiaries' ability to pay dividends and make loans to the parent company is similarly restricted by local corporate or insurance laws and regulations. In all jurisdictions, when paying dividends, the relevant subsidiary must take into account its capital position and must set the level of dividend to maintain sufficient capital to meet minimum solvency requirements and any additional target capital expected by local regulators. These minimum solvency requirements, which are consolidated under the European Insurance Group Directive, are discussed later in this section under the heading 'Regulatory capital position'. We do not believe that the legal and regulatory restrictions constitute a material limitation on the ability of our businesses to meet their obligations or to pay dividends to the parent company, Aviva plc.

The Group has received and expects to receive proceeds on completion of the disposals as disclosed in 'IFRS Financial statements – note 4 – Subsidiaries'.

Aviva plc maintains two £2 billion commercial paper programmes, one of which is guaranteed by Aviva Insurance Limited, which allow debt to be issued in a range of currencies. At 31 December 2014, outstanding debt issued under the unguaranteed programme was £516 million *(2013: £556 million)*. No commercial paper has been issued under the guaranteed programme in 2013 or 2014. More details of movements in debt can be found in the 'Management of debt section'.

Aviva plc has also issued longer term debt under a Euro Medium Term Note (EMTN) programme. Debt issued under this programme may be senior debt or regulatory qualifying debt and may have a fixed or floating interest rate. At 31 December 2014, the outstanding debt (including equity accounted fixed rate tier 1 notes) issued under this programme was £2,860 million *(2013: £2,626 million)*.

Application of funds

We use funds to pay dividends to our shareholders, to service our debt and to pay our central Group cash flows.

In 2014, total cash paid by the Company as ordinary and preference dividends and coupon payments on direct capital instruments and Fixed Rate Tier 1 notes amounted to £554 million, compared with £538 million in 2013.

In 2014, our total interest costs on central borrowings were £310 million. This compared with £328 million of interest paid

on central borrowings in 2013. Total corporate centre expenses in 2014 were £132 million compared with £150 million in 2013.

An additional application of our funds is the acquisition of businesses. In 2014, cash paid for the acquisition of subsidiaries, joint ventures and associates from continuing operations net of cash acquired amounted to £79 million, compared with cash paid of £29 million in 2013.

Capital injections

We make capital injections into our businesses where necessary to ensure that they meet their local solvency requirements and also to support development of their operations. Capital is provided either by equity or, where a local holding company is in place, may be via loans with the holding company subsequently injecting equity capital in the regulated operating company. Each capital injection is subject to central review and approval by the Board of the relevant holding company and needs to meet our required internal rates of return. To the extent that capital injections are provided or funded by regulated entities, then we have to consider the impact on regulatory capital of the capital injection.

Otherwise our ability to make capital injections into our businesses is not materially limited by applicable legal and regulatory restrictions. Total capital injections into the business units were £567 million and £157 million in 2014 and 2013 respectively. Payments during the year include initial capitalisation of the Group's internal reinsurance vehicle and other restructuring activity.

Consolidated cash flows[1]

The 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.

For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the balance sheet.

Year ended 31 December 2014

Net cash from operating activities

Total net cash from operating activities (continuing operations) decreased by £2,643 million to a £544 million outflow in 2014 *(2013: £2,099 million inflow restated for IAS 32*). The net operating cash outflow reflects a number of factors, including the level of premium income, payments of claims, creditors and surrenders and purchases and sales of operating assets including financial investments. It also includes changes in the size and value of consolidated cash investment funds and changes in the Group's participation in these funds.

Net cash from investing activities

Net cash used in investing activities (continuing operations) decreased by £562 million to £228 million outflow *(2013: £334 million inflow restated for IAS 32)*. The decrease in cash is mainly due to lower inflows from disposals and higher purchases of property and equipment.

Net cash outflow on financing activities

Net cash used in financing activities (continuing operations) increased by £407 million to an outflow of £1,955 million *(2013: £1,548 million outflow).* The increase is mainly due to the redemption of a direct capital instrument.

Net cash and cash equivalents

At 31 December 2014, total consolidated net cash and cash equivalents, net of bank overdrafts, amounted to £22,564 million, a decrease of £3,425 million over £25,989 million in 2013 (restated for IAS 32).

1 Comparatives have been restated following the adoption of amendments to IAS 32 'Financial Instruments: Presentation' – see Note 1 for details

Year ended 31 December 2013

Net cash from operating activities

Total net cash from operating activities increased by £408 million to a £4,018 million inflow in 2013 (*2012 restated: £3,610 million inflow*). The increase was primarily due to an increase in operating cash flows in US Life prior to disposal, partly offset by changes in working capital.

Net cash from investing activities

Net cash used in investing activities increased by £1,239 million to £1,254 million outflow (*2012: £15 million outflow*). The movement is mainly a result of the disposal of the US Life business.

Net cash outflow on financing activities

Net cash used in financing activities increased by £410 million to an outflow of £1,529 million (*2012: £1,119 million outflow*). The increase in cash used is due to repayment of borrowings, a lower dividend payment and 2012 benefitting from the issue of fixed rate tier 1 notes.

Net cash and cash equivalents

At 31 December 2013, total consolidated net cash and cash equivalents, net of bank overdrafts, amounted to £25,989 million, an increase of £1,425 million over £24,564 million in 2012 (restated for IAS 32).

Currency

Our exposures to movements in exchange rates and the management of these exposures is detailed in 'Performance review – Financial and operating performance – Exchange rate fluctuations'.

Regulatory capital position

Individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the PRA. These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an aggregate group level, where we have a regulatory obligation to have a positive position at all times.

This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the UK and Ireland with-profit life funds. The minimum solvency requirement for our European businesses is based on the Solvency 1 Directive. In broad terms, for EU operations, this is set at 4% and 1% of non-linked and unit-linked life reserves respectively and for our general insurance portfolio of business is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For our businesses in Canada a risk charge on assets and liabilities approach is used.

European Insurance Groups Directive

	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 a change in the model used to value certain equity release assets and the consequential impact on the liabilities that they back, offset by the higher cost of replacing mortgages after a fall in the risk free interest rate.

Capital commitments

Contractual commitments for acquisitions or capital expenditures of investment property, property and equipment and intangible assets, which have not been recognised in our consolidated financial statements, are as follows:

	2014 £m	2013 £m	2012 £m
Investment property	**97**	3	6
Property and equipment	**8**	24	36
Total	**105**	27	42

Contractual obligations for future repairs and maintenance on investment properties are £nil *(2013: £nil, 2012: £nil)*. We have capital commitments to joint ventures of £70 million *(2013: £140 million, 2012: £41 million)*. These commitments are expected to be funded through operational cash flow without recourse to core structural borrowings.

Regulation

Compliance

In both our insurance and fund management businesses, matters may arise as a result of industry-wide issues, inspection visits or other regulatory activity, requiring discussion and resolution with industry regulators. The Group needs to ensure that procedures are in place to address any regulatory concerns, and that such procedures are properly planned, managed and resourced. Corrective action is undertaken, when necessary, with progress reported to relevant regulatory bodies in a timely manner.

Overview of regulation as it affects our business

Our principal insurance and fund management operations are in the UK, Europe, Canada and the Asia Pacific region. We are therefore subject to financial services regulation and local regulatory supervision in all these areas, as individually covered below.

As the Group's parent company is based in the UK, both EU legislation and UK regulatory rules can impact Aviva's business practices worldwide. Regulators supervising the Group co-ordinate on a cross-border basis through a 'college'.

The European Union

In addition to its UK businesses, Aviva is active in other EU member states through wholly owned subsidiary and joint venture companies. These companies are subject to the laws and regulations of the EU member state in which they are based, but are also affected by higher level EU legislation, which will continue to have a significant influence on the legislative environment in the UK and other EU markets.

The EU operates by promulgating directives that must be implemented into local national legislation within each EU member country. These directives can either be framed as minimum or maximum harmonisation for the standards for national legislatures to meet. National governments may not pass laws which fail to meet the standards set out in a directive, but are generally free to impose legal requirements which go beyond those required other than where a directive on a maximum harmonisation basis applies. Even greater detail may be imposed through the rules and regulations of national regulators and, for financial services businesses these rules can be extensive.

The EU may also impose requirements directly on countries through regulation. EU financial services regulation is based on the principle of 'home country control', which makes the home country regulator responsible for monitoring compliance with all applicable regulation.

Key directives of particular relevance to the financial services industry, and so to Aviva's businesses in the EU include:

European System for Financial Supervision

The European System for Financial Supervision comprises European Supervisory Authorities, including the European Insurance and Occupational Pensions Authority (EIOPA). Its aims include achieving consistent regulation and supervision within the European Union. In this respect it is able to issue supervisory guidelines on a comply or explain basis to National Competent Authorities and where European Directives provide Delegated Acts, it may propose Regulatory Technical Standards to the Commission.

Third Life and Non-Life Directives

These directives implemented the home country control principle for life and non-life insurance business in the mid-1990s and placed the responsibility for such issues as solvency, actuarial reserves, investment of assets, and certain governance issues on the home country regulator. Most companies licensed to conduct insurance business in one member state may rely on their home country regulation to 'passport' into all other member states to conduct business without having to be separately licensed in each. The general exception is selling activity which continues to be regulated by the state in which the sale takes place.

Insurance Groups Directive (IGD)

The IGD required member states to introduce the following measures to strengthen supervision of insurance companies which are part of a group:

- An adjustment margin to the solvency calculation in relation to participating interests in other insurance undertakings in order to eliminate 'double-gearing' (the use of the same regulatory capital in more than one entity of a group).
- An additional parent undertaking solvency margin calculation analogous to the adjusted margin test referred to above, to be applied at the level of the parent undertaking.
- The introduction of solo supervision requirements, including rules as to internal control within the insurance undertaking regarding the production of information relevant to supplementary supervision, the exchange of information within the Group and the supervision of intra-group transactions.
- Further provisions aimed at ensuring co-operation between competent regulatory authorities of member states.

Since 31 December 2006, the Group capital resources requirement (the parent undertaking solvency calculation mentioned above) has been a 'hard' test (i.e. it constitutes a requirement to maintain the Group capital resources, rather than simply to make the calculation) for UK-based companies operating under PRA rules.

Reinsurance Directive
Adopted on 16 November 2005, this directive requires that all reinsurance undertakings be authorised in their home member state. To obtain that authorisation, they need to meet strict requirements, but are then free to operate anywhere in the EU through the single market passport process.

Solvency II
From 1 January 2016 the Solvency II will replace the directives listed above (Third Life and non Life Directives, Insurance Groups Directive and Reinsurance Directive). Solvency II will be a new harmonised European prudential framework that reflects risk management practices to define required capital and manage risk.
The framework has three main pillars:
- Pillar 1 consists of the quantitative requirements (for example the amount of capital an insurer should hold);
- Pillar 2 sets out requirements for the governance and risk management of insurers, as well as their supervision; and
- Pillar 3 focuses on disclosure and transparency requirements.

Distance Marketing Directive
Under the Distance Marketing Directive, EU member states are required to implement a framework of rules and guidance in order to protect consumers by:
- setting minimum standards for information that must be provided to consumers before entering into a financial services contract by 'distance means'; and
- for certain products and services, giving a cooling-off period in which a consumer may cancel a contract without penalty.

Insurance Mediation Directive
This requires EU member states to establish a framework to:
- ensure that insurance and reinsurance intermediaries have been registered on the basis of a minimum set of professional and financial requirements;
- ensure that registered intermediaries will be able to operate in other member states by availing themselves of the freedom to provide services or by establishing a branch; and
- impose requirements on insurance intermediaries to provide specified minimum information to potential customers.

Markets in Financial Instruments Directive (MiFID)
MiFID, which superseded the earlier Investment Services Directive, builds on the home country control principle, extending the range of 'core' investment services and activities that may be passported from one member state to another, clarifying the allocation of responsibilities between home and host country jurisdictions, and introducing greater harmonisation governing the organisation and conduct of business of investment firms.

Systemic Risk
In July 2013 the Financial Stability Board (FSB) designated nine insurance groups as Global Systemically Important Insurers G-SIIs. As an international insurer, Aviva is one of the firms that has been designated as a G-SII. Alongside the FSB's designation the International Association of Insurance Supervisors (IAIS) published policy measures that will apply to G-SIIs. The policy measures include enhanced supervision, recovery and resolution planning, the preparation of systemic risk management and liquidity risk management plans. The policy measures also include higher loss absorbency requirements (HLA). In the absence of a global capital framework for insurers, the IAIS has developed a Basic Capital Requirement (BCR) to provide a comparable foundation for the application of HLA to G-SIIs. The IAIS plans to develop its approach to HLA during 2015 which will be applicable to G-SIIs from 2019.

Insurance Capital Standard (ICS)
The Financial Stability Board (FSB) has stated that a sound capital and supervisory framework for the insurance sector is essential for supporting financial stability. In this respect the IAIS will develop a work plan to develop a comprehensive, group wide supervisory and regulatory framework for Internationally Active Insurance Groups (IAIGs), including a quantitative capital standard. The ICS will be incorporated into the global framework for the supervision of internationally active insurance groups (ComFrame) that the IAIS is developing. The IAIS plans to develop the ICS by 2016 for implementation from 2019 along with the rest of ComFrame.

Future EU developments
There are a number of European dossiers that are expected to continue to progress during 2015, including Packaged Retail and Insurance-based Investment Products (PRIIPs) that will introduce common product disclosure standards, the review of the Insurance Mediation Directive (IMD) and MiFID.

United Kingdom

The regulatory structure

On 1 April 2013 the Financial Services Authority was replaced by the Prudential Regulation Authority (the "PRA") and the Financial Conduct Authority (the "FCA"). The reforms were implemented under the Financial Services Act 2012 (the "FS Act") which made extensive amendments to existing legislation including the Financial Services and Markets Act 2000 ("FSMA"). The FS Act also contains some standalone provisions.

The PRA is a subsidiary of the Bank of England and is responsible for the micro-prudential regulation of banks, building societies, credit unions, insurers and major investment firms.
The PRA has two statutory objectives:
- to promote the safety and soundness of regulated firms; and
- in the case of insurers, to contribute to securing an appropriate degree of protection for policyholders.

The FCA is a company limited by guarantee, accountable to the UK Treasury, and through the Treasury, to the UK Parliament. It is operationally independent of government and entirely funded by the firms it regulates. The FCA's strategic objective as set out in the FS Act is to ensure that markets "function well" and it is responsible for the conduct regulation of all financial services firms (including those prudentially regulated by the PRA, such as insurers). In addition, the FCA prudentially regulates those financial services firms not supervised by the PRA, including most asset managers. The FCA has three operational 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 in the markets for financial services.

