

Business review

Europe

What we do

We operate in 15 countries across Europe and are the second largest insurer in the region, providing life, general and health insurance products to more than 20 million customers. Customers are served through a diverse set of distribution channels, including banks, brokers, agents, direct sales force, telephone and the internet. Our ability to operate across distribution channels allows us to meet different customer preferences and respond to market developments.

Employees and locations**16,501**

2007: 15,989

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

Operating brands**delta lloyd**

Case study:

Knowledge is power

The global economic downturn has hit all parts of the world. And customers everywhere demand up-to-date information and advice. In Romania, for instance, we're issuing a monthly savings and investment bulletin to help our agents understand the implications of the crisis – and ensure their customers make the best financial decisions. We've also updated our marketing materials, created an on-line risk profile detector and revised call centre scripts.

Elsewhere in Eastern Europe, we're providing additional knowledge and training to our Hungarian agents and broker companies – including PR initiatives – to better inform customers.

It's all part of our commitment to keeping both colleagues and customers in the loop.

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“Nu-mi irosiți timpul”
 (“Don't waste my time”)



What's happened?

Aging populations approaching retirement age

- Throughout western Europe the “baby boomer” generations approaching retirement age has increased demand for services that fund retirement and care

Economic and market turbulence across Europe

- Slowing business volumes as consumers adjust spending
- Bancassurance sales impacted as banks seek to increase liquidity and capital
- Demand for trusted and secure asset classes as consumers reduce their risk appetite

Market harmonisation across the region

- Converging regulations, cross-border bank and broker consolidation and an increasing global nature of financial markets.

What action have we taken?

Focused on our products, distribution and our customers needs

- We have responded to difficult economic conditions by adjusting products to meet our customer's altered needs such as the launch of the “Safe Haven Fund” in Ireland
- Cross border sales from Hungary to Slovakia have increased our geographical coverage
- We have enacted initiatives that support our distributors and policyholders alike. Such as explaining to customers most affected by market volatility what is happening in the market and how it impacts them

Mergers and Acquisitions

- Acquisition of VIVAS Health in Ireland completes Hibernians product range
- New joint venture arrangements in Poland provides additional distribution coverage
- Increased holding of our profitable Spanish venture in Cajamurcia Vida

Introduced a new senior management team and pan European structure

What have we achieved?

Total sales		MCEV operating profit		IFRS operating profit	
£21,844m		£1,925m		£1,141m	
2007 restated: £20,488m		2007 restated: £1,921m		2007 restated: £1,197m	
PVNB	£16,990m	Long-term savings	£1,638m		
Investment sales	£764m	Fund management	£6m		
Net written premiums	£4,090m	General insurance	£397m		
	£21,844m	Other operations	£(116)m		
			£1,925m		

What's next?

Our medium-term targets are to:

- Seize unique growth opportunities
- Leverage our scale across the region
- Generate capital

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Long-term savings

	2008				
	IFRS operating profit £m	MCEV operating profit £m	PVNB £m	Value of new business £m	New business margin %
France	275	692	3,880	135	3.5
Ireland	61	78	1,299	15	1.2
Italy	48	131	2,331	71	3.0
Netherlands	196	187	4,097	(73)	(1.8)
Poland	162	241	1,842	65	3.5
Spain	155	286	2,527	236	9.3
Other Europe	(16)	23	1,014	29	2.9
Europe	881	1,638	16,990	478	2.8

	2007				
	IFRS operating profit £m	MCEV operating profit £m	PVNB £m	Value of new business £m	New business margin %
France	243	568	3,790	144	3.8
Ireland	73	85	1,780	37	2.1
Italy	78	137	2,975	77	2.6
Netherlands	181	316	3,133	8	0.3
Poland	110	181	1,120	48	4.3
Spain	119	233	2,433	181	7.4
Other Europe	(27)	(17)	453	7	1.5
Europe	777	1,503	15,684	502	3.2

