

Business review

North America

What we do

Our North America region is comprised of two distinct businesses. In Aviva USA we provide a comprehensive portfolio of life insurance and annuity products to more than one million customers in all 50 states through independent agents and brokers. Through Aviva Canada, we market a wide range of conventional personal and commercial lines insurance to more than three million customers using brokers and affinity groups.

Employees and locations**5,627**

2007: 4,634

Canada
United States**Operating brands**

“Will you go
the extra mile?”

Case study:

**...an extra five miles
on a snowmobile**

In early spring 2008, a customer had his seasonal cottage vandalised. Like most of Canada, the city of Fredericton (New Brunswick) had received lots of snow and the only way to access this particular property was by using snowshoes and a snowmobile. But that didn't stop two field service representatives...

To ensure the customer received immediate service, one of our reps arranged for a snowmobile to get her and her colleague out to the customer's property to assess the damage. The customer was very pleased because Aviva believes in going the extra mile...or even an extra five miles on a snowmobile.

(“Irez-vous encore plus loin?”)

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What's happened?

Industry changes

- Severe credit exposure experienced in the second half of 2008 by many of the largest financial institutions
- US Security and Exchange Commission (SEC) adopts new rule which classifies equity indexed annuities as securities for federal regulatory purposes
- Steady consolidation of highly fragmented general insurance business in Canada

Demographic changes

- With 78 million members of the US “baby boom” generation approaching retirement age, demand for household savings and insurance products remain high
- Significant population increases, changing demographic profile and significant economic development in Western Canada drive organic growth opportunity

What action have we taken?

Focused on customer needs

- Major change towards customers-centricity resulted in the launch of Aviva Canada’s “Let’s Change Insurance” brand campaign
- Claims Service Guarantee in Aviva Canada promises great claim experience every step along the experience
- “Wellness for Life” programme in the US

Optimised regional business model

- Implemented a major change programme in the highly competitive personal lines market that has streamlined and standardised underwriting
- We have initiated efficiency improvements and expense reduction programmes focused on delivering streamlined IT infrastructure outsourcing, regional finance function transformation, consolidation of investment accounting and a structured approach to procurement

Expanded contribution of asset management

- Exposure to a more diversified range of investment products became available since Aviva Investors became a single centre of excellence in 2008

What have we achieved?

Total sales	MCEV operating profit		IFRS operating profit
£7,316m	£334m		£149m
2007 restated: £5,058m	2007 restated: £274m		2007 restated: £229m
PVNB	£5,715m	Long-term savings	£201m
Net written premiums	£1,601m	General insurance	£145m
	£7,316m	Other operations	£(12)m
			£334m

What's next?

Our medium-term targets are:

- Optimise business mix, growth and margin
- Generate capital for the group

Business review

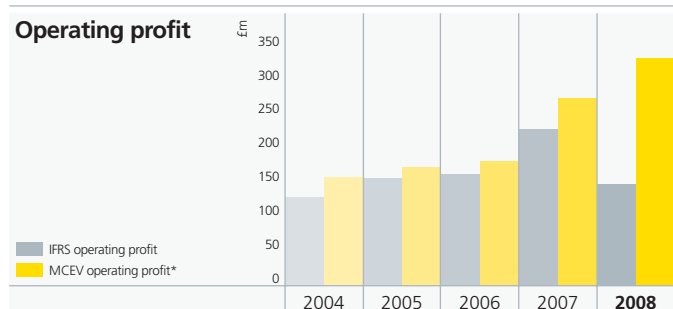
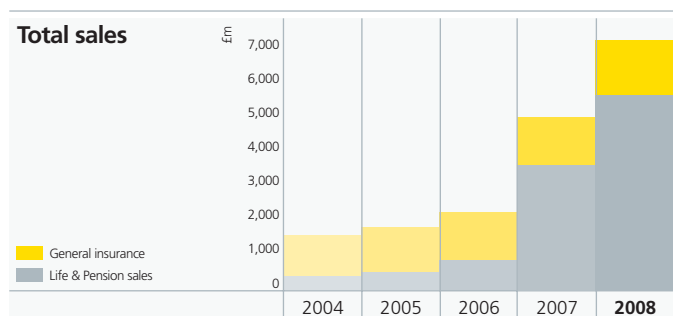
North America continued