Within their respective jurisdictions, the PRA and FCA have authority to make rules and issue guidance, taking into account relevant EU directives, impacting individuals and firms authorised to conduct regulated activities ("Authorised Persons" and "Authorised Firms").

Under the FSMA no person may carry on, or purport to carry on, a regulated activity by way of business in the UK unless he is an Authorised Person or an exempt person. A firm granted

permission to carry on regulated activities becomes an Authorised Person for the purposes of FSMA. 'Regulated activities' are prescribed in the FSMA (Regulated Activities) Order 2001 and include banking, insurance and investment business, stakeholder pension schemes, insurance mediation and certain mortgage mediation and lending activities.

Authorised Firms must at all times meet specified threshold conditions, including possession of adequate resources for the carrying on of their business, and being fit and proper to conduct that business, having regard to all the circumstances. Authorised Firms must also operate in accordance with the FCA's Principles for Business if solo regulated and the PRA's Fundamental Rules and FCA's Principles for Business if dual regulated. The FCA has 11 high level principles for conducting financial services business in the UK, including maintenance of adequate systems and controls, treating customers fairly, and communicating with customers in a manner that is clear, fair and not misleading. The PRA has 9 Fundamental Rules including organising and controlling its affairs responsibly and effectively and acting in a prudent manner.

The PRA and FCA regulatory regimes are based on the principle that firms should have effective systems and controls, including robust risk management, which are appropriate to the size, complexity and diversity of their business.

UK Regulation of the Aviva Group

A number of the Groups' 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).

Aviva plc, although not directly authorised, does come within the scope of some regulation as the ultimate insurance holding company in the Group. The PRA and FCA have powers under the FS Act in relation to unregulated parent undertakings ("qualifying parent undertakings") that control and exert influence over regulated firms. The powers include the ability to make directions imposing requirements on parent undertakings, take enforcement action where such directions are breached and gather information from parent undertakings.

As Aviva is a UK-based group, the PRA has the responsibility of acting as lead regulator (i.e. the cross-sector supervisory co-ordinator) for the Group within the EU.

Aviva was designated as a Global Systemically Important Insurer (G-SII) by the IAIS. The IAIS has developed a framework of policy measures for G-SIIs. The policy framework includes:

- The recovery and resolution planning requirements under the Financial Stability Board's Key Attributes of Effective Resolution Regimes;
- Enhanced group-wide supervision; and
- Higher loss absorbency requirements (HLA).

The enhanced group wide supervision of G-SIIs introduces more tailored regulation, greater supervisory resources and more thorough use of existing supervisory tools compared to the supervision of non-systemically important insurers. For G-SIIs, the group-wide supervisor has specific powers over holding companies to ensure that a direct approach to group-wide supervision can be applied. In addition, other involved supervisors may have direct or indirect powers over holding companies in their jurisdiction.

UK regulated entities within Aviva plc

DUAL REGULATED	SOLO REGULATED
Aviva Annuity UK Ltd	Aviva Equity Release UK Ltd
Aviva Health UK Ltd	Aviva Insurance Services UK Ltd
Aviva Insurance Ltd	Aviva Investors London Ltd
Aviva International Insurance Ltd	Aviva Investors Global Services Ltd
Aviva Investors Pensions Ltd	Aviva Investors UK Fund Services Ltd
Aviva Life & Pensions UK Ltd	Aviva Investors UK Funds Ltd
Gresham Insurance Company Ltd	Aviva Life International Ltd
The Ocean Marine Insurance Company Ltd	Aviva Life Services UK Ltd
	Aviva Pension Trustees UK Ltd
	Aviva Wrap UK Ltd
	ORN Capital LLP
	TenetConnect Ltd
	TenetConnect Services Ltd
	TenetLime Ltd

Approved persons and controllers

Both the PRA and FCA place great emphasis on the principle of senior management responsibility. The directors of, and senior managers carrying out controlled function roles (as defined in the PRA and FCA handbooks) in, any of the Group's regulated entities are individually registered with either the PRA or FCA under the 'Approved Person' regime, and can be held directly accountable to the relevant regulator for control failings in those entities. For solo regulated entities, individuals applying for approval in a controlled function make their application to the FCA and if successful, are registered with the FCA. For dual regulated entities, responsibility for applying the approved persons regime to controlled functions is split between the PRA and FCA, with the PRA having responsibility for all of the Governing Functions. However, the PRA cannot approve an application without the consent of the FCA. Each regulator can apply its Statements of Principles and Code of Practice for Approved Persons (APER) to the conduct expected of approved persons, and each can discipline an approved person who has breached an APER statement of principle, regardless of which regulator gave approval.

A number of senior managers at Group are registered as Approved Persons with either the PRA or FCA for the regulated subsidiaries, even though they are neither directors nor senior managers of these firms. This recognises that these managers exert significant influence over the regulated subsidiaries, because they are responsible for key parts of the Group's control framework on which the regulated subsidiaries place reliance.

The PRA and FCA regulate from a legal entity perspective, even though Aviva tends to operate by business unit. However, both regulators expect that Aviva's regulated subsidiaries will operate within an overall framework of Group governance and controls. PRA and FCA rules expressly provide that any systems and controls which operate on a Group basis will be taken into account in determining the adequacy of a regulated subsidiary's systems and controls. The robustness of these Group controls is therefore subject to scrutiny and challenge by both regulators.

PRA and FCA rules regulate the acquisition and increase of control over Authorised Firms. Under FSMA, any person proposing to acquire control of, or increase control over certain thresholds of, an Authorised Firm must first obtain the consent of the appropriate regulator. The Authorised Firm must also inform the appropriate regulator of any such proposed acquisition or increase. In considering whether to grant or withhold its approval of the acquisition or increase of control, the appropriate regulator must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by this acquisition or increase of control.

Control over a UK Authorised Firm is acquired if the acquirer:

- holds 10% (or 20% if the Authorised Firm is an insurance intermediary) or more of the shares, or voting power, in that firm, or a parent undertaking of the firm; or
- is able to exercise significant influence over the management of the firm by virtue of the acquirer's shares or voting power in that company or a parent undertaking of the firm.

Increases in control require the consent of the appropriate regulator when they reach thresholds of 20%, 30% and 50% of the shares or voting power of the firm (or its parent).

In order to determine whether a person or a group of persons is a 'controller' for the purposes of FSMA, the holdings (shares or voting rights) of the person and any other person 'acting in concert', if any, are aggregated.

Conduct of business rules

The FCA's Conduct of Business (COB) and Insurance: Conduct of Business (ICOB) Rules apply to every Authorised Firm carrying on relevant regulated activities, and regulate the day-to-day conduct of business standards to be observed by all Authorised Persons in carrying out regulated activities.

The COB and ICOB Rules are principle based, and the scope and range of obligations imposed on an Authorised Firm will vary according to the scope of its business and range of the Authorised Firm's clients. Generally speaking, however, the obligations imposed on an Authorised Firm by the COB and ICOB Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the Authorised Firm, meet certain standards of product disclosures (including fee and remuneration arrangements), ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products, control the range and scope of advice given, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets.

The PRA's COB rule book is limited to with-profits business and linked long-term insurance business as these classes of business are regulated by both the PRA and FCA. For with-profits business the FCA is concerned with ensuring fairness between policyholders and shareholders whilst the PRA has ultimate responsibility in respect of decisions which have material consequences for both affordability and fairness. For linked long-term business, the FCA is concerned with ensuring benefits are determined by reference to an approved index, whilst the PRA is concerned with linked assets being capable of being realised in time to meet obligations to policyholders and the matching of linked assets with linked liabilities.

Capital and solvency rules for insurers

The PRA rules require that a UK insurer (including those within the Group) must hold capital resources equal to at least the Minimum Capital Requirement (MCR). Insurers with with-profits liabilities of more than £500 million (which is the case with Aviva's with-profits fund) must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (ECR). The ECR is intended to provide a more risk responsive and 'realistic' measure of a with-profits insurer's capital requirements, whereas the MCR is broadly equivalent to the previous required minimum margin, and satisfies the minimum EU standards.

Determination of the ECR involves the comparison of two separate measurements of the Authorised Firm's financial resources requirements, which the PRA refers to as the 'twin peaks' approach. The two separate peaks are:

- the requirement comprised by the mathematical reserves plus the 'long term insurance capital requirement' (the LTICR), together known as the 'regulatory peak'; and
- a calculation of the 'realistic' present value of the insurer's expected future contractual liabilities together with projected 'fair' discretionary bonuses to policyholders, plus a risk capital margin, together known as the 'realistic peak'.

All UK insurers must also carry out an Individual Capital Assessment (ICA) to calculate the amount of capital needed to back their business. If the PRA decides that the final ICA amount is insufficient, it may draw up its own Individual Capital Guidance (ICG) for the firm, which can be imposed as a requirement on the scope of the Authorised Firm's permission.

Day-to-day supervision

Both the PRA and FCA take a risk-based approach to supervision, with the PRA focusing on those issues and authorised firms posing the greatest risk to the stability of the UK financial system and policyholders, and the FCA conducting in-depth structured supervision work with those firms with the potential to cause the greatest risk to its objectives.
Given our size and our share of the UK retail market, a major issue within our business which causes concern for the regulators may have a significant impact on these objectives.

Both regulators therefore maintain proactive engagement with us, with day-to-day supervision of Aviva conducted by dedicated teams within the PRA and FCA. In practice, this means that a wide range of Group and UK business unit senior managers have regular scheduled meetings with the UK regulators, and other meetings and discussions on specific issues take place as the need occurs. This adds up to frequent regulatory interaction at business unit and Group level, and the sharing of detailed information about the Group.

Areas of potential risk or weakness where the regulators particularly require Aviva to focus attention are formally set out in a Risk Mitigation Plans (RMPs) from FCA and key actions from PRA.

All open actions are being progressed in accordance with timescales agreed with the PRA and FCA.

Outside of the UK, each Aviva business is regulated by its own national regulator(s). However, overseas operations are also within the remit of the PRA to the extent that they have an interest in the systems and controls by which the Group manages its overseas businesses to mitigate the risk of financial shocks arising overseas flowing through to the UK.

The PRA monitors the strategy and performance of the Group's international businesses through its programme of regular meetings and reviews.

The UK regulators aim to play a leading role in the development of both EU and international regulation.

Intervention and enforcement

The PRA and FCA have extensive powers to investigate and intervene in the affairs of Authorised Firms. In relation to dual regulated firms, under the terms of a Memorandum of Understanding entered into in April 2013, the PRA and FCA will consult each other before taking enforcement action. The PRA has the right to veto certain FCA regulatory actions in relation to dual regulated firms, but the FCA is not required to comply if in its opinion it would be incompatible with any EU or other international obligation of the UK.

The regulators' enforcement powers, which may be exercised against both Authorised Firms and Approved Persons, include public censure, imposition of unlimited fines and, in serious cases, the variation or revocation of permission to carry on regulated activities or of an Approved Person's status. The FCA may also vary or revoke an Authorised Firm's permissions to protect the interests of consumers or potential consumers if the Authorised Firm has not engaged in regulated activity for 12 months, or if it is failing to meet the threshold conditions for authorisation. The FCA has further powers to obtain injunctions

against Authorised Persons and to impose or seek restitution orders where consumers have suffered loss.

In addition to applying sanctions for market abuse, the FCA has the power to prosecute criminal offences arising under FSMA and insider dealing under Part V of the Criminal Justice Act 1993, and breaches of money laundering regulations. The FCA's stated policy is to pursue criminal prosecution in all appropriate cases.

The Financial Services Compensation Scheme (FSCS)
The FSCS is intended to compensate individuals and small businesses for claims against an Authorised Firm where the Authorised Firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business).

The FSCS levy is to split into twelve broad classes:

- the deposits class;
- the life and pensions provision class;
- the general insurance provision class;
- the investment provision class;
- the life and pensions intermediation class;
- the home finance intermediation class;
- the investment intermediation class;
- the general insurance intermediation class;
- the deposit acceptor's contribution class;
- the insurers – life contribution class;
- the insurers – general contribution class; and
- the home finance providers and administrators' contribution class.

The permissions held by each firm determine into which class, or classes, it falls.

Restrictions on business

UK regulatory rules restrict an insurance company from carrying on any commercial business other than insurance business and activities directly arising from that business. Therefore, authorised insurance companies in the Group are bound by this restriction.

Long-term assets and liabilities
Where a UK insurer carries on life insurance business, its long-term business assets and liabilities – i.e. those assets and liabilities relating to life and health insurance policies – must be segregated from the assets and liabilities attributable to non-life insurance business or to shareholders. Separate accounting and other records must be maintained and a separate fund established to hold all receipts of long-term business.
The extent to which long-term fund assets may be used for purposes other than long-term business is restricted by the PRA rules. Only the 'established surplus', which is the excess of assets over liabilities in the long-term fund as determined by actuarial investigation, may be transferred so as to be available for other purposes. Restrictions also apply to the payment of dividends by the insurance company, as described below. PRA rules also require insurers to maintain sufficient assets in the separate long-term insurance fund to cover the actuarially determined value of the insurance liabilities.

Distribution of profits and with-profits business
For UK authorised life insurers carrying on with-profits business, such as Aviva Life and Pensions UK Ltd ('AVLAP'), the FCA's rules require that where a firm decides to make a distribution of surplus from the with-profits fund it must distribute at least the required percentage (as defined in the FCA Handbook) of the total amount distributed to policyholders, with the balance of the total amount to be distributed being payable to the shareholders.

In addition, at least once a year the AVLAP Board must consider whether a distribution is required to be made from the Old with-profits sub-fund ("Old WPSF") inherited estate. Such a distribution will ordinarily be required if the level of the inherited estate of the Old WPSF exceeds the Required Distribution Threshold as described in the Reattribution Scheme of Transfer effective from 1 October 2009 ('The Scheme') on any such annual investigation from the third such investigation after 1 October 2009. The Scheme permits distributions from the Old WPSF inherited estate earlier than required by The Scheme where the AVLAP Board determines that a distribution is necessary for the fair treatment of Old WPSF customers. The AVLAP Board has set aside £89 million as at 31 December 2014 to be applied to enhance the with-profits benefits of customers as they leave the Old WPSF. An Annual investigation may also be carried out to determine if a Release to shareholders can be made from the RIEESA. Releases can only be made:

- if the Reattributed Inherited Estate exceeds the Permitted Release Threshold as defined in the Scheme;
- the AVLAP Board (based on appropriate actuarial advice including that of the With-Profits Actuary) are of the opinion that the Release will not give rise to a significant risk that the New with-profits sub-fund (including the RIEESA) would be unable to meet its obligations to policyholders and its capital requirements or the Old WPSF would be unable to meet its obligations to policyholders; and
- following the sixth annual investigation after 1 October 2009 or later investigation and provided that investigation and investigations made in the previous 2 years determined that the Reattributed Inherited Estate exceeded the Permitted Release Threshold.