General insurance and health

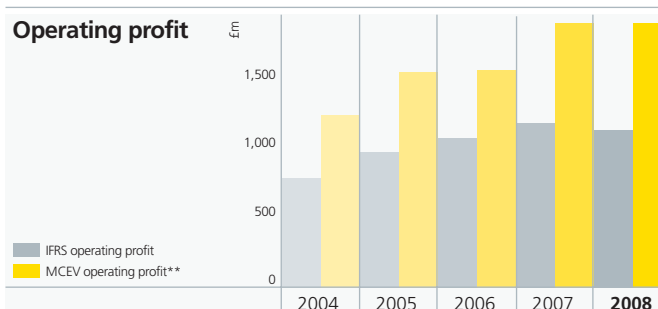
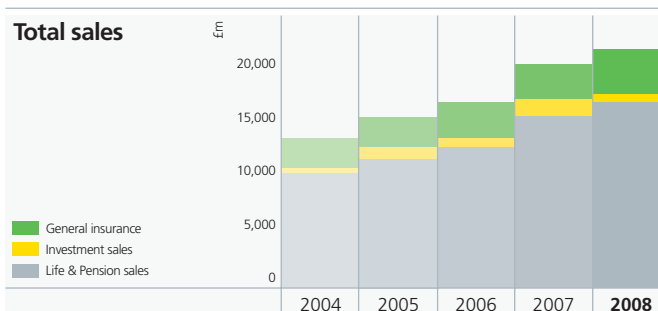
	2008			
	IFRS operating profit £m	Combined operating ratio* %	Net written premium £m	Underwriting result £m
France	107	96	882	39
Ireland	68	103	513	-
Netherlands	177	94	2,278	43
Other Europe	45	98	417	-
Total	397	97	4,090	82

	2007			
	IFRS operating profit £m	Combined operating ratio* %	Net written premium £m	Underwriting result £m
France	70	99	733	11
Ireland	162	80	474	101
Netherlands	169	85	1,717	75
Other Europe	41	94	308	10
Total	442	89	3,232	197

* General insurance business only.

Fund management

	Investment sales		IFRS operating profit		MCEV operating profit	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Netherlands	304	811	10	23	2	17
Other Europe	460	761	4	4	4	4
Total	764	1,572	14	27	6	21



Profile and strategy

Aviva operates in fifteen countries across Europe, providing life, general and health insurance products to more than twenty million customers.

Our core European business comprises the mature markets of France, Spain, Italy and Ireland, together with the central and eastern European, higher growth markets of Poland, Russia, Turkey, Hungary, Romania and the Czech Republic. In addition, we operate in the Netherlands, Belgium and Germany through our Dutch business Delta Lloyd. Delta Lloyd is managed independently from our other operations due to its governance structure and its performance is covered in more detail at the end of this review.

We provide life and pensions products in each of our European markets, where we are recognised for the quality of our products and customer service. In addition we provide general insurance products with operations in France, Italy, Poland and Turkey as well as in Ireland, where we are the market leader. Customers are served through a diverse set of distribution channels, including banks, brokers, agents, direct sales force, telephone and the internet. We are the leading provider of insurance via the bancassurance channel in Europe with 31 bank partners. We have relationships with more than 5,000 brokers and independent agents and in addition we operate a direct sales force of more than 8,500 consultants. Our ability to operate across distribution channels allows us to meet different customer preferences and respond to market developments.

During the course of 2008 we have continued to strengthen our distribution capability across Europe. Our bancassurance channel has benefitted from the addition of agreements in Spain with Cajamurcia, in Poland with Bank Zachodni WBK, Turkey with Citibank and Tekstilbank and our acquisitions of Avipop and UBI Vita in Italy. In our retail channel, principally direct and intermediated business, we have successfully launched a direct motor business in Poland and acquired VIVAS Health in Ireland.

**On an MCEV basis for 2008 and 2007. Prior years presented on an EEV basis.

“Produits innovants”

“Innovative products”



Case study:

Premium safety

‘Pay as you drive’ insurance is being piloted in greater Paris. Launched throughout France later this year, it will allow young drivers to pay lower premiums – through actual kilometres driven and usage times.