Long-term savings

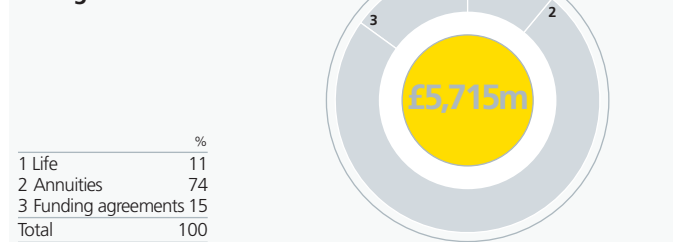
	IFRS operating profit £m	MCEV operating profit £m	PVNBP £m	Value of new business £m	New business margin %
2008	16	201	5,715	55	1.0
2007	79	124	3,646	52	1.4

General insurance

	IFRS operating profit £m	Combined operating ratio %	Net written premium £m	Underwriting result £m
2008	145	99	1,601	21
2007	154	98	1,412	18



USA – Split of long-term savings sales



Profile and strategy

Our North America region is comprised of two major lines of business, each of which operates in a distinct geographic market: life insurance and annuities in the United States and general insurance in Canada.

In Aviva USA we provide a comprehensive portfolio of life insurance and annuity products to more than one million customers across all 50 states. We are currently number one in sales of both fixed indexed annuities and fixed indexed life insurance. In response to the evolving requirements of the marketplace, the company's term products were improved and relaunched in 2008. At present, products are primarily distributed through independent agents and brokers, although opportunities may exist to expand our distribution capabilities.

Through Aviva Canada, we market a wide range of conventional personal and commercial lines insurance to more than three million customers using brokers and affinity groups. Aviva Canada is the largest general insurance operation in the Aviva group outside of the UK, with a 9% share of the Canadian market#. We have a top five position in all major provinces and are well placed for steady organic growth. Our success is founded on strong fundamentals; strong distribution relationships, underwriting excellence and a balanced portfolio of commercial and personal lines.

The regional executive office is based in Chicago. This office provides governance to the US and Canadian business units, leads business development opportunities and determines the strategic direction of the region. Our four regional strategic priorities in 2008 were:

Grow in existing and new markets;

Expand the contribution of asset management by leveraging the capabilities of Aviva Investors;

Optimise the regional business model to achieve efficiencies and accelerate performance; and

Develop a customer-centric culture that is engaging to employees as well as customers.

The marketplace

United States

The US is the world's largest economy** as well as its largest insurance market†. This is especially true for retirement savings products as 78 million members of the baby boom generation‡ move into retirement.

The US savings market is undergoing substantial structural changes. This is the result not only of the shifting demographics of an ageing population but also due to a cascading set of crises stemming from US sub-prime mortgage foreclosures, which in turn initiated a massive de-leveraging effect in the capital markets with a profound adverse impact on many financial institutions.

Retirement savings represent 40% of household assets in the US and, despite the uncertainty affecting the financial markets, people are still saving and buying insurance from brands they trust. In Aviva USA we are well positioned to respond to this customer need for safety, having savings and investment products with downside guarantees which are a very attractive offering for retiring customers.

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

**The World Bank, based on 2007 GDP.

† Swiss Re Sigma Report, No.3/2008, "World Insurance in 2007: emerging markets leading the way".

‡ US Census Bureau, July 2005.

~ Investment Company Institute, "Research Fundamentals", October 2008, Vol. 17, No. 3 – Q1.

≈ AXCO Insurance Market Report, 2006.

"MSA Report, Property and Casualty, Canada, 2008" Published by Market-Security Analysis and Research Inc.

The US Securities and Exchange Commission (SEC) has adopted a new rule (Rule 151A) which classifies equity indexed annuities as securities for federal regulatory purposes on contracts issued on or after 12 January 2011. In addition to creating additional administrative requirements for issuers, the ruling requires agents to be licensed to sell these products. Indexed products meet an important customer need and are a key element of our product suite. We are currently assessing the specific actions needed to position ourselves advantageously with respect to the potential adoption of this or a similar rule.

Canada

As the seventh largest[™] in the world, Canada’s general insurance market is established and stable. The four largest provinces generate around 90% of total premiums with Ontario, the largest, representing 47% on its own[#]. The biggest growth market is western Canada, where economic development has resulted in significant population increases and a changing demographic profile.

The Canadian general insurance industry is highly fragmented with many small players and no dominant consumer brand. Steady consolidation has resulted in the top five companies sharing 35% of the market with the top two companies, ING and Aviva, controlling 20%[#]. The rest of the industry consists of smaller, provincially based models or niche companies. Further consolidation is therefore anticipated.