Reporting requirements
PRA rules require insurance companies to submit annually their audited annual accounts, statements of financial position and life insurers' annual reports from the actuary performing the actuarial function with the regulator. There is also a requirement to report the annual solvency position of the insurance company's ultimate parent.

The PRA uses the annual return to monitor the solvency (i.e. the ability to meet current and future obligations such as claims payments to policyholders) of the insurance company. For general insurance business, the return is also used to assess retrospectively the adequacy of the company's claims provisions. The directors of an insurance company are required to sign a certificate, which includes a statement as to whether they have complied in all material respects with the requirements of Senior Management Arrangements, Systems and Controls (SYSC), Principles for Businesses (PRIN), Interim Prudential Sourcebook for Insurers (IPRU (INS)), General Prudential Sourcebook (GENPRU) and Prudential Sourcebook for Insurers (INSPRU). The directors must also certify that the company has completed its return to the PRA properly in accordance with the PRA's instructions, and that the directors are satisfied that the company has complied in all material respects with the requirements set out in the PRA rules.

UK winding up rules
The general insolvency laws and regulations applicable to UK companies are modified in certain respects in relation to UK insurance companies where direct insurance claims will have priority over the claims of other unsecured creditors (with the exception of preferred creditors), including reinsurance creditors, on a winding up by the court or a creditors' voluntary winding up of the insurance company. Furthermore, instead of making a winding-up order when an insurance company has been proved unable to pay its debts, a UK court may reduce the amount of one or more of the insurance company's contracts on terms and subject to conditions (if any) which the court considers fit. Where an insurance company is in financial difficulties but not in liquidation, the FSCS may take measures

to secure the transfer of all or part of the business to another insurance company.

FSMA provides further protection to policyholders of insurance companies effecting or carrying out contracts of long-term insurance. Unless the court orders otherwise, a liquidator and/or administrator must carry on the insurer's business so far as it consists of carrying out the insurer's contracts of long-term insurance with a view to it being transferred as a going concern to a person who may lawfully carry out those contracts. In carrying on the business, the liquidator/administrator may agree to the variation of any contracts of insurance in existence when the winding-up order is made, but must not effect any new contracts of insurance.

United States

Aviva plc reached agreement, in December 2012, to sell Aviva USA Corporation (Aviva USA) and its subsidiaries and the sale was completed in October 2013. Aviva USA was domiciled in Iowa and was the holding company for Aviva Life and Annuity Company which was licensed to conduct business in all states except New York and Washington D.C. In New York it operated a wholly owned subsidiary, Aviva Life Insurance Company of New York. Further details of the sale of Aviva USA and the settlement in 2014 of the purchase price adjustments related to the sale can be found in the sections "Financial and operating performance - Activity in 2014" and " - Discontinued Operations, United States".

Canada

We write property and casualty business in Canada via a number of wholly owned companies.

Insurance business in Canada is regulated federally by the Office of the Superintendent of Financial Institutions (OSFI) for prudential supervision (i.e. capital adequacy, solvency, etc). OSFI derives its powers from the federal Insurance Companies Act (Canada) which governs the structure and operation of federally incorporated insurance companies.

The capital adequacy of insurance companies is monitored under the Minimum Capital Test ('MCT'), a risk-based framework allowing for capital to be assessed on the basis of an individual company's risk profile taking account of the investments held and insurance business being written. Companies have their own internal MCT target that is communicated to OSFI, which is set to ensure that they maintain capital in excess of 150% of the OSFI minimum requirement.

Market conduct regulation is conducted at the provincial level through ten independent provincial regulators. Those regulators derive their powers from insurance acts enacted by provincial legislatures. Market conduct regulation focuses on personal lines products and business practices, including rating formulas, underwriting and policy terms and conditions. Commercial lines insurance is not subject to similar regulations.

Asia

We operate in Asia through a network of subsidiary companies either wholly owned or established as a joint venture with a local partner. Our business is predominantly long-term and savings business, with small general insurance and health operations.

There are wholly owned businesses in Singapore and Hong Kong. During 2014 Aviva also operated businesses in China, India, Taiwan, South Korea, Indonesia and Vietnam which, depending on the nature and extent of the control exerted by Aviva, were accounted for as subsidiaries, joint ventures or associates. In 2014, our business in Indonesia was restructured into a 50-50 joint venture with Indonesia's largest listed company, PT Astra International Tbk to sell and distribute life insurance products in Indonesia. The business in South Korea was sold in 2014. The business in Malaysia was sold in April 2013. The Asia area is made up of a number of widely differing and independent markets. The markets tend to be at different stages in their development but each has its own regulatory structures and Aviva complies with the local regulation in each of the countries in which it operates.

Industry regulation typically focuses on financial stability and market conduct i.e. minimum capital and the basis for calculating solvency, reserves and policyholder liability. In many of the markets regulators have the power to revoke operating licences, regulate shareholder structures and the participation in and the payment of dividends. Asia markets are moving quickly to modernise insurance regulation with an increasing focus on governance and conduct of business.

Intellectual property

Our primary brands (the Aviva name and logo) are registered trademarks in the UK and are registered or pending in all other countries where Aviva has operations.

Aviva has an active programme of review of marks and watching for infringements. There are no material infringements in the UK known to us as at the date of this report, either by the Group or third parties.

Risks relating to our business

You should carefully review the following risk factors together with other information contained in this Annual Report before making an investment decision relating to our ordinary shares or ADSs. Our business, financial position, results of our operations and cash flow could be materially affected by any of these risks, the trading price of our ordinary shares or ADSs could decline due to any of these risks and investors may lose part or all of their investment.

Ongoing difficult conditions in the global financial markets and the economy generally may adversely affect our business and results of operations, and these conditions may continue. Our results of operations are materially affected by uncertainty in the worldwide financial markets and macro-economic conditions generally. A wide variety of factors, including concerns over slowing growth, high sovereign debt within, and to a lesser degree outside, the eurozone, the stability and solvency of financial institutions, longer-term low interest rates in developed markets, inflationary threats as well as geopolitical issues in, and emanating from, the Middle East, Russia, Ukraine and North Africa, have contributed to increased volatility in the financial markets in recent years and have diminished growth expectations for the global economy going forward. Global fixed income markets continue to experience periods of both volatility and limited market liquidity, which have affected a broad range of asset classes and sectors.

Factors relating to general economic conditions (such as consumer spending, business investment, government spending, exchange rates and commodity prices) uncertainty over the United Kingdom's continued membership of and influence in the European Union ("EU"), the volatility and strength of both debt and equity markets, and inflation, all affect the profitability of our business. In a sustained economic phase of low growth and high public debt, characterised by higher unemployment, lower household income, lower corporate earnings, lower business investment and lower consumer spending, the demand for financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims or surrenders of policies or claims of mis-selling. Any potential material adverse effect will also be dependent upon customer behaviour and confidence.

As a result of these market exposures, our financial position and results of operations may be subject to significant volatility, and there can be no assurance as to the effects of this volatility, particularly if it is prolonged, on our financial position or results of operations. Such effects may include, inter alia: (i) a general reduction in business activity and market volumes which affects fees, commissions and margins from customer-driven transactions and revenues, and from sales of insurance products; (ii) market downturns which are likely to reduce the volume and valuations of assets managed on behalf of clients, thereby reducing asset-based and performance-based fees; (iii) reduced market liquidity, limiting trading and arbitrage opportunities and presenting impediments for managing risks, impacting both trading income and performance-based fees; (iv) a reduced value in assets held for our own account as trading positions could continue to fall in value; (v) increased impairments and defaults on credit exposures and on trading and investment positions, which losses may be exacerbated by falling collateral values; (vi) increased collateral requirements under derivative and other financial instruments; (vii) increased costs of hedging against market risks such as equity or interest rate exposure; (viii) pressure to reduce equity and/or debt investments or maintain additional capital in respect of such holdings; (ix) an increase in technical provisions and capital requirements in response to market-related stress tests; and (x) a requirement to hold a larger proportion of liquid assets in order to off-set the impact of a reduction in market liquidity on a company's ability to meet payment obligations.

The interdependence of global financial institutions means that the failure of a sufficiently large and influential financial institution could materially disrupt global securities markets or clearance and settlement systems in the markets. This could cause severe market decline or volatility. Such a failure could also lead to a chain of defaults by counterparties that could materially adversely affect the Group. This risk, known as "systemic risk", could adversely impact our future product sales as a result of reduced confidence in the financial services industry. It could also adversely impact our results because of market declines and write-downs of assets.

As a global business, we are exposed to various local political, regulatory and economic conditions, business risks and challenges which may affect the demand for the our products and services, the value of the our investment portfolios and the credit quality of local counterparties. We offer our products and services in Europe (including the United Kingdom ("UK")), North America and the Asia Pacific region through wholly owned and majority-owned subsidiaries, joint ventures, companies in which we hold non-controlling equity stakes, agents and independent contractors. Our international operations expose us to different local political, regulatory, business and financial risks and challenges which may affect the demand for the our products and services, the value of our investment portfolio, the required levels of capital and surplus, and the credit quality of local counterparties. These risks include, for example, political, social or economic instability in countries in which we operate, discriminatory regulation, credit risks of our counterparties, lack of local business experience in certain markets, risks associated with exposure to insurance industry insolvencies through policyholder guarantee funds or similar mechanisms set up in markets in which we are present and, in certain cases, risks associated with the potential incompatibility with foreign partners, especially in countries in which we are conducting business through entities which we do not control. Some of our international insurance operations are, and are likely to continue to be, in emerging markets where these risks are heightened. Our overall success as a global business depends, in part, upon our ability to succeed in different economic, social and political conditions.

Credit risks relating to Aviva's business

Market developments and government actions regarding the sovereign debt crisis in Europe, particularly in Greece, Cyprus, Ireland, Italy, Portugal and Spain, could have a material adverse effect on our results of operations, financial condition and liquidity.
The continued uncertainty over the outcome of various EU and international financial support programmes, and the possibility that other EU member states may experience similar financial pressures, could further disrupt global markets. In particular, this crisis has disrupted, and could further disrupt, equity and fixed income markets, and has resulted in volatile bond yields on the sovereign debt of EU members.

The issues arising out of the current sovereign debt crisis may transcend Europe, cause investors to lose confidence in the safety and soundness of European financial institutions and the stability of European member economies, and likewise affect UK and U.S. based financial institutions, the stability of the global financial markets and any economic recovery. We hold investments in both UK and non-UK securities.

If an EU member state were to default on our obligations or to seek to leave the eurozone, or if the eurozone were broken

up entirely, the impact on the financial and currency markets would be significant and could impact materially all financial institutions, including the Group. Past political negotiations in the United States over raising the U.S. debt ceiling indicate that a risk of sovereign debt default and the potential adverse impact on global markets which could result from this is not limited to the eurozone. Such events could adversely affect our business and results of operations, financial condition and liquidity.

Credit spread volatility may adversely affect the net unrealised value of the our investment portfolio and the results of our operations.
Our exposure to credit spreads primarily relates to market price variability associated with changes in credit spreads in our investment portfolio, which is largely held to maturity. Credit spread moves may be caused by changes in the perception of the creditworthiness of a company, or from market factors such as the market's risk appetite and liquidity. A widening of credit spreads will generally reduce the value of fixed income securities we hold. Conversely, credit spread tightening will generally increase the value of fixed income securities we hold. It can be difficult to value certain of our securities if trading becomes less liquid. Accordingly, valuations of investments may include assumptions or estimates that may have significant period to period changes that could have a material adverse effect on our consolidated results of operations or financial condition. Downturns in the net unrealised value of our investment portfolio may also have a material adverse effect on our regulatory capital surplus based on the EU Insurance Groups Directive and under the Individual Capital Assessment required by the Prudential Regulation Authority ("PRA") in the UK. Although the our financial statements reflect the market value of assets, our priority remains the management of assets and liabilities over the longer term.

Losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, could adversely affect the value of our investments and reduce our profitability and shareholders' equity.
We choose to take and manage credit risk through investment assets partly to increase returns to policyholders whose policies the assets back, and partly to optimise the return for shareholders.

We have a significant exposure to third parties that owe us money, securities or other assets who may not perform under their payment obligations. These parties include private sector and government (or government-backed) issuers whose debt securities we hold in our investment portfolios (including mortgage-backed, asset-backed, government bonds and other types of securities), borrowers under residential and commercial mortgages and other loans, re-insurers to which we have ceded insurance risks, customers, trading counterparties, and counterparties under swap and other derivative contracts. We also execute transactions with other counterparties in the financial services industry, including brokers and dealers, commercial and investment banks, hedge funds and other investment funds, insurance groups and institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty.

In addition, with respect to secured transactions, our credit risk may be increased when the collateral held by us cannot be realised or is liquidated at prices insufficient to recover the full amount of the loan or other value due. We also have exposure to financial institutions in the form of unsecured debt instruments and derivative transactions. Such losses or impairments to the carrying value of these assets could materially and adversely affect the our financial condition and results of operations.

We use reinsurance and hedging programmes to hedge various risks, including certain guaranteed minimum benefit contained in many of our long-term insurance and fund management products. These programmes cannot eliminate all of the risks and no assurance can be given as to the extent to which such programmes will be effective in reducing such risks. We enter into a variety of derivative instruments, including options, forwards, interest rate and currency swaps, with a number of counterparties. Our obligations under our fund management and life products are not changed by our hedging activities and we are liable for our obligations even if our derivative counterparties do not pay us. Defaults by such counterparties could have a material adverse effect on our financial condition and results of operations.

We are also susceptible to an adverse financial outcome from a change in third-party credit standing. As well as having a potential impact on asset values and, as a result, our financial condition and results of operations, credit rating movements can also impact our solvency position where regulatory capital requirements are linked to the credit rating of the investments held. Such movements could impact on the Group's solvency, profitability and shareholders' equity.

Market risks relating to Aviva's business

Changes in interest rates may cause policyholders to surrender their contracts, reduce the value of our investment portfolio and may have an adverse impact on our asset and liability matching, which could adversely affect our results of operation and financial condition.
Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, inflationary factors, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond our control.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability of assets and liabilities associated with changes in interest rates.