It’s an innovative response to younger drivers’ needs: 18 to 25-year-olds who haven’t previously held insurance and drive less than 9,000km per year. And it’s designed to promote responsible driving, too. The pricing system encourages drivers to use the road when accident risks are lowest. Also, we offer a 10% reduction for parents who hold car insurance with us and ensure their offspring drive their own vehicle (rather than more powerful parental cars). The pilot scheme will also test the re-adjusting of premiums to reflect policyholder behaviour.

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We have also strengthened our leadership team with the appointment of Andrea Moneta as CEO. Andrea has extensive experience in the European financial services arena, having held a number of senior positions in UniCredit and the European Central Bank. Andrea has created a new European leadership team which will lead the transformation of the European business ensuring that our customers, our vision and our values are at the centre of our decision making.

We remain committed to achieving our “one Aviva, twice the value” targets for shareholders and bringing prosperity and peace of mind to our customers.

The marketplace

Europe is the largest market in the world generating more than 40% of global insurance premiums* and accounting for over 30% of global personal financial assets**. It has a relatively affluent population of more than 800 million people and encompasses both mature markets, such as France and Ireland, and some of the world’s largest emerging markets, such as Russia and Poland. Some of the insurance markets in central and eastern Europe have been among the fastest growing across the globe, a pattern that is likely to resume once global economic conditions improve.

Insurance market development varies considerably across the region from mature and highly-penetrated markets such as Ireland (£4,000+ premiums per capita[†]) to emerging markets such as Russia and Turkey (below £500 per capita). Within this range some western markets, for example Spain and Italy, have low penetration levels compared with other western European countries and therefore have the potential to grow substantially over the next decade.

The impacts of economic turbulence and the credit crunch have been felt across the region. While insurers are far less exposed than banks to the availability of capital, business volumes have slowed as consumers adjust their spending and banks seek to increase liquidity and capital.

This changing environment presents us with opportunities. Insurance products offer a valuable profit stream for banks and can stimulate growth in new bancassurance opportunities. As the leading bancassurer in the region we are well placed to capitalise on this market trend.

We will also benefit from organic growth opportunities, arising from low market consolidation across the region, the migration of customers to brands in which they have confidence.

* Sigma (2008).

**Aviva/Oliver Wyman research (2007).

† Axco (2008), Comite European des Assurances (2008), Central Intelligence Agency (2008).

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Case study:

Web-wise

Savings and pensions aren't always easy to understand. That's why we've launched two new educational websites to help French customers. Firstly, www.bonconseil.fr offers completely impartial guidance on investment choices. The website includes step-by-step learning materials – so individuals can discover what kind of saver they are and how to improve their capital management. Meanwhile, www.bienpreparersaretraite.fr offers a comprehensive collection of practical and objective information on pension issues. Studies have already shown that the French population feel under-prepared for their retirement. That's why this website aims to show how to best prepare a pension. We also offer each client a Personalised Pension Assessment. It all helps to prove that customers remain our main focus.

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"Assister ses clients"

"Helping customers"

Over the next decade, Europe will be the region most likely impacted by the effects of an ageing population. Governments will struggle to fund state pensions and healthcare and will increasingly encourage self provision. For consumers this will result in an increased need to save but also in a reduction in risk appetite and a flight to trusted and secure financial services providers.

In western Europe, the "baby boomer" generation's approach to retirement will prompt a flow of investments in more secure asset classes followed by increased demand for services that fund retirement and care. Insurers like Aviva are well positioned to benefit from this market shift.

Market harmonisation continues across the region as a result of converging regulations, cross-border bank and broker consolidation and the increasingly global nature of financial markets. While significant differences remain, such as taxation, customer expectations and demands are increasingly similar across the region. These trends, when combined with technology developments, are creating opportunities to leverage product design, efficient operations and expertise across national borders.