The trend of insurers purchasing independent brokers through loans and minority equity investments continues. However, the need to preserve capital and the slowing availability of acquisition targets are driving aggressive organic growth activity among the industry’s leading insurers. Emerging distribution opportunities and trends in consumer buying habits are resulting in customers of personal lines progressively moving away from the well-established and dominant retail broker model. Direct and affinity marketing are the fast-growing new channels in personal lines, with commercial lines distribution expected to remain firmly broker based.

Operational performance

We made significant progress in implementing our four regional strategic priorities in 2008 and delivered exceptional growth results.

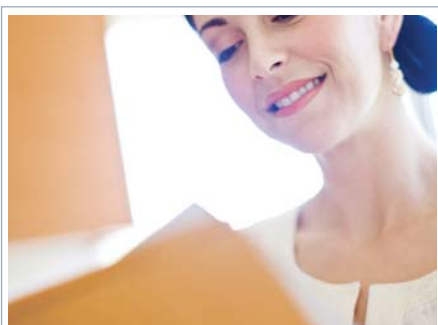
Grow in existing markets

In Aviva USA we achieved new business sales of £5,715 million in 2008. In doing so, we have achieved our target of doubling the scale of the US business a year ahead of plan.

Our decision to exit certain markets in late 2007 to focus on selling higher margin products contributed to a slight decrease in the sales of life products in 2008. To pave the way for our future growth, we made changes to our product mix in response to customer needs. This included the introduction of new term insurance products and new fixed universal life products as well as the expansion of our distribution network with focus on larger brokerage general agents.

While we will put greater emphasis on life sales in 2009, we will continue to market indexed annuities and refresh our traditional fixed annuity product set in order to capitalise on the growing savings and retirement demographic.

“Taking care of our customers”



Case study:

Taking time

In a recent claim, the insured had passed away and the beneficiary named was his common-law wife. The insured died in a different state and his wife was refused the death certificate as she was not next of kin. She was very upset and worried about how the claim could be paid.

We contacted the office in charge and gave them her authorisation as well as documents naming her as the beneficiary. Shortly afterwards, they agreed to post her a copy of the death certificate.

She got back in touch with us and couldn’t express how much she appreciated the extra effort we’d shown her.

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Business review**North America continued**

In general insurance, strong performance in commercial lines ensured sustained growth. In the highly competitive personal lines market, we implemented a major change programme that included:

standardisation, streamlining and automation of personal lines underwriting

centralisation of broker underwriting support; and

introduction of more than 100 business development roles combined with culture change initiatives in underwriting and sales

Expand contribution of asset management

As Aviva Investors became a single centre of excellence in 2008, the combined funds under management became larger. This increased scale has given us exposure to a more diversified range of investments.

Optimise the regional business model

We have wholeheartedly adopted the group's "one Aviva, twice the value" vision and worked hard to implement efficiency improvements and reduce expenses. This includes ongoing initiatives such as IT infrastructure outsourcing, regional finance function transformation, consolidation of investment accounting and a structured approach to procurement.

Engage our people and customers

The launch of Aviva Canada's brand campaign "Let's Change Insurance" was a major step change in the industry, resulting in a substantial increase in consumer awareness of Aviva in our target territories. The brand commitment to earn the trust of Canadians is underpinned by a mission to change insurance for the better by being honest about the things people don't like about insurance and taking steps to change them. A key element of this commitment was the introduction of a unique Claims Service Guarantee in 2008. The guarantee promises customers great claims service at every step of the experience, with a commitment to refund the customer's full premium if they are not completely happy. The Claims Service Guarantee was the first in a series of 'proof points' designed to showcase our leadership in customer-centricity.

In Aviva USA we introduced customers to our "Wellness for Life" programme which provides premium reductions to customers who maintain healthy lifestyles. We provide wellness information services through our affiliation with the world-renowned Mayo Clinic Health Solutions. We have also maintained our industry-leading approach to conducting suitability reviews. These reviews are designed to ensure that customers understand the design and nature of the product they are purchasing, and that it is appropriately matched to their needs.

Employee engagement in the region remained strong, as demonstrated by a 96% overall response rate to the 2008 climate survey and an employee engagement score of 84%, well above the industry norm.

"Spreading the word"

Case study:

....saves the day

Stewart Hamilton in Scarborough was chatting to a BMO rep and, when he mentioned Aviva, was told he was hearing good things about us.

Asked what specifically, the rep told how a friend of his was very happy because we'd sent her a disposable camera to keep in her glove box. She ended up getting in an accident and there were disputes over what had happened, but the pictures she had taken at the time made her case clear. She was delighted about how forward thinking we were and has been raving about us ever since.