Some of our products, principally traditional participating products, universal life insurance and annuities expose us to the risk that changes in interest rates will reduce our 'spread', or the difference between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on investments intended to support obligations under the contracts. Our spread is a key component of our net income. As interest rates decrease or remain at low levels, we may be forced to reinvest proceeds from investments that have matured or have been prepaid or sold at lower yields, reducing our investment return. Moreover, borrowers may prepay or redeem the fixed-income securities, commercial mortgages and mortgage-backed securities in our investment portfolio with greater frequency in order to borrow at lower market rates, which increases this risk. Lowering interest crediting or policyholder bonus rates can help offset decreases in investment margins on some products. However, our ability to lower these rates could be limited by competition or by contractually guaranteed minimum rates and may not match the timing or magnitude of changes in asset yields. As a result, our spread could decrease or potentially become negative. Our expectation for future spreads is an important component in the amortisation of policy acquisition costs and significantly lower spreads may cause us to accelerate amortisation, thereby reducing net income in the affected reporting period. In addition, during periods of declining interest rates, the guarantees within existing life insurance and annuity products may be more attractive to consumers, resulting in increased premium payments on products with flexible premium features, and a higher percentage of insurance policies remaining in force from year to year, during a period when our new investments carry lower returns. Accordingly, during periods of declining

interest rates, profitability may suffer as the result of a decrease in the spread between interest rates credited to policyholders and returns on our investment portfolio.

Increases in market interest rates could also negatively affect our profitability. This could arise as the accommodative monetary policies of central banks, in particular the US Federal Reserve and the Bank of England, are wound down or stopped. Surrenders of life insurance policies and fixed annuity contracts may increase as policyholders seek higher returns and higher guaranteed minimum returns. Obtaining cash to satisfy these surrenders may require us to liquidate fixed maturity investments at a time when market prices for those assets are depressed which may result in realised investment losses. Regardless of whether we realise an investment loss, these cash payments would result in a decrease in total invested assets, and may decrease our net income. Premature withdrawals may also cause us to accelerate amortisation of policy acquisition costs, which would also reduce our net income.

Our mitigation efforts with respect to interest rate risk are primarily focused on maintaining an investment portfolio with diversified maturities that has a weighted average duration approximately equal to the duration of our estimated liability cash flow profile. However, it may not be possible to hold assets that will provide cash flows to exactly match those relating to policyholder liabilities, in particular in jurisdictions with less developed bond markets and in certain markets where regulated surrender value or maturity values are set with reference to the interest rate environment prevailing at the time of policy issue. This is due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of suitable duration. This results in a residual asset/liability mismatch risk that can be managed but not eliminated. In addition, our estimate of the liability cash flow profile may be inaccurate for other reasons, such as varying mortality, morbidity or general insurance claims, and we may be forced to liquidate investments prior to maturity at a loss in order to cover the liability. Such a loss could have a material adverse effect on our results of operations and financial condition.

Changes in short or long term inflation may cause policyholders to surrender their contracts, increase the size of our claims payments and expenses and reduce the value of our investments, which could adversely affect our results of operations and financial condition.

We are subject to inflation risk through our holdings of fixed interest and other investments and as a result of the potential for the cost of claims and expenses to rise faster than anticipated in our pricing or reserving. Changes in inflation could also affect the value perceived to be offered by our policies and so adversely affect persistency levels.

Falls in equity or property prices could have an adverse impact on our investment portfolio and impact on our results of operations and shareholders' equity.

We are subject to equity and property price risk due to holdings of equities and investment properties in a variety of locations worldwide. Downturns in equity markets will depress equity prices and have a negative impact on our capital position in that unrealised losses in our net investment portfolio will increase, and our defined benefit pension scheme surplus/deficit will reduce/increase as the market value of scheme assets invested in equities decreases.

Downturns and volatility in equity markets can have a material adverse effect on the revenues and returns from our unit-linked, participating and fund management business. The unit-linked and fund management business depends on fees related primarily to the value of assets under management and would therefore be reduced by declines in equity and property markets. Profit could also be reduced as a result of current investors withdrawing funds or reducing their rates of on-going investment with our fund management companies, or switching to lower risk funds generating lower income, or as a result of our fund management companies failing to attract funds from new investors. Similarly, bonuses credited to participating policyholders will reduce following declines in equity and property markets and this will generally also lead to reductions in transfers to shareholders.

Downturns in equity markets may also have a material adverse effect on our regulatory capital surplus as measured under the EU Insurance Groups Directive and under the Individual Capital Assessment required by the PRA in the UK.

We provide certain guarantees within some of our products that protect policyholders against significant downturns in the equity markets. In volatile or declining equity market conditions, we may need to increase liabilities for future policy benefit and policyholder account balances, negatively affecting net income. For property investment, we are subject to counterparty, valuation and liquidity risks. These investments may be adversely affected by weakness in property markets and increased mortgage delinquencies. We are also subject to property risk indirectly in our investments in residential mortgage-backed securities and commercial mortgage-backed securities and covered bonds. There is the risk that the underlying collateral may fall in value causing the investment in securities to fall in value. The markets for these property investments and instruments can become illiquid, and issues relating to counterparty credit ratings and other factors may increase pricing and valuation uncertainties. We are indirectly exposed to property risk through our UK commercial finance lending.

Fluctuations in currency exchange rates may adversely affect our results of operations and financial condition.

We operate internationally and are exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. For the year ended 31 December 2014, more than half of our premium income from continuing operations arose in currencies other than sterling, and our net assets were denominated in a variety of currencies, of which the largest are the euro, sterling and Canadian dollar. In managing our foreign currency exposures, we do not hedge revenues as these are substantially retained locally to support the growth of the business and meet local regulatory and market requirements. Nevertheless, the effect of exchange rate fluctuations on local operating results could lead to significant fluctuations in our consolidated financial statements upon translation of the results into sterling. Although we take certain actions to address this risk, foreign currency exchange rate fluctuation could materially adversely affect our reported results due to unhedged positions or the failure of hedges to effectively offset the impact of the foreign currency exchange rate fluctuation. Any adverse foreign currency exchange fluctuation may also have a material adverse effect on our regulatory capital surplus based on the EU Insurance Groups Directive and under the Individual Capital Assessment required by the PRA in the UK.

Market fluctuations may cause the value of options and guarantees embedded in some of our life insurance products to exceed the value of the assets backing their reserves, which could adversely affect our results of operations or financial condition.

As a normal part of their operating activities, various Group companies have given guarantees and options, including interest rate and investment return guarantees, in respect of certain long-term insurance and fund management products. In providing these guarantees and options, our capital position is sensitive to fluctuations in financial variables, including foreign currency exchange rates, interest rates, property values and equity prices.

Interest rate guaranteed returns, such as those available on guaranteed annuity options ("GAOs"), are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

Periods of significant and sustained downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income. We use reinsurance in combination with derivative instruments to mitigate some of the liability exposure and the volatility of net income associated with these liabilities, and while we believe that these and other actions mitigate the risks related to these benefit, we remain liable for the guaranteed benefit in the event that reinsurers or derivative counterparties are unable or unwilling to pay.

We are also subject to the risk that the cost of hedging these guaranteed minimum benefit increases, resulting in a reduction to net income. In addition, we are subject to the risk that unanticipated policyholder behaviour or mortality, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed. These, individually or collectively, may have a material adverse effect on our results of operations, financial condition or liquidity.

Asset management risks relating to Aviva's business

Our fund management business may be affected by the poor investment performance of the funds we manage

Poor investment returns in our investment management business, due either to general market conditions or underperformance (relative to competitors or to benchmarks) by funds or accounts that we manage, may adversely affect our ability to retain existing assets and to attract new clients or additional assets from existing clients. The ability of our investment team to deliver strong investment performance depends in large part on our ability to identify appropriate investment opportunities in which to invest client assets. If the investment team for any of our strategies is unable to identify sufficient appropriate investment opportunities for existing and new client assets on a timely basis, the investment performance of the strategy could be adversely affected. The risk that sufficient appropriate investment opportunities may be unavailable is influenced by a number of factors, including general market conditions. This could adversely affect the management and incentive fees that we earn on assets under management.

Failure to comply with client contractual requirements and/or guidelines could result in damage awards against us and our fund management operations and loss of revenues due to client terminations.

When clients retain us to manage assets on their behalf, we must comply with contractual obligations and guidelines agreed with such clients in the provision of our services. A failure to comply with these guidelines or contractual requirements could result in damage to our reputation or in our clients seeking to recover losses, withdrawing their funds or terminating their contracts, any of which could cause our revenues and earnings to decline.

Failure to manage risks in operating securities lending of Group and third party client assets could adversely affect our results of operations and financial condition and for our fund management operations lead to a loss of clients and a decline in revenues and liquidity.

In operating securities lending of Group and third party client assets, our fund management operations must manage risks associated with (i) ensuring that the value of the collateral held against the securities on loan does not decline in value or become illiquid and that our nature and value complies with regulatory requirements and investment requirements; (ii) the potential that a borrower defaults or does not return a loaned security on a timely basis; and (iii) errors in the settlement of securities, daily mark-to-market valuations and collateral collection. The failure of our fund management controls to mitigate these risks could result in financial losses for us and third party clients that participate in our securities lending programmes.

Liquidity risks relating to Aviva's business

Adverse capital and credit market conditions may adversely affect our financial flexibility in addressing liquidity needs, as well as access to and the cost of capital which could adversely affect our results of operations or financial condition.

At Group level, we need some of our invested assets to be liquid to pay our operating expenses, taxes, interest on our debt, dividends on our capital stock and to repay maturing debt. At an operational level we also need liquidity to meet insurance claims. Without sufficient liquidity, we could be forced to curtail our operations and our business would suffer. The principal sources of our liquidity are insurance premiums, annuity considerations, deposit funds and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets also include a variety of short and long-term instruments, including repurchase agreements, commercial paper, medium and long-term debt, junior subordinated debt, securities, capital securities and stockholders' equity.

We hold certain investments that may lack liquidity such as privately placed fixed-maturity securities, and unlisted equities. The valuations of such assets are based on inputs which are not directly observable in the market. The inputs used reflect the assumptions that we consider market participants would normally use based on a combination of independent third party evidence and internally developed models, intended to be calibrated to market observable data where possible. These are known as Level 3 asset classes in our fair value hierarchy and represented 17% of total financial assets and investment properties held at fair value as of 31 December 2014. As has been the case across the industry, even some higher-quality assets have been more illiquid as a result of the recent challenging market conditions.

The reported value of our relatively illiquid types of investments, our investments in the asset classes described in the paragraph above and, at times, our higher-quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for the asset. If we were forced to sell certain of our assets in the current market, there can be no certainty that we would be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices.

We may refinance existing financing arrangements and may, in exceptional circumstances, need to seek additional financing to supplement liquidity available from internal resources. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry and the market's perception of our financial condition. Disruptions and uncertainty or volatility in the capital and credit markets, as has been experienced in the last few years, in particular throughout the eurozone, may exert downward pressure on availability of liquidity and credit capacity for certain issuers and, if access to liquidity is constrained for a prolonged period of time, may limit our access to capital required to operate and grow our business at a sustainable cost. Although we do not currently anticipate any severe disruptions to the capital and credit markets, there can be no assurance that any

disruption will not arise. Such market conditions may limit our ability to replace, in a timely manner, maturing debt, satisfy statutory capital requirements and generate fee income and marketrelated revenue to meet liquidity needs.

As such, we may be forced to reduce our dividends, delay raising capital, issue shorter-term securities than we prefer, or bear an unattractive cost of capital which could decrease profitability and reduce financial flexibility. Our results of operations, financial condition and cash flows could be materially adversely affected.

As a holding company, Aviva plc is dependent over the medium to long term on its operating subsidiaries to cover operating expenses and dividend payments.
As a holding company, Aviva plc has no substantial operations of its own. Our principal sources of funding are dividends from subsidiaries, shareholder-backed funds and any amounts that may be raised through the issuance of debt and commercial paper. Our insurance and fund management operations are generally conducted through direct and indirect subsidiaries. Certain subsidiaries have regulatory restrictions that may limit the payment of dividends and could prompt a decision to inject capital, which in some more adverse circumstances and over the longer term could limit our ability to pay dividends to shareholders. This could have a material adverse impact on our business.

A requirement to pay down intercompany indebtedness early could have negative consequences for our business and results of operations
An intercompany loan from Aviva Group's UK general insurance company, Aviva Insurance Limited, to the Aviva Group's holding company, Aviva Group Holdings Limited, was established in February 2013 (the balance of which was £3.2 billion as at 31 December 2014 and £2.8 billion at the end of February 2015). The Aviva Group has agreed with the board of Aviva Insurance Limited an appropriate target for the long-term level of this loan as part of Aviva Insurance Limited's capital structure. That level has been set such that Aviva Insurance Limited places no reliance on the loan to meet its stressed insurance liabilities, as assessed on a 1:200 basis. The Aviva Group's prudential regulator, the PRA, has agreed to this approach. This objective is not expected to change as a result of the proposed acquisition of Friends Life by Aviva (the "Proposed Acquisition") and plans to reduce the internal loan to approximately £2.2 billion by the end of 2015 currently satisfy this objective. However, a requirement to reduce the loan more rapidly or to a greater extent than planned, including accelerating the cash repayment of the loan, for example following a loss or deterioration in the capital position of Aviva Insurance Limited, could have negative consequences for our business and results of operations and, in particular, could impact on the ability of Aviva Insurance Limited to remit dividends to Aviva plc.

Insurance risks relating to Aviva's business

The cyclical nature of the insurance industry may cause fluctuations in our results.
Historically, the insurance industry has been cyclical and operating results of insurers have fluctuated because of volatile and sometimes unpredictable developments, many of which are beyond the direct control of any insurer. Although we have a geographically diverse group of businesses providing a wide range of products, we expect to experience the effects of this cyclical nature, including changes in sales and premium levels. The unpredictability and competitive nature of the general insurance business has contributed historically to significant quarter-to-quarter and year-to-year fluctuations in underwriting results and net earnings.

The use of inaccurate assumptions in pricing and reserving for insurance business may have an adverse effect on our business profitability.
Our life insurance companies are required to make a number of assumptions in relation to the business written, including the mortality and morbidity rates of our customers (the proportion of customers dying or falling sick or recovering from illness), the development of interest rates, persistency rates (the proportion of customers retaining existing policies and continuing to pay premiums up to their maturity dates), the exercise by customers of options included within their policies and future levels of expenses. By their nature, these assumptions may prove to be incorrect.