Operational performance**Customer**

We are committed to providing our customers with prosperity and peace of mind and putting them at the heart of everything we do. Working as a region ensures that we are able to give a consistent response to the challenges created by the credit crunch. A number of initiatives have been enacted to support our distributors and policyholders alike. For example, we contacted the 40,000 French unit-linked customers most affected by market volatility to explain what is happening in the markets and how this will impact them. In Italy, although not contractually obliged, we have signalled our intention to work with our bank partners to support our customers who were impacted by the collapse of Lehman Brothers and the Icelandic banks where customers assets were involved with these organisations. We have also adapted our savings products to provide customers with safer investment options.

Products and distribution

Our European business is an excellent example of Aviva's diversity. We meet customers' long-term savings needs in 15 markets, with a broad range of products, through a range of distribution channels. In France and Poland the majority of our sales are through retail channels, while bancassurance channels dominate sales in Spain and Italy. Customers in Ireland are served evenly through both retail and bancassurance.

Our businesses are focused on our customers, developing products and distribution based on their needs and supported by actively sharing knowledge and experience across the region. In 2008 we have adjusted our product and fund offerings to respond to the needs of customers in these difficult economic conditions.

Aviva Europe is also committed to delivering the benefits of "one Aviva" by capitalising on our scale to achieve further growth and to generate capital and in 2008 we have continued to expand our distribution capability across Europe.

Mergers and acquisitions

The acquisition of VIVAS Health in Ireland completed Hibernian Aviva's product range and we are currently pursuing cross-selling opportunities with our existing life and general insurance operations. In Poland we launched a new joint venture with Bank Zachodni WBK, the Polish subsidiary of AIB, which provides additional distribution coverage following the conclusion of our partnership with Deutsche Bank. We also completed our acquisition of UBI Vita in Italy, increased our holding in our profitable Spanish joint venture Cajamurcia Vida to 50% and entered into new bancassurance opportunities in Turkey with Citibank and Tekstilbank.

Corporate responsibility

Corporate Responsibility (CR) is fundamental to our vision for Aviva Europe. Gaining admiration and trust, in particular through our interactions with customers, partners, our employees and our communities, are the natural outcomes of a consistent application of Aviva's CR policies and principles. As an evolving region, the levels of awareness of CR and the speed of its implementation, naturally depend on the maturity of each business in each of our markets and its integration with the culture and values of the group.

In 2008 we launched a pan European CR initiative, focusing on raising levels of understanding and engagement to embed our CR approach across the region. Aviva Europe has received several awards for its CR programme including Aviva Lithuania named as "Socially Responsible Company of the year 2007" and Aviva France's diversity programme awarded the "Trophées de la diversité en Entreprise" by the National Agency for Social Cohesion and Equal Opportunities. Our focus in 2009 will be to continue this progression and to share best practices amongst our markets.

Employees

Operating as one business across 15 European markets offers our employees enhanced development opportunities and the chance to gain experience in different locations, as well as stimulating the sharing of best practice across the region. This helps us to improve the retention of talented staff and gives us a competitive advantage. For example, the development of new life policy administration systems in Romania and Czech Republic has been undertaken by a team drawn from a number of our markets across the region.

Our philosophy is to treat our employees as individuals, recognising the unique contribution they make to the success of our business. One of the mechanisms we use is an annual employee survey, and in 2008 we were pleased that three quarters of our people chose to participate. The results of the survey indicated that we continue to make progress in a number of the areas that matter most to our people. Importantly, it also enabled us to identify those areas where we need to make more progress and close the gap between Aviva in Europe and ISR top performing European companies and thereby become the most admired, trusted, sought-after and financially successful company in our industry and region.

Delta Lloyd

Profile and strategy

The Delta Lloyd (DL) group is one of the top-five leading financial services providers based in the Netherlands, with significant operations in Belgium and Germany. The DL group has over £70 billion of assets under management, 4.5 million customers and employs 6,500 staff.

There are three distinct brands in the DL group. In the Netherlands the Delta Lloyd brand works exclusively with independent insurance intermediaries, whilst OHRA focuses on direct channels such as telephone, internet and mail. The third brand comprises a joint venture with ABN AMRO, reaching customers through the extensive distribution networks of ABN AMRO bank.