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Financial performance

Long-term savings

In the US, our long-term savings sales increased by 57% to £5,715 million (2007 restated: £3,646 million). This was the second consecutive year of record volumes despite significant challenges in the financial markets which have changed the competitive landscape and shaken consumer confidence. We retained our number one sales position in both the indexed annuity and the indexed life insurance markets and have already doubled sales within two years of the acquisition of the former AmerUs business, one year ahead of the stated target.

Expanded distribution, marketing programmes and new product launches contributed to sales of both our annuity and life products. 63% growth in annuity sales was a significant accomplishment given the challenging economic environment. Sales of life products, which mainly include indexed universal life and term assurance products, were slightly down on the prior year as growth was offset by the impact of our tactical decision to exit certain markets in late 2007 to focus on selling higher margin products.

Funding agreement sales were very strong as the volatile investment markets created a favourable environment for these large institutional transactions.

Long-term business operating profit on an MCEV basis was £201 million (2007 restated: £124 million), an increase of 62% driven by improved value of new business, higher expected return from widening credit spreads and less adverse operating assumption changes.

New business margins of 1.0% (2007 restated: 1.4%) were consistent with 2007. Annuity margins are lower than those of life products but the increases in annuity volumes allowed the value of new business to increase to £55 million (2007 restated: £52 million).

IFRS operating profit was £16 million (2007 restated: £79 million). Core margins are under pressure due to the low interest rate environment in the US, coupled with a volatile investment market. This has resulted in lower account values, higher lapse activity and a higher cost of options to support product guarantees.

General insurance business

Aviva Canada continues to deliver profitable growth. Net written premiums increased 13% to £1,601 million (2007 restated: £1,412 million) with growth in both personal and commercial business and high retention across all lines of business. In personal lines premiums grew by 10% despite increased competition and challenging pricing in a large part of Ontario. Commercial lines premiums increased 20% due to strong new business coupled with a major broker acquisition in the second half of the year.

We achieved rate increases on all lines of business. Both personal motor and homeowner rates increased by 6% (2007: 3% and 4% respectively) reflecting general claims experience in the market. Commercial motor continues to be a profitable line for us, and we improved rates by 3% during the year (2007: 6% decrease). We were able to increase commercial property rates by 4% (2007: 1%) keeping in line with claims inflation and loss experience felt across the market. Liability rates remain extremely competitive but we are beginning to achieve rate increases that are broadly in line with claims inflation.

Our combined operating ratio was 99% (2007: 98%). The claims ratio was in line with 2007 as good prior year loss development was offset by higher claims following a harsh winter and significant storm activity. However, the expense ratio was slightly higher in 2008 reflecting increased spending to support our corporate change programmes and strategic investment.

Operating profit decreased 6% to £145 million (2007: £154 million). Underlying this was an increase in underwriting result to £21 million (2007: £18 million), offset by lower investment income following the equity de-risking that took place in the latter half of 2007 as well as lower reinvestment rates on our bond portfolio.

Outlook

We believe that 2009 will be turbulent as the economy combats the adverse effects of a crisis many believe is only exceeded by the Great Depression of the 1930's.

Despite significant challenges in the financial markets and a weaker economy we also believe that in North America we are in the right place at the right time with the right products. Our established focus on products with downside guarantees and an ongoing commitment to value-adding programmes and features that are important to customers provide a strong foundation for the future.

2008 was focused on achieving our growth agenda. The immense change in our environment caused by the financial crisis in late 2008 requires us to be ever diligent on staying financially healthy and strong. We have adapted our strategic emphasis in 2009 to profitability, productivity and capital efficiency. To conserve capital, we will focus our attention on our existing core businesses in Canada and the US.

Over the long term, Aviva Canada is well placed to benefit from consumers' interest in the purchase of leisure and life style products such as insurance for boats and antique cars, playing to Aviva's strength and enabling us to maintain our dominant market share. We will also continue to address increasing customer demand for choice and simplicity through our multi-distribution model and brand investment in key territories. In commercial lines, we aim to retain our current market position through our expertise in distribution and product innovation.

In addition, we will continue to progress the efficiency and effectiveness of the region's operating model. The North America region was in a start-up position at the beginning of 2008; by the end of the year we had established the regional office in Chicago and staffed all key positions. For 2009, our focus will be on ensuring the region's business concepts and processes continue to progress the group model with clarity of accountabilities and focus across the region.