When establishing their liabilities, our life insurance companies allow for changes in the assumptions made, monitor their experience against the actuarial assumptions used and assess the information gathered to refine their long-term assumptions, together with taking actual claims experience into account. However, it is not possible to determine precisely the total amounts that will ultimately be paid under the policies written by the business as amounts may vary from estimates. Changes in assumptions may also lead to changes in the level of capital required to be maintained, meaning that we may need to increase the amount of our reserves. This could have a material adverse impact on our value, the results of our operations and financial condition.

Additionally, our management of the general insurance business requires the general insurance companies to make a number of assumptions in relation to the business written. These assumptions include the costs of writing the business and settling claims, and the frequency and severity of claims. The assumptions may turn out to be incorrect, thereby adversely impacting on our profit. Additionally, man-made disasters, including accidents and intentional events, are particularly difficult to predict with a high degree of accuracy. These would also have an adverse impact on our profit due to higher than expected claims.

Furthermore, outstanding claims provisions for the general insurance business are based on the best-estimate ultimate cost of all claims incurred but not settled at a given date, whether reported or not, together with related claims handling costs. Any provisions for re-opened claims are also included. A range of methods, including stochastic projections, may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement pattern of claims. If the assumptions underlying the reserving basis were to prove incorrect, we might have to increase the amount of the general insurance provisions, which would adversely impact our financial condition or results of operations.

We have a significant exposure to annuity business and a significant life insurance risk is associated with longevity.
Longevity statistics are monitored in detail, compared with emerging industry trends, and the results are used to inform both the reserving and pricing of annuities. It is likely that uncertainty will remain in the development of future longevity that cannot be mitigated.

A strengthening in the longevity assumption, either to reflect changes in the underlying life expectancy (for example, as a result of healthier lifestyles, improved screening programmes or increased availability or effectiveness of medical treatments) of the population or of our particular portfolio used to calculate our long-term business liabilities, would result in an increase in these reserves and reduce shareholders' equity.

If our business does not perform well or if actual experience versus management estimates used in valuing and amortising Deferred Acquisition Costs ("DAC") and Acquired value of in-force business ("AVIF") varies significantly, we may be required to accelerate the amortisation and/or impair the DAC and AVIF which could adversely affect the results of operations or financial condition.

We incur significant costs in connection with acquiring new and renewal business. Those costs that vary with and are driven by the production of new and renewal business are deferred and referred to as DAC. The recovery of DAC is dependent upon the future profitability of the related business. The amount of future profit or margin is dependent principally on investment returns in excess of the amounts credited to policyholders, mortality, morbidity, persistency and expenses to administer the business. Of these factors, investment margins and general insurance underwriting profit are most likely to impact the rate of amortisation of such costs. The aforementioned factors enter into management's estimates of gross profit or margins, which generally are used to amortise such costs. If the estimates of gross profit or margins were overstated, then the amortisation of such costs would be accelerated in the period the actual amount is known and would result in a charge to income. Significant or sustained equity market declines could result in an acceleration of amortisation of the DAC related to unit-linked business, resulting in a charge to income. Such adjustments could have a material adverse effect on the results of operations or financial condition.

AVIF reflects the estimated present value of future profit that will emerge over the remaining life of certain in-force contracts in a life insurance company, acquired either directly or through the purchase of a subsidiary, and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the insurance and investment contracts in-force at the acquisition date. AVIF is based on actuarially determined projections. Actual experience may vary from the projections. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in impairment and a charge to income. Where AVIF is amortised, an acceleration of the amortisation of AVIF would occur if the estimates of gross profit or margins were overstated in the period in which the actual experience is known and would result in a charge to net income. Such adjustments could have an adverse effect on our results of operations or financial condition.

Catastrophic events, which are often unpredictable by nature, could result in material losses and abruptly and significantly interrupt our business activities.

Our business is exposed to volatile natural and man-made disasters such as pandemics, hurricanes, windstorms, earthquakes, terrorism, riots, fires and explosions. Such events may not only affect insurance claims, but could also adversely impact investment markets and cause declines in the value of our investment portfolio. Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure.

Our life insurance operations are exposed to the risk of catastrophic mortality, such as a pandemic or other event that causes a large number of deaths. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of such a pandemic could have a material impact on the losses experienced by us.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, pandemics, hurricanes, earthquakes and man-made catastrophes may produce significant damage in larger areas, especially those that are heavily populated. Catastrophic events could also harm the financial condition of our reinsurers and thereby increase the probability of default on reinsurance recoveries and could also reduce our ability to write new business. Furthermore, pandemics, natural disasters, terrorism and fires could disrupt our operations and result in significant loss of property, key personnel and information about our clients and our business if our business continuity plans fail to cope with the scale or nature of the catastrophe. Such events could adversely affect our business, results of operations, corporate reputation and financial condition for a substantial period of time. Furthermore, market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business.

Operational risks relating to Aviva's business

All of our businesses are subject to operational risks, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events.

Our business is dependent on processing a large number of complex transactions across numerous and diverse products. Furthermore, the long-term nature of the majority of our business means that accurate records have to be maintained for significant periods.

Our systems and processes on which we are dependent to serve our customers are designed to identify appropriately and address the operational risks associated with our activities. However, they, together with the Friends Life Group's equivalent systems and processes if the Proposed Acquisition is completed, may nonetheless fail due to IT malfunctions, human error, intentional disruption or hacking of IT systems by third parties, business interruptions, non-performance by third parties or other external events. This could disrupt business operations resulting in material reputational damage and the loss of customers, and have a consequent material adverse effect on our results of operations and financial condition. Although we have taken steps to upgrade systems and processes to reduce these operational risks, we cannot anticipate the details or timing of all possible operational and systems failures which may adversely impact our business, nor, if the Proposed Acquisition is completed, can we anticipate the possible operational and systems failures that may arise in the context of the Friends Life Group's equivalent systems and processes, including those which are outsourced by the Friends Life Group.

Our businesses are exposed to risk from potential non-compliance with policies, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of "rogue traders" or other employees. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not always be effective.

Our risk management methods may leave us exposed to unidentified, unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities. In particular, our risk mitigation strategies may prove less effective than anticipated, including in relation to our reinsurance arrangements.
We have in place risk management policies, procedures and assessment methods to identify, assess and control risks to avoid or limit potential losses or liabilities. However, such policies, procedures and assessment methods may not be fully effective in identifying and mitigating the risk exposure of such businesses in all market environments or against all types of risk. Unanticipated or incorrectly quantified risk exposures and/or inadequate or incorrect responses to these risk exposures could result in a material adverse effect on our business, results of operations and/or financial condition.

We employ a range of risk mitigation strategies including the use of equity, interest rate and credit derivatives and reinsurance arrangements to reduce market, credit and insurance risk. A range of different modelling approaches are used to derive and evaluate the strategies adopted. The breakdown of the assumptions used in these modelling approaches, which may occur during market dislocations, could cause these risk mitigation strategies to be less effective than anticipated and thereby adversely affect our financial condition and results of operations.

We currently use the reinsurance markets primarily to limit our risk, to support growth and to manage our capital more efficiently. We are 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. We operate a policy to manage our 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 counterparty risk is within appetite. Our asset and liability management and risk functions have an active monitoring role with escalation to the Chief Financial Officer, the Group's asset liability committee and the Board's risk committee as appropriate. Our largest reinsurance counterparty is BlackRock Life Ltd (including subsidiaries). At 31 December 2014, the reinsurance asset recoverable, including debtor balances, from BlackRock Life Ltd was £2,048 million.

Reductions in risk appetite among reinsurers may result in changes in price or willingness to reinsure certain risks, which could have a material adverse effect on our results of operations or financial condition. If reinsurers do not offer to renew their products and services, in whole or in part, for any reason, there is a risk that we may be unable to procure replacement cover for any reinsurance agreements terminated at rates equivalent to those of the terminated cover, or at all, and we may be exposed to un-reinsured losses during any interim period between termination of the existing agreements and the start of any replacement cover.

While reinsurance makes the assuming reinsurer liable to the Group to the extent of the risk ceded, it does not discharge us from our primary obligation to pay under an insurance policy for losses incurred. We are therefore subject to credit risk with respect to our current and future reinsurers. The insolvency of any reinsurers or their inability or refusal to pay claims under the terms of any of their agreements with us could therefore have a material adverse effect on the Group. Collectability of reinsurance is largely a function of the solvency of reinsurers. Significant reinsurance purchases are reviewed annually by us to verify that the levels of protection being bought reflect any developments in exposure and our risk appetite.

There is a risk that customer data could be lost or misused.
As a financial services group, we maintain significant amounts of sensitive customer data. Despite the controls put in place, there remains a risk that this data could be lost and or misused as a result of an intentional or unintentional act by parties internal or external to us. This could result in fines, the need to compensate customers, the cost of remediation and a negative impact on our reputation with the consequential impact on sales volumes, persistency levels, and third party managed funds, and hence adversely impact our results of operations.

We operate in several markets through arrangements with third parties, and this may expose us to additional risks.
Our ability to exercise management control over our partnership operations, our joint ventures and our investment in them depends on the terms of the legal agreements. In particular, the relationships depend on the allocation of control among, and continued co-operation between, the participants.

We may also face financial or other exposure in the event that any of our partners fail to meet their obligations under the agreement or encounter financial difficulty. Partnership agreements may also be terminated on certain dates or subject to certain conditions and could be subject to renewal on less favourable terms. In addition, a significant proportion of our product distribution, such as bancassurance, is carried out through arrangements with third parties not controlled by us and is dependent upon the continuation of these relationships. For example, DBS Bank is a significant distribution partner of the Group in Hong Kong and Singapore and the current agreement with DBS Bank, which is subject to renewal in 2015, is not guaranteed to be renewed. A temporary or permanent disruption to these distribution arrangements could affect our financial condition. Some of these arrangements require our third-party partners to participate in and provide capital to our joint venture, associate and subsidiary undertakings. Our partners may change their strategic priorities or encounter financial difficulties preventing them from providing the necessary capital to promote future growth.

In addition, we outsource certain customer service, technology and legacy policy administration functions to third parties and may do so increasingly in the future. If we do not effectively develop, implement and maintain our outsourcing strategy, third-party providers do not perform as anticipated or we experience technological or other problems with a transition to or between such providers, we may not realise the full extent of productivity improvements or administration and cost efficiencies and, as a result, may experience operational difficulties, increased costs and a loss of business. In particular, failings by our outsource partners to perform outsourced functions, or to perform them to the required standards, may adversely affect our reputation and lead to the loss of customers and operating profit or to regulatory fines.

Our fund management operation depends on a number of key vendors, for various fund administration, accounting, valuations, custody and transfer agent roles and other operational needs. The failure or inability to diversify sources for key services or the failure of any key vendors to fulfil their obligations could lead to operational issues for us and in certain products, which could result in financial losses for us and our clients.

The failure to attract or retain the necessary personnel could have a material adverse effect on our results and/or financial condition.
As a global financial services organisation with a decentralised management structure, we rely to a considerable extent on the quality of local management in the countries in which we operate. The success of our operations is dependent, among other things, on our ability to attract and retain highly qualified

professional employees. Competition for such key employees is intense. Our ability to attract and retain key employees is dependent on a number of factors, including prevailing market conditions, working environment and compensation packages offered by companies competing for the same talent.

There are inherent funding risks associated with our participation in defined benefit staff pension schemes.
We operate both defined benefit and defined contribution staff pension schemes. In the UK, we operate two main pension schemes: the Aviva Staff Pension Scheme ("ASPS") and the RAC (2003) Pension Scheme. The defined benefit section of the ASPS was closed to new members in 2002 other than on an exceptional basis, and closed to future accruals for all existing members from 1 April 2011. The defined benefit section of the RAC (2003) Pension Scheme was also closed to new members and closed to future accrual in April 2011.

Closure of the defined benefit schemes removes some of the volatility associated with additional future accrual for active members.

There are still inherent funding risks associated with the defined benefit schemes. Events could result in a material reduction in the funding position of such schemes and may result in a materially increased deficit between the pension scheme's assets and liabilities. The factors that affect the scheme's position include: poor performance of pension fund investments; greater life expectancy than assumed; adverse changes in interest rates or inflation or discount rates; and other events occurring that increase the costs of past service benefits over the amounts predicted in the actuarial assumptions. In the short term, the funding position is inherently volatile due to movements in the market value of assets. Where a funding deficit or surplus arises, the position will be discussed with the scheme trustees to agree appropriate actions. This may include a plan to fund the deficit over a period of years. Any surplus or deficit in the defined benefit pension scheme will affect shareholders' equity, although the IFRS position may diverge from the scheme funding position.

The UK pension schemes are subject to statutory requirements with regards to funding and other matters relating to the administration of the schemes. Compliance with these requirements is subject to regular review. A determination that we have failed to comply with applicable regulations could have an adverse impact on our results of operations or our relationship with current and potential contributors and employees, and adverse publicity.

The determination of the amount of allowances and impairments taken on our investments is highly subjective. Our process for valuing investments may include methodologies, estimations and assumptions which require judgement and could result in changes to investment valuations. If our business does not perform well, we may be required to recognise an impairment of our goodwill or intangibles with indefinite and finite useful lives, which could adversely affect our results of operations or financial condition.
The determination of the amount of allowances and impairments varies by investment type and is based upon our periodic evaluation and assessment of known risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available and additional impairments may need to be taken or allowances provided for in the future. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. There can be no assurance that management has accurately assessed the level of impairments taken and allowances reflected in our financial statements.

We value our fair value securities using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the consolidated statement of financial position, represent the majority of our total cash and invested assets. We have categorised the measurement basis for assets carried at fair value into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS 13: Fair Value Measurement. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1); the middle priority to fair values other than quoted prices based on observable market information (Level 2); and the lowest priority to unobservable inputs that reflect the assumptions that we consider market participants would normally use (Level 3). The majority of our financial assets are valued based on quoted market information (Level 1) or observable market data (Level 2). At 31 December 2014, 17% of total financial investments, loans and investment properties at fair value were classified as Level 3, amounting to £40,459 million. Where estimates were used for inputs to Level 3 fair values, these were based on a combination of independent third-party evidence and internally developed models, intended to be calibrated to market observable data where possible.

An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to our valuation.

Goodwill represents the excess of the amounts paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill and intangible assets with indefinite useful lives at least annually for impairment or when circumstances or events indicate there may be uncertainty over this value. We test intangibles with finite lives when circumstances or events indicate there may be uncertainty over this value. For impairment testing, goodwill and intangibles have been allocated to cash-generating unit by geographical reporting unit and business segment.
The fair value of the reporting unit is impacted by the performance of the business. Goodwill, negative unallocated divisible surplus and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support our carrying value. Such write downs could have a material adverse effect on our results of operations or financial condition.