DL's strategy concentrates on security for its customers and other stakeholders through income protection, wealth creation and risk insurance and is founded on five strategic pillars: reputation, distribution power, efficiency, expertise and core values. The DL group is aiming to secure a position among the top three insurers in the Netherlands by 2010 and, where appropriate, to grow its banking and asset management businesses. Scale and cost effectiveness are essential as customers focus on price and use different distribution channels to buy their financial products.

DL Bank has introduced its own annuity products in response to the challenge from the banking sector, which is now allowed to offer unit-linked savings and pension products on the same terms as insurers. In Belgium the acquisition of Swiss Life Belgium from SNS REAAL on 30 June 2008 further strengthened its position in the Belgian life insurance market. DL has opted for a positioning of its asset management business as a niche player and aims to expand its activities in Belgium and Germany and to increase third party distribution.

DL has actively committed to corporate responsibility ranging from complying with various codes of conduct to realising energy savings. In May 2008 DL teamed up with Rabobank to become co-owners of Econcern, a sustainable energy company which operates in 21 countries, and invests in a number of sustainable energy projects including an off-shore wind-park.

The sale of the health business to OWM CZ Groep Zorgverkeeraar UA ("CZ") was completed on 1 January 2009 and as part of the alliance, DL has exclusive rights to market life, general insurance and income protection products to CZ's 2.6 million customers. This agreement will enable DL to focus on its core life and general insurance businesses while providing access to products from a top-three health provider and continuity of service to customers.

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The Marketplace

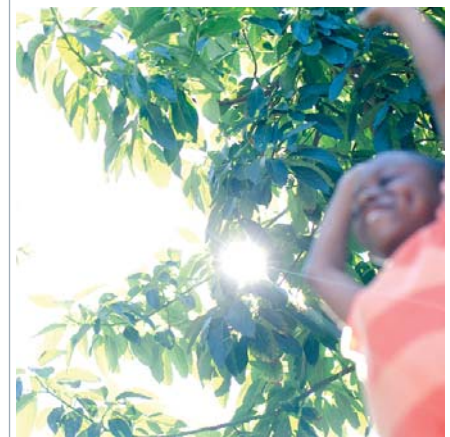
The Dutch insurance market is mature with cost reduction and economies of scale becoming increasingly important. There is a focus from the customer on increasing transparency through value-for-money high performance products. There is also an increase in legislation, for example, in the areas of customer protection and new compensation rules for brokers.

The Dutch savings market is extremely competitive with banks now able to offer retirement products on the same terms as insurers. In addition, the 2007 industry review of charges on unit-linked insurance policies, combined with volatile equity markets, has reduced demand. The general insurance market has seen competition on premium rates, particularly in the key motor account.

Following market-wide challenge in respect of charges, DL has agreed a settlement with its unit-linked policyholders. It is the first insurer in the Dutch market to reach such an agreement which represents a considerable improvement for customers in comparison to the original Financial Services Ombudsman recommendation. The cost to DL is £126 million.

The acquisition of ABN AMRO by the Dutch state and subsequent confirmation of the continuation of DL's long-term joint venture with ABN AMRO has enhanced DL's bancassurance position and ensures that they can continue to provide products to customers through the full range of distribution channels. Both parties have agreed that the joint venture will be the exclusive insurance partner for both the existing and the future Dutch banking operations of ABN AMRO.

DL is well placed due to its distribution strength, market position and investment in its brands to gain advantage from the current market downturns.



Case study:

Green schemes

Hibernian Aviva is taking steps to reduce Ireland's carbon 'tyreprint' by offering motorists reduced rates for selected lower CO₂ producing cars. Specifically, we offer a discount of 20% to motorists driving eco-friendly cars such as the Toyota Prius, Honda Civic IMA Hybrid, Ford Focus Flexifuel and Saab 9-3 Flexifuel.

These cars are better for the environment as they produce lower carbon emissions and use alternative energy sources such as non-fossil fuels, like hydrogen, and solar power.

Visit Hibernian at

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"An environmental approach"

Financial performance

The financial results of Aviva Europe, including Delta Lloyd, are described below.