Systems errors or regulatory changes may affect the calculation of unit prices or deduction of charges for unit-linked products which may require us to compensate customers retrospectively.
A significant proportion of our product sales are unit-linked contracts, where product benefit are linked to the prices of underlying unit funds. While comprehensive controls are in place, there is a risk of error in the calculation of the prices of these funds due to human error in data entry, IT-related issues or other causes. Additionally, it is possible that policy charges which are deducted from these contracts are taken incorrectly, or the methodology is subsequently challenged by policyholders or regulators and changed retrospectively. Any of these can give rise to compensation payments to customers. Controls are in place to mitigate these risks, but errors could give rise to future liabilities. Payments due to errors or compensation may negatively impact our results of operations or financial condition.

Moves to simplify the operating structure and activities of the Group increases the reliance placed on core businesses and is subject to execution risk.
As part of our move to a more simplified structure, a number of business disposals and operational restructures have taken place, and may continue to occur in the future. This includes the

potential sale of a number of non-core businesses. These changes are expected to reduce the operational costs of the Group and allow resources to be re-deployed in more capital efficient businesses. There is a risk that these expected benefits may not be realised. These changes may reduce operating profit in the short-term and will lead to changes in the geographical and product risk profile of the Group. The execution risk including the risks relating to securing the regulatory approvals necessary to complete our planned business disposals, could result in the failure to achieve cost savings, the loss of key staff, and disruption to core business activities and governance structures which could have a material adverse effect on our business, results of operations and financial condition.

Execution risk is inherent in the completion of all strategic transactions. Such risks include uncertainty in relation to obtaining the required regulatory approvals on satisfactory terms for the change of control envisaged by such transactions. Such execution risk gives rise to a corresponding potential impact on capital requirements and liquidity.

We are reliant on IT systems and there are risks that our current and legacy systems cannot be made to adapt to growth in the business or new styles of doing business.
Key IT initiatives may not deliver what is required either on time or within budget or provide the performance levels required to support the current and future needs of the business. Significant resources are devoted to maintaining and developing IT systems to keep pace with developments within the insurance and fund management industries and to maintain service levels and availability at acceptable levels. Failure to do so could result in the inability to gather information for pricing, underwriting and reserving, to attract and retain customers or meet regulatory requirements or only to do so at excessive cost.

Risk relating to the execution of our strategy, and corporate disposals and acquisitions, including specifically the Proposed Acquisition

Our acquisitions, disposals and other corporate transactions may not realise expected benefits and may divert management attention and other resources and involve risks of undisclosed liabilities and integration or separation issues.
In past years, we have completed a number of acquisitions. On 2 December 2014 we announced our proposal, yet to be completed, to acquire Friends Life Group with newly issued ordinary shares of Aviva plc, and we may undertake further acquisitions in the future. Growth by acquisition involves risks that could adversely affect our operating results, including the substantial amount of management time and other resources that may be diverted from operations to pursue and complete acquisitions, or risks of undisclosed liabilities or integration or separation issues. The integration of any future acquisition may not be successful or in line with our expectations and any acquired businesses may fail to achieve, in the near or long term, the financial results projected or the strategic objectives of the relevant acquisition (such as cost savings or synergies) and, once acquired, may continue to divert further management attention and resources or necessitate changes in group strategy. The inability to realise expected benefits from such transactions may adversely affect our results of operations. In addition, we have in the past undertaken disposals of certain businesses.

We may also dispose of other businesses in the future. Any disposals are subject to execution risk and may fail to materialise, and the proceeds received from them may not reflect values that management believes are achievable and/or may cause substantial accounting losses (particularly if the disposals are done in difficult market conditions), each of which may result in our failure to realise the anticipated benefits and gains from any such disposal. In addition, disposals of businesses, which may be cash generative and profitable, may adversely affect our short term cash flows until the medium to long term strategic benefits of such disposals are realised, as well as gives rise to a corresponding potential impact on capital requirements and liquidity. Preparation of businesses for disposal, and the disposal process more generally, may divert management time and attention away from the operation of the business in the ordinary course and may be disruptive to the business. We retain a residual exposure in respect of disposed business as a result of any representations, warranties or indemnities provided.

The Proposed Acquisition may be delayed or fail to complete as it is subject to a number of conditions which may not be satisfied or waived. Alternatively a third party may be able to obtain a large enough shareholding in either Aviva or Friends Life Group to delay or prevent completion.
Completion of the Proposed Acquisition is conditional upon, among other things, obtaining the relevant regulatory clearances from the PRA, FCA and other regulators; obtaining clearances from appropriate competition authorities; the approval of the scheme of arrangement proposed to be made under Part VIII of the Guernsey Company Law (the "Scheme") by a majority in number of the qualifying Friends Life shareholders (or the relevant class or classes thereof, if applicable) present and voting, either in person or by proxy, at the Court Meeting representing not less than 75% in value of the eligible Friends Life shares voted by such qualifying Friends Life shareholders; all resolutions necessary to approve and implement the Scheme and to approve certain related matters being duly passed by the requisite majority or majorities at any General Meeting of Friends Life or at any adjournment of that meeting; the sanction of the Scheme with or without modification (but subject to any such modification being acceptable to us and Friends Life) by the Court; and the passing of the required resolutions at the General Meeting of Aviva.

Although the Directors of Aviva believe that the clearances should be forthcoming, it is possible that the parties may not obtain these clearances, or that they may not be obtainable within a timescale acceptable to the parties, or that they may only be obtained subject to certain conditions or undertakings which may not be acceptable to the parties. In the event that the FCA, PRA or any other required clearance is not obtained on terms reasonably satisfactory to us or if any other condition is not fulfilled or waived, the Proposed Acquisition may not be completed. Further, it is possible that the FCA, the PRA or other overseas regulators may attach conditions to their approval of the Proposed Acquisition, which might delay or prevent the realisation of certain synergies identified by the parties or otherwise impact the our strategy and operations. If this were to happen it is possible that our business, results of operations and/or financial condition may be materially adversely affected.

Both the Group and Friends Life are listed companies whose ordinary shares are freely traded on the London Stock Exchange. It is possible that an existing or new shareholder with a significant shareholding in either the Group or Friends Life could use, or could threaten to use, its shareholding to vote against the Proposed Acquisition when shareholder consent is sought. Such an action could materially delay or prevent the implementation of the Scheme and therefore deprive the parties of some or all of the anticipated benefits of the Proposed Acquisition.

The implementation of our strategy may not proceed as expected.
Our strategy, which may be revised from time to time, may involve carrying on business in new markets, developing capabilities to carry out new business activities, expanding or reducing the scope of certain types of business activities or products and reorganising the Group in a manner which is

appropriate for such business development changes, taking into account legal, regulatory, operational, capital and other requirements. The implementation of any strategy, changes in strategy, adoption of any new strategy and/or entry into new markets could entail significant changes in our business which may entail higher levels of risk or could adversely affect the results of operations, the financial condition and/or the credit and financial strength ratings of the Group.

We may be unable to execute, or may encounter difficulties or delays in successfully executing, our business and strategic goals which are subject to the risks set out herein and other factors that are currently unforeseen and which may be beyond their control. Failure to achieve any or all strategic goals, or the encounter of undue delay or unforeseen costs in implementing such goals, could adversely affect our results of operations and financial condition, as well as our reputation and standing in the marketplace.

If the Proposed Acquisition is completed, the Group's success will be dependent upon its ability to integrate the two businesses; there will be numerous challenges associated with the integration and the synergies expected from the Proposed Acquisition may not be fully achieved.

If the Proposed Acquisition is completed, the current operations of the Aviva Group and the Friends Life Group will be integrated to form the combined operations of an enlarged Aviva Group over a period of two to three years. To the extent that the enlarged Group is unable to efficiently integrate the operations, realise cost reductions, transfer existing Friends Life Group asset management contracts to Aviva Investors, retain qualified personnel or customers and avoid unforeseen costs or delay, there may be an adverse effect on the business, results of operations and/or the financial condition of the enlarged Group. While Aviva believes that the costs and synergies expected to arise from the Proposed Acquisition have been reasonably estimated, unanticipated events or liabilities may arise which result in a delay or reduction in the benefits derived from the transaction, or in costs significantly in excess of those estimated. The integration of the Aviva Group and the Friends Life Group will be supported by a strong management team with experience of large integration processes. However, no assurance can be given that the integration process will deliver all or substantially all of the expected benefits or realise such benefits in a timely manner.

If the Proposed Acquisition is completed, the enlarged Group will encounter numerous integration challenges as a consequence thereof. In particular, following completion, the enlarged Group's management and resources may be diverted from its core business activity of administering the enlarged businesses due to personnel being required to assist in the integration process. The integration process may lead to an increase in the level of administrative errors. A decline in the service standards of the enlarged Group may result in an increase in customer complaints and customer and/or regulatory actions, which may lead to reputational damage and the loss of customers and/or distributors by the enlarged Group and have an adverse impact on financial performance and condition. Furthermore, whether as a result of a decision or action taken by a regulator with jurisdiction over the enlarged Group's business or otherwise, it may not prove possible to achieve the expected level of synergy benefits on integration of the businesses of the Aviva Group and the Friends Life Group on time or at all and/or the cost of delivering such benefits may exceed the expected cost.

There will inevitably be a cost involved in revising the current systems and structures of the enlarged Group if the Proposed Acquisition is completed. There is a risk that these costs could exceed current estimates, which would adversely affect anticipated integration benefits.

During the integration period following admission to the Official List of Aviva's new ordinary shares being issued in connection with the Proposed Acquisition, the enlarged Group may not be in a position to acquire other insurance and/or asset management related targets that it might otherwise have sought to acquire. In view of the demands the integration process may have on management time, it may also cause a delay in other projects currently contemplated by the Aviva Group and the Friends Life Group.

Under any of these circumstances, the business growth opportunities, overhead functions consolidation benefits, purchasing and distribution benefits and other synergies anticipated by Aviva and Friends Life to result from the Proposed Acquisition, not yet completed, may not be achieved as expected, or at all, or may be delayed materially. To the extent that the enlarged Group incurs higher integration costs or achieves lower synergy benefits than expected, its results of operations, financial condition and/or prospects, and the price of new ordinary shares being issued in connection with the Proposed Acquisition, may be adversely affected.

Brand and reputation risks relating to Aviva's business

We are rated by several rating agencies, and a decline in any of these ratings could affect our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services and cause our sales and earnings to decrease.

A rating downgrade, or the perceived potential for such a downgrade, of Aviva plc or any of our rated insurance subsidiaries may, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies. The outcome of such activities may be cash payments requiring the sale of invested assets, including illiquid assets, at a price that may result in realised investment losses. These cash payments to policyholders would result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause us to accelerate amortisation of policy acquisition costs, which would reduce net income. A rating downgrade may also impact sales volumes, particularly in Canada, where there is more focus by brokers on ratings when evaluating similar products. The ratings provided by AM Best and Standard & Poor's ("S&P") are considered to be the most important for distribution in Canada, and a downgrade could lead to a significant loss of sales. A significant rating downgrade may also increase our cost of borrowing or limit our access to some forms of financing.

With regard to the impact of the Proposed Acquisition of Friends Life Group on our ratings, both S&P and Moody's affirmed Aviva's ratings and outlooks at their current levels (on 21 November 2014 and 2 December 2014 respectively) indicating that the Proposed Acquisition of Friends Life Group would not immediately impact Aviva's ratings, while AM Best placed Aviva's rating "Under Review with Developing Implications" indicating that the rating could be either positively or negatively impacted. Therefore, we are not aware of any specific possibility of a downgrade from any agency at present. Given the nature of the Proposed Acquisition, a downgrade would not be expected to impact the availability of finance directly. Furthermore, neither Aviva's issued debt instruments nor its revolving credit facilities contain restrictive covenants or other provisions that might be breached or triggered by rating downgrades. Accordingly, rating agency downgrades would not be expected to have a materially adverse impact on our existing financing arrangements.

We are dependent on the strength of our brand, the brands of our partners and our reputation with customers and agents in the sale of our products and services.
Our results are, to a certain extent, dependent on the strength of our brand and reputation. While we are well recognised, we are vulnerable to adverse market and customer perception. We operate in an industry where integrity, customer trust and confidence are paramount. We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information, inadequate services, amongst others, whether true or not, could impact our brand or reputation. Our brand and 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 in line with the customers' expectations for the product range. Such a change to our brand strength could adversely affect our results of operations and financial condition.

We may not be able to protect our intellectual property and may be subject to infringement claims by a third party.
Our primary brand in the UK ("Aviva") is a registered trade mark in the UK and elsewhere. We own other registered or pending trade marks in the UK, including Community trade marks having effect in the entire EU. We rely on a combination of contractual rights, copyright and trademark laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

Third parties may have, or may eventually be issued, patents or other protections that could be infringed by our products, methods, processes or services or could limit our ability to offer certain product features. In recent years, there has been increasing intellectual property litigation in the financial services industry challenging, among other things, product designs and business processes. If a third party were to successfully assert an intellectual property infringement claim against us, or if we were otherwise precluded from offering certain features or designs, or utilising certain processes, it could have a material effect on our business, results of operation and financial condition.

Our businesses are conducted in highly competitive environments.
There are many factors which affect our ability to sell our products, including fiscal incentives, price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, service levels to customers, fund management performance and historical bonus levels. In some of our markets, we face competitors that are comparable in size, scope and brand recognition. In some markets, competitors have greater financial resources or greater market share, offer a broader range of products, benefit from more advantageous tax treatments, or have higher bonus rates or claims paying ratios. Further, heightened competition for talented and skilled employees with local experience, particularly in the emerging, high-growth markets, may limit our ability to grow businesses as quickly as planned. In certain non-UK markets, we face intense competition from local and international financial institutions, which may be more established in these markets and may have other competitive advantages, such as greater size and breadth, which may limit our ability to be successful in these markets. In addition, local laws and regulations may be tailored to domestic providers, which may pose additional challenges to our business.

Our principal competitors in the life market include many of the major financial services businesses including, in particular, Axa, Allianz, CNP, Generali, Prudential, Legal & General, Standard Life, Unum and Zurich. Our principal competitors in the general insurance market include Direct Line Insurance, Intact, RSA, Zurich, Axa and Allianz. Our principal competitors in the fund management market include BlackRock, State Street Global, Fidelity Investments, Schroders and Aberdeen, as well as the fund management divisions of our principal competitors in the life market.

We also face competitors who specialise in many of the niche markets in which we operate. We believe that competition will intensify across all regions in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors.
Our ability to generate an appropriate return depends significantly upon our capacity to anticipate and respond appropriately to these competitive pressures.