Life businesses

Total life and pensions sales were up 8% at £16,990 million (2007 restated: £15,684 million), buoyed by the strong euro. On a local currency basis our sales were down by 7%. This decline is a direct result of the “credit crunch”, which also affected our investment sales, which dropped to £764 million (2007 restated: £1,572 million). Overall, this is a resilient performance supported by the diversity of our markets and distribution.

Our Aviva Europe new business margin, excluding Delta Lloyd, was 4.3% (2007 restated: 3.9%) reflecting a focus on profitability. In Delta Lloyd the new business margin reduced to (1.8)% (2007 restated: 0.3%) due to the writing of large corporate pension schemes. Overall, the new business margin was 2.8% (2007 restated: 3.2%). This has been supported by increased process efficiency and strong cost management across the region. This will continue to be important in 2009 as new business markets continue to contract across much of the region. In 2009 we will optimise our sales volumes consistent with our focus on prudent capital management and seeking the greatest returns on capital.

IFRS operating profit increased to £881 million (2007 restated: £777 million). The strength of the euro has had a positive impact on these results and, on a local currency basis, IFRS operating profit decreased by 4%, driven by higher new business strain in Delta Lloyd. In Poland we saw increased cost efficiencies and higher returns from existing business and in Spain we benefitted from a new bancassurance joint venture with Cajamurcia. In Turkey we saw the continued successful development of our joint venture AvivaSA.

MCEV operating profit increased by 9% to £1,638 million (2007 restated: £1,503 million). Currency strengthening had a favourable impact on the result which declined 6% on a local currency basis. The underlying decrease mainly reflected a strengthening of allowances for annuitant mortality in Delta Lloyd and negative experience variances due to the worsening economic climate. This was partly offset by good growth across our central and eastern European operations, with increased value of new business and higher expected returns in these growing markets.

General insurance and health businesses

Net written premiums increased by 27% to £4,090 million (2007: £3,232 million). Against a backdrop of increasing price competition across a number of countries, operating profit decreased to £397 million (2007: £442 million). This result has been favourably impacted by the strengthening of the euro and the development of new distribution channels and product launches in the year. However, these improvements were countered by the current competitive nature of insurance markets, particularly in Ireland and the Netherlands. Our business in Ireland was greatly impacted by a difficult year for the Irish economy and severe floods which led to an increase in weather related claims. A more favourable claims experience for our French business was reflected in a 50% increase in operating profits to £107 million (2007: £70 million).

Although the Europe COR has worsened compared with the prior period, at 97% (2007: 89%) it remains within the group target of “meet or beat” 98% and we expect to continue to achieve this target in the future.

Other businesses

Regional costs of £28 million (2007: £11 million) reflects the first full year of regional costs.

Other operations losses of £123 million (2007: £38 million) includes holding company costs in a number of our markets, principally France, Italy and Delta Lloyd. Additional costs of £30 million have been incurred this year in relation to the implementation of the global financial strategy and other projects. In addition, Delta Lloyd’s banking and retail mortgage divisions reported an operating loss of £22 million (2007: profit £8 million) as a result of the adverse economic climate, and in Italy we incurred a loss of £6 million in our distribution associate Banca Network Investimenti, acquired in December 2007. The 2007 result benefited from a one-off pension scheme adjustment in France of £17 million.

Outlook

The outlook for trading in 2009 is difficult to predict with any certainty. We expect new business markets to remain subdued across the region, particularly for life products where the current economic conditions mean that consumers’ propensity to save is relatively low. General insurance markets continue to perform better in terms of volume, although price competition is fierce, particularly in the more mature western European markets.

Our focus in 2009 will be the prudent management of capital, ensuring that we appropriately balance the need to generate current year profits with a desire to invest in business development. Despite difficult economic conditions the European market still presents a number of growth opportunities. We will be alive to these opportunities yet selective in where we choose to invest, maximising our short- and medium-term returns on capital. Within the context of these challenging economic conditions, customer retention will be a particular focus in 2009.