Regulatory and legislative risks relating to our businesses

We may experience a decreased demand for individual annuities in the United Kingdom after proposed changes in UK law come into force.
Our sales of annuities in the UK are composed of individual annuities and bulk purchase annuities. We may experience a decreased demand for individual annuities in the UK due to proposed changes in UK law. Individual annuities have historically played a central role in most UK pensioners' post-retirement financial arrangements due to the requirement for the benefits of defined contribution pensions to be converted to an individual annuity by the time the policyholder reached age 75 and such pension contracts offering a tax efficient method of saving for retirement.

On 19 March 2014, the UK Chancellor of the Exchequer announced in the 2014 Budget the intention to introduce new legislation that will give retirees more flexibility for accessing defined contribution pensions at retirement. Under the new system, *inter alia*, consumers approaching retirement would have the freedom to take their whole pension pot as cash (the first 25% remaining tax-free, with the balance taxed at the individual's marginal rate), which will remove the compulsion for customers to buy an annuity. Although it is proposed that the main changes will not take effect until April 2015, sales of individual annuities in the United Kingdom have already been impacted. The initial impact of the announcement of the proposed legislative change was a reduction in UK individual annuity sales due to the relaxation of the income drawdown rules that has already occurred and as some customers deferred making retirement choices pending the new legislation coming into effect. Following the Chancellor's announcement, the Group generated value of new business ("VNB") from individual annuities of £125 million for the year ending 31 December 2014 (representing 12% of the Aviva Group's total VNB for the year ending 31 December 2014), decreasing from £223 million for the year to 31 December 2013 (representing 25% of Group's total VNB for the year to 31 December 2013). In response, we have refocused our retirement solutions business to use our existing broad product universe (for example, individual annuities, investment platform and equity release products) to help customers through their retirement journey and we also seek to deliver profitable growth from our "Bulk Purchase Annuities" products. However, at this stage it remains too early to assess the full impact of these changes on our adjusted operating profit and the extent to which these impacts can be mitigated by substitution of annuity sales with alternative products offered or being developed by us.

Our regulated business is subject to extensive regulatory supervision both in the UK and internationally.
We are subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental agencies, including the PRA, the FCA and other regulators. In light of wider financial and economic conditions, some of these authorities are considering, or may in the future consider, enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory or enforcement authority in new or more robust ways. All of these possibilities, if they occurred, could affect the way we conduct our business and manage our capital, and may require us to satisfy increased capital requirements.

Insurance regulation in the UK is largely based on the requirements of EU directives. Inconsistent application of directives by regulators in different EU member states may place us at a competitive disadvantage to other European financial services groups. In addition, changes in the local regulatory regimes of designated territories could affect the calculation of our solvency position.

Our insurance subsidiaries and branches worldwide are subject to detailed and comprehensive government regulation in each of the jurisdictions in which they conduct business. Regulatory agencies have broad administrative power over many aspects of the insurance business, which may include premium rates, marketing and selling practices, advertising, licensing agents, policy forms, capital adequacy and permitted investments. Government regulators are concerned primarily with the protection of policyholders rather than our shareholders or creditors.

The failure of any of our subsidiaries to meet minimum capital and surplus requirements could subject us to further examination or corrective action imposed by insurance regulators, including limitations on our ability to write additional business, increased supervision by regulators or the implementation of resolution plans. Any corrective action imposed could have a material adverse effect on our business, results of operations and financial condition. A decline in minimum capital and surplus amounts may also limit the ability of an insurance subsidiary to make dividend payments or distributions and could be a factor in causing rating agencies to downgrade our financial strength ratings, which could have a material adverse effect on our business, results of operations and financial condition.

In the UK, our business is subject to regulation by both the PRA and the FCA, which 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, to make product intervention rules and to require the maintenance of adequate financial resources. The PRA and the FCA have the power to undertake a range of investigative, disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and to require firms to pay compensation.

The PRA and the FCA may make enquiries of the companies which they regulate regarding compliance with regulations governing the operation of business and, similar to the other UK regulated financial services companies, we face the risk that the PRA or the FCA could find that we have failed to comply with applicable regulations or have not undertaken corrective action as required.

Issues and disputes may arise from time to time from the way in which the insurance industry or fund management industry has sold or administered an insurance policy or other product or in the way in which they have treated policyholders or customers, either individually or collectively, which may result in investigative, disciplinary or enforcement actions by the FCA or PRA or require the making of redress to customers.

There has been an increased focus in the UK on the fair treatment of customers, in particular on the way in which the insurance industry or fund management industry sells and administers insurance policies or other products. This has included the implementation of the recommendations of the Retail Distribution Review ("RDR") from 31 December 2012. The RDR banned product providers from paying commission to advisers on new sales and also required certain changes to the way advisers describe their services to customers. The new distribution landscape has altered the way in which retail investment products are sold to customers and presents challenges to our UK distribution and advisory activities in adapting to the new rules. The European Commission is currently in the process of reviewing the Insurance Mediation Directive 2002/92/EC (the "IMD") and has also been working on an initiative in relation to Packaged Retail and Insurance-based Investment Products ("PRIIPs") with the aim of harmonising pre-contractual disclosures and selling practices for such products. There is a risk that the rules implementing the RDR, any new rules required in due course to implement the revised IMD and any new rules relating to PRIIPs will lead to a decline in the number and/or size of distribution firms. Among other things, this is because financial advisers may decide to consolidate or to leave the sector in response to anticipated increased compliance costs that may be realised and the higher professional standards required by the RDR. In the lead up to the introduction to the RDR, the number of retail investment advisers in the UK reduced. If a reduction in the capacity of the intermediary distribution sector does occur, this may result in fewer opportunities for our products to be distributed by intermediary firms, which could have a material adverse effect on our results, operations, and/or costs or otherwise negatively impact on our distribution arrangements.

Where larger groups or matters of public policy are concerned, the PRA and the FCA may intervene directly to provide redress to customers. There have been several industry-wide issues in recent years in which the PRA or the FCA (or previously the FSA) has intervened directly, including the sale of personal pensions, the sale of mortgage-related endowments and investments in split capital investment trusts and sale of payment protection insurance.

Outside of the UK, our businesses are regulated by local regulators that often have similar powers to the PRA and the FCA and the exercise of these powers could therefore have a similar negative impact on perceptions of our businesses or have a material adverse effect on our business.

Furthermore, various jurisdictions in which we operate, including the UK, have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of another market participant. As a major participant in the majority of our chosen markets, circumstances could arise where we, along with other companies, may be required to make such contributions. We (like all other groups in which an entity is PRA and/or FCA regulated) contribute to the Financial Services Compensation Scheme and the levels of contribution to the Financial Services Compensation Scheme may change over time.

A determination that we have failed to comply with applicable regulation could have a negative impact on our results of operations or on our 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 our business, our results of operations and financial condition and divert management's attention from the day-to-day management of the business.

We will not always be able to predict the impact of future legislation or regulation or changes in the interpretation or operation of existing legislation or regulation on our business, results of operations and financial condition. Changes in government policy, legislation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which we operate, which may be applied retrospectively, may adversely affect the range of products offered, the terms and conditions applicable to these products (including retrospectively), distribution channels, capital requirements, dividends payable by subsidiaries and, consequently, results and financing requirements.

Similarly, the FCA has conducted a number of thematic reviews of the annuity market. Initially, a review was conducted by the FCA of annuity pricing data, which concluded in February 2014 that the market was not working well for most consumers. This pricing review looked at whether and to what extent prospective customers are not purchasing the best value annuities, or exercising the open market option ("OMO") to buy their annuity from a firm other than the one providing the pension policy. The FCA conducted its own pricing research to determine which groups of consumers are most likely to be affected. This involved a pricing survey of major annuity providers, and compared the rates available through a range of distribution channels, including rates available through the OMO and those only available to existing pension policyholders. This pricing review was followed up by the related Thematic Review of Annuity Sales Practices, which was published by the FCA on 11 December 2014. The Thematic Review of Annuity Sales Practices looked at four desired outcomes: (i) Customers are actively encouraged to shop around; (ii) Consumers are provided with relevant and timely information about the potential benefits of any guaranteed annuity rate or risks of a market value reduction that exists in their existing pension contract; (iii) Consumers are provided with appropriate and timely information about (a) the benefits of enhanced annuities and their potential eligibility (b) an enhanced annuity being available on the open market and (c) the potential for variation between different providers' underwriting and its impact on the income offered; and (iv) Consumers are provided with appropriate information about the different annuity options available to them (for example, joint as opposed to single life, level as opposed to escalating, guaranteed periods etc.) and the implications of selecting different annuity types. The FCA has highlighted that its work on this review has revealed that firms need to make improvements in relation to the way consumers are informed about shopping around for enhanced annuities. The FCA has asked the majority of firms in the review, including the Group, to do further work to determine if its findings in relation to enhanced annuities are indicative of a more widespread problem and/or have led to poor consumer outcomes. The consequences of the review are uncertain but could include requirements to pay redress to customers who could have obtained a more favourable annuity rate by exercising their OMO or purchasing an enhanced annuity and/or the imposition of greater obligations on annuity providers to treat customers fairly and provide increased levels of information on alternative options available to customers at retirement. Regulatory action of this type could have consequences for the Group and have a material adverse effect on our business, results of operations and/or financial condition.

We may face increased compliance costs due to the need to set up additional compliance controls or the direct cost of such compliance because of changes to financial services legislation or regulation.

The Solvency II Directive, an insurance industry regulation agreed by the European Parliament in 2009, will require European domiciled insurers to move to more risk-based capital requirements. The implementation date for the Solvency II Directive is 1 January 2016. Solvency II represents a significant change in the prudential regulation of insurers and insurance groups and, as a result, generates a number of material risks including, in particular, the following: There continue to be material uncertainties around the impact of the more detailed technical requirements of Solvency II and around the approval of internal models and there is a risk that this could lead to a significant increase in the capital required to support our business. There is also a risk that certain of the financial instruments issued by the Group will no longer be viewed as capital by regulators resulting in either a lower regulatory capital position or the need to refinance those financial instruments. In addition, there is the risk that part or all of the Group is found not to be compliant with the new regulations or that the implementation programmes absorb excessive amounts of management time and attention with the consequent risks for the rest of the businesses' operations.

In July 2013 the Group was designated by the Financial Stability Board ("FSB") as a global systemically important insurer ("G-SII"). The initial list of nine insurance groups that have been designated as G-SIIs also includes a number of our competitors. The list will be updated annually and was reconfirmed in November 2014. If the proposed acquisition of Friends Life Group is completed, the enlarged Group will have an increased likelihood of remaining on the list, due to its increased business scale. For so long as it is designated as a G-SII, the Group is within the scope of policy requirements issued by the International Association of Insurance Supervision ("IAIS"), including: enhanced supervision requiring the maintenance of a "Systemic Risk Management Plan"; a liquidity risk management plan; a recovery plan; a resolution plan; and higher loss absorbency capital requirements, which will apply from January 2019 for those insurers still designated as G-SIIs in November 2017. Details of the higher loss absorbency capital requirements are still being developed by the IAIS leading to uncertainty over their impact. There is a risk that, if we continue to be designated as a G-SII, this could lead to a significant increase in capital required to support our business which may give rise to a need for us to delay deleveraging plans or to issue additional debt. Similarly we could be required to reduce or discontinue activities which contribute to systemic riskiness, restructure to facilitate resolvability and/or remove or reduce (or accelerate the planned reduction of) intercompany debts or guarantees within the Group. Such requirements could have negative consequences for our business and results of operations and, in particular, could impact on the ability of subsidiaries to remit dividends to Aviva. and consequently on the Aviva's ability to remit dividends to shareholders.

The IAIS is also developing a common framework for the supervision of internationally active insurance groups ("ComFrame"). The framework is designed to develop common principles for supervision and so may result in more extensive regulation, particularly at group level, in those jurisdictions which do not currently employ group-wide supervision. In addition, it is not clear how ComFrame will interact with existing regimes of group-wide supervision. On 9 October 2013, the IAIS announced a commitment to develop a risk-based global insurance standard ("ICS") by 2016. The intention is that the ICS will ultimately form part of ComFrame. A revised draft ComFrame proposal was published in September 2014 and ComFrame, including the final ICS, is expected to be adopted in 2018.

We are involved in various legal proceedings, regulatory investigations and examinations and may be involved in more in the future.

We have been named as defendants in lawsuits, including class actions and individual lawsuits. We have been subject to regulatory investigations or examinations in the various

jurisdictions in which we operate. These actions arise in various contexts, including in connection with our activities as an insurer, securities issuer, employer, investment adviser, investment manager, investor and taxpayer.

Lawsuits and investigations may also arise which could seek significant or unspecified amounts of damages, including punitive damages, and certain of the regulatory authorities involved in these proceedings have substantial powers over the conduct and operations of our business.

Due to the nature of certain of these lawsuits and investigations, we cannot make an estimate of loss or predict with any certainty the potential impact of these lawsuits or investigations.

In the course of conducting insurance business, we receive general insurance liability claims, and become involved in actual or threatened related litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents that they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty.

Additionally, it is possible that a regulator in one of our major markets may conduct a review of products previously sold, either as part of an industry-wide review or specific to it. The result of this review may be to compensate customers for losses they have incurred as a result of the products they were sold.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. Examples of emerging claims and coverage issues include adverse changes in loss trends, judicial expansion of policy coverage and the impact of new theories of liability; growth of claims culture; legislative or judicial action that affects policy coverage or interpretation, claim quantification, or pricing; a growing trend of plaintiffs targeting property and casualty insurers in purported class action litigation relating to claims-handling and other practices; new causes of liability or mass claims; claims in respect of directors' and officers' coverage, professional indemnity and other liability covers; and climate change-related litigation.

All of the above could adversely impact our results of operations or financial condition.

From time to time, changes in the interpretation of existing tax laws, amendments to existing tax rates or the introduction of new tax legislation may adversely impact our business.

We operate in numerous tax jurisdictions around the world and face risks associated with changes in tax law, interpretation of tax law, changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge or a financial penalty.

If, as a result of a particular tax risk materialising, the tax costs associated with certain transactions are greater than anticipated, it could affect the profitability of those transactions. There are also specific rules governing the taxation of policyholders. We are unable to predict accurately the impact of future changes in tax law on the taxation of life insurance and pension policies in the hands of policyholders. Amendments to existing legislation, particularly if there is the withdrawal of any tax relief, or an increase in tax rates, or the introduction of new rules, may affect the future long-term business and the decisions of policyholders. The impact of such changes upon us might depend on the mix of business in-force at the time of such change.

The design of life insurance products by our life insurance companies takes into account a number of factors, including risks and taxation. The design of long-term insurance products is based on the tax legislation in force at that time. Changes in tax legislation or in the interpretation of tax legislation may therefore, when applied to such products, have a material adverse effect on the financial condition of the relevant long-term business fund of the company in which the business was written.

We may face increased compliance costs as a result of legislation passed in the United States

The U.S. Foreign Account Tax Compliance Act ("FATCA") requires 30% withholding on payments of U.S. source dividends, interest, and other fixed payments (including, after December 31, 2016, payments of gross proceeds) made to a non-United States financial institution ("FFI") unless the FFI has entered into an agreement with the Internal Revenue Service to report account information for any of the FFI's U.S. accountholders. An intergovernmental agreement between the U.S. and certain other jurisdictions will allow FFIs in those jurisdictions to report U.S. accountholder information only to local revenue authorities, rather than to the IRS.

On 1 September 2013, regulations were introduced in the United Kingdom (the ''Regulations'') to give effect to the intergovernmental agreement entered into between the United Kingdom and the United States to improve tax compliance, dated 12 September 2012 (the ''UK-US IGA''). Under the UK-US IGA, UK-based financial institutions should not be subject to a 30% withholding on US source income, unless they fail to meet the requirements set out in the UK-US IGA and the Regulations. A number of other jurisdictions, in which we operate, have introduced or announced that they intend to introduce similar measures. There can be no assurance as to the nature of such measures, or extensions to existing measures, that may be introduced.

Changes to IFRS generally or specifically for insurance companies may materially adversely affect the reporting of our financial results

Changes to IFRS for insurance companies have been proposed in recent years and further changes may be proposed in the future. The International Accounting Standards Board published proposals that would introduce significant changes to the statutory reporting of insurance entities that prepare financial statements according to IFRS. The accounting proposals, which are not expected to be finalised until later in 2015 at the earliest with an effective date still to be determined, will change the presentation and measurement of insurance contracts, including the effect of technical reserves and reinsurance on the value of insurance contracts. It is uncertain whether and how the proposals may affect the Group should they become definitive standards. Current proposals may have an adverse effect on the manner in which we report insurance provisions and, therefore, identify and report revenues, costs and distributable reserves. The changes could, therefore, have an adverse effect on our financial performance and condition (including through changes affecting the calculation of taxation). These and any other changes to IFRS, that may be proposed in the future, whether or not specifically targeted at insurance companies, could materially adversely affect our reported results of operations and their financial position.

Risks related to ownership of the ADSs and ordinary shares

The trading price of our ADRs and dividends paid on our ADSs may be materially adversely affected by fluctuations in the exchange rate for converting sterling into US dollars.

An ADS is a negotiable US security representing ownership in one share. An ADR is denominated in US dollars and represents ownership of any number of ADSs. ADRs are publicly traded

shares in a non-US corporation, quoted and traded in US dollars in the US securities market. Any dividends are paid to investors in US dollars. ADRs are specifically designed to facilitate the purchase, holding and sale of non-US securities by US investors. The term ADR is often used to mean both the certificates and the securities themselves.

Fluctuations in the exchange rate for converting pound sterling into US dollars may affect the value of our ADRs. Specifically, as the relative value of the pound sterling against the US dollar declines, each of the following values will also decline:

- the US dollar equivalent of the pound sterling trading price of our ordinary shares on the London Stock Exchange which may consequently cause the trading price of our ADRs in the US to also decline;
- the US dollar equivalent of the proceeds that a holder of our ADSs would receive upon the sale in the UK of any our ordinary shares withdrawn from the depositary; and
- the US dollar equivalent of cash dividends paid in pound sterling on our ordinary shares represented by our ADSs.

If the Proposed Acquisition is completed, ADR holders and ordinary shareholders in the enlarged Group may earn a negative or no return on their investment in the Company.

If the Proposed Acquisition is completed, the Company's results of operations and financial condition will be dependent on the trading performance of the members of the enlarged Group. There can be no assurance that the Company will pay dividends in the future. Any decision to declare and pay dividends in the future will be made at the discretion of the Board and will depend on, among other things, applicable law, regulation, restrictions, the Company's and the enlarged Group's financial position, regulatory capital requirements, working capital requirements, finance costs, general economic conditions and other factors the Directors deem significant from time to time. The ability of the enlarged Group to pay dividends on the ordinary shares or ADRs of the enlarged Group will be dependent upon the availability of distributable reserves and therefore, amongst other things, upon receipt by it of dividends and other distributions of value from its subsidiaries and companies in which it has an investment.

The issue of additional shares in the Company in connection with the Proposed Acquisition or future acquisitions, any share incentive or share option plan or otherwise may dilute all other holdings.

The enlarged Group is issuing ordinary shares of the Company in connection with the Proposed Acquisition and may seek to raise financing to fund future acquisitions and other growth opportunities. The Company may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, the Company's existing shareholders and ADR holders would suffer dilution in their percentage ownership.

The holders of our ADSs may not be able to exercise their voting rights due to delays in notification to, and by, the depositary.

The depositary for our ADSs may not receive voting materials for our ordinary shares represented by our ADSs in time to ensure that holders of our ADSs can instruct the depositary to vote their shares. In addition, the depositary's liability to holders of our ADSs for failing to carry out voting instructions or for the manner of carrying out voting instructions is limited by the Deposit Agreement governing our ADR facility. As a result, holders of our ADSs may not be able to exercise their right to vote and may have limited or no recourse against the depositary or us, if their shares are not voted according to their request.

Holders of our ADSs will have limited recourse if we or the depositary fail to meet our respective obligations under the Deposit Agreement.

The Deposit Agreement expressly limit our obligations and liability and those of the depositary. Neither we nor the depositary will be liable if either of us:

- are prevented from or delayed in performing any obligation by circumstances beyond our/their control;
- exercise or fail to exercise discretion under the Deposit Agreement; or
- take any action based upon the advice of, or information from, legal counsel, accountants, any person presenting ordinary shares for deposit, any person in whose name the ADSs are registered on the books of the depository, any person or entity having a beneficial interest deriving from the ownership of ADRs, or any other person believed by us or the depositary in good faith to be competent to give such advice or information.

In addition, the depositary has the obligation to participate in any action, suit or other proceeding with respect to our ADSs which may involve it in expense or liability only if it is indemnified. These provisions of the Deposit Agreement will limit the ability of holders of our ADSs to obtain recourse if we or the depositary fail to meet our obligations under the Deposit Agreement or if they wish to involve us or the depositary in a legal proceeding.

The holders of our ADRs in the US may not be able to participate in offerings of rights, warrants or similar securities to holders of our ordinary shares on the same terms and conditions as holders of our ordinary shares.

In the event that we offer rights, warrants or similar securities to the holders of our ordinary shares or distribute dividends payable, in whole or in part, in securities, the Deposit Agreement provides that the depositary (after consultation with us) shall have discretion as to the procedure to be followed in making such rights or other securities available to ADR holders, including disposing of such rights or other securities and distributing the net proceeds in US dollars to ADR holders. Given the significant number of our ADR holders in the US, we generally would be required to register with the SEC any public offering of rights, warrants or other securities made to our ADR holders unless an exemption from the registration requirements of the US securities laws is available. Registering such an offering with the SEC can be a lengthy process which may be inconsistent with the timetable for a global capital raising operation. Consequently, we have in the past elected and may in the future elect not to make such an offer in the US, including to our ADR holders in the US, and rather only conduct such an offering in an 'offshore' transaction in accordance with 'Regulation S' under the US Securities Act of 1933, as amended (the 'Securities Act'). Therefore, there can be no assurance that our ADR holders will be able to participate in such an offering in the same manner as our ordinary shareholders.

The ADR and ordinary share price of Aviva has been, and may continue to be volatile.
The share price of our ADRs and ordinary shares has been volatile in the past and the share price and trading volume of our ADRs may continue to be subject to significant fluctuations due, in part, to changes in our actual or forecast operating results and the inability to fulfill the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions. Other factors, besides our financial results, that may impact our share price include, but are not limited to:

- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perceptions of the success and impact of our strategies;
- a downgrade or review of our credit ratings;
- potential litigation or regulatory action involving Aviva or sectors we have exposure to through our insurance and fund management activities;
- the operations, accounting practices or regulatory investigations, and share price performance of other companies in the insurance and fund management markets in which we operates; and
- conjecture about our business in the press, media or investment communities.
- strategic actions by competitors, including acquisitions and/or restructurings;
- changes in market conditions and regulatory changes in any number of countries, whether or not the Company derives significant revenue therefrom; and
- shifts in macro-economic or geopolitical conditions generally.

If the Proposed Acquisition is completed, the value of the ordinary shares or ADRs of the enlarged Group may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to above, as well as period-to-period variations in operating results or change in revenue or profit estimates by the Company, industry participants or financial analysts.

Substantial future sales of ordinary shares of the enlarged Group, if the Proposed Acquisition is completed, could impact their market price.
The Company cannot predict what effect, if any, future sales of ordinary shares or ADRs of the enlarged Group, or the availability of ordinary shares or ADRs of the enlarged Group for future sale, if the Proposed Acquisition is completed, will have on the market price of the ordinary shares of the enlarged Group. Sales of substantial amounts of ordinary shares or ADRs of the enlarged Group in the public market following the Proposed Acquisition, if completed, or the perception or any announcement that such sales could occur, could adversely affect the market price of the ordinary shares of the enlarged Group and may make it more difficult for investors to sell their ordinary shares or ADRs of the enlarged Group at a time and price which they deem appropriate, or at all.

As a 'foreign private issuer' in the US we are exempt from certain rules under the US securities laws and are permitted to file less information with the SEC than US companies.
As a 'foreign private issuer' we are exempt from certain rules under the US Securities Exchange Act of 1934, as amended (the 'Exchange Act'), that impose certain disclosure obligations and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. In addition, our officers, directors and principal shareholders are exempt from the reporting and 'short-swing' profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our ordinary shares and ADRs. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as US companies whose securities are registered under the Exchange Act. In addition, we are not required to comply with Regulation FD, which restricts the selective disclosure of material information. Although we must comply with UK Listing Rules on insider reporting of share ownership and on protection of inside information, there may be less publicly available information concerning us than there is for US public companies.

Aviva plc is an English company and it may be difficult to enforce judgments against us or our directors and executive officers.
Aviva plc is incorporated under the laws of England and Wales and our business is based in the UK. In addition, certain of our directors and officers reside outside the US, and a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the US. As such, it may be difficult or impossible to effect service of process within the US upon us or those persons or to recover against us or them on judgments of US courts, including judgments predicated upon civil liability provisions of the US federal securities laws.

Shareholder rights under English law differ from the US.
Individual shareholders of an English company (including US persons) have the right under English law to bring lawsuit on behalf of the company in which they are a shareholder, and on their own behalf against the company, in certain limited circumstances. English law does not permit class action lawsuit by shareholders, except in limited circumstances.

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

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.

Big Data
Large volumnes of data which are a valuable source of information used to identify customer behaviours.

Cash remittances
Dividends paid by our operating businesses to the Group.

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.

Cost income ratio
Operating expenses expressed as a percentage of operating profit before Group debt costs and operating expenses.

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.

Excess centre cash flow
A measure of excess cash flow, calculated by deducting central operating expenses and debt financing costs from cash remitted by business units.

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.

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.

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.

Latent claims
General insurance claims that are often not made until many years after the period of cover provided, due to the impact of perils or causes not becoming evident for a number of years. Sources of latent claims include asbestos-related diseases, environmental pollution and industrial deafness.

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.

Operating expenses
The day-to-day expenses involved in running a business, such as sales and administration, as opposed to production costs.

Operating profit
This is also referred to as adjusted operating profit or operating profit (IFRS basis).

Present value of new business (PVNBP)
Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine the value of new business under Market Consistent Embedded Value (MCEV) principles published by the CFO Forum.

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.

Risk-adjusted returns
Adjusting profits earned and investment returns by how much risk is involved in producing that return or profit

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.

Total shareholder return
A measure of company performance based on the overall value to shareholders of their investment in a stock over a given period of time. Includes movement in the share price and dividends paid and reinvested, expressed as a percentage of the initial value of the investment or share price at the beginning of the period.

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 minority interests.

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/dividends.
- 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

Form 20-F

Aviva is a foreign private issuer in the United States of America and is subject to certain reporting requirements of the Securities Exchange Commission (SEC). Aviva files its Form 20-F with the SEC, copies of which can be found at www.aviva.com/reports.

Aviva plc Strategic report

The Aviva plc Strategic report can be found within the Aviva plc Annual report and accounts and includes the current strategy and business model of the Board of Directors. In addition, it forms part of a useful, easy to read summary document, together with certain supplementary material which makes the Aviva plc Strategic report fair, balanced and understandable.

If you would prefer to receive a hard copy of the Aviva plc Strategic report instead of the full Aviva plc Annual report and accounts, please contact Computershare. Please view the Aviva plc Strategic report at www.aviva.com/2014ar.

ShareGift

ShareGift is a UK registered charity (No.1052686) which specialises in realising the value locked up in small shareholdings for charitable purposes. The resulting proceeds are donated to a wide range of charities, reflecting suggestions received from donors. Should you wish to donate your Aviva plc shares in this way, please visit www.ShareGift.org/donate-shares for more information about how to proceed. Further details about ShareGift can be found at www.ShareGift.org.

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

Be on your guard – beware of fraudsters!

Please be very wary of any unsolicited telephone calls or correspondence offering to buy shares at a discount or offering free financial advice or company reports.

Millions of people fall victim to scams every year, from experienced investors to people dealing with a large sum for the first time. **The Financial Conduct Authority (FCA)** has found that share fraud victims lose an average of £20,000.

The FCA takes action against fraudsters; for tips on how to protect your savings please visit www.fca.org.uk/scams.

- Remember: if it sounds too good to be true, it probably is!
- Keep in mind that firms authorised by the FCA are unlikely to call you out of the blue with an offer to buy or sell shares.
- Do not get into conversation, note the name of the firm contacting you and hang up.

For more information please visit the warning to shareholders page at www.aviva.com/shareholderservices.

Cautionary statements

This document 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 document 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 (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 announcement are current only as of the date on which such statements are made.

This Annual Report and Accounts has been prepared for, and only for, the members of the Company, as a body, and no other persons. The Company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to who this document is shown or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

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In this report we have included genuine examples of people whose experiences bring to life what we do every day for our customers. We would like to thank the customers who took part and invited us into their homes and businesses, to allow us to share their stories, and our people for their dedication to our customers.

To find out more, view our video at **www.aviva.com**

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