

Corporate governance report

The Combined Code on Corporate Governance

The Combined Code on Corporate Governance sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority requires companies listed in the UK to disclose, in relation to Section 1 of the Combined Code, how they have applied its principles and whether they have complied with its provisions throughout the accounting year. Where the provisions have not been complied with companies must provide an explanation for this.

It is the Board's view that the Company has been fully compliant throughout the accounting period with the provisions set down in Section 1 of the Combined Code, apart from a period of 29 days in 2008 when the majority of the members of the Nomination Committee were not independent non-executive directors. This report sets out details of how the Company has applied the principles and complied with the provisions of the Combined Code during 2008. Further information on the Combined Code can be found on the Financial Reporting Council's website, www.frc.org.uk

The Board

The directors are responsible to shareholders for ensuring that the Company is appropriately managed and that it achieves its objectives. It meets regularly to determine the Company's strategic direction, to review the Company's operating and financial performance and to provide oversight that the Company is adequately resourced and effectively controlled. The specific duties of the Board are clearly set out in its terms of reference that address a wide range of corporate governance issues and list those items that are specifically reserved for decision by the Board. Matters requiring Board approval include:

Group strategy and business plans;
Acquisitions, disposals and other transactions outside delegated limits;
Financial reporting and controls;
Capital structure;
Dividend policy;
Shareholder documentation;
The constitution of Board committees; and
Key business policies, including the remuneration policy.

The full terms of reference for the Board are available from the Group Company Secretary. Matters that are not specifically reserved for the Board and its committees under its terms of reference, or for shareholders in general meeting, are delegated to the Group Chief Executive. The Board's terms of reference also set out those matters that must be reported to the Board, such as significant litigation or material regulatory breaches, and cover how matters requiring consideration by the Board that arise between scheduled meetings should be dealt with.

The Board and its committees operate in line with work plans agreed prior to the start of each year. At Board and committee meetings, directors receive regular reports on the Group's financial position, risk management, regulatory compliance, key business operations and other material issues. Directors are fully briefed in advance of Board and committee meetings on all matters to be discussed. The Group Company Secretary is responsible for following Board procedures and advising the Board, through the Chairman, on governance matters. All directors have access to his advice and services.

The Board has adopted a procedure whereby directors may, in the performance of their duties, seek independent professional advice at the Company's expense if considered appropriate. During the year the members of the Remuneration Committee sought independent advice from New Bridge Street Consultants on a review of senior executive remuneration.

The Directors

The Board currently comprises the Chairman, seven independent non-executive directors, one non-independent non-executive director and three executive directors. Each non-executive director serves for a fixed term not exceeding three years that may be renewed by mutual agreement. Subject to the Board being satisfied with a director's performance, independence and commitment, there is no specified limit regarding the number of terms a director may serve. Each director is required to be elected by shareholders at the Annual General Meeting following his/her appointment by the Board and to be re-elected at least once every three years. Any non-executive director who has served on the Board for nine years or more is required to submit himself/herself for re-election annually. The Board's policy is to appoint and retain non-executive directors who can apply their wider knowledge and experiences to their understanding of the Aviva Group, and to review and refresh regularly the skills and experience the Board requires through a programme of rotational retirement. In addition to the strengths of experience, diversity and an international perspective, the Board also seeks to comply with the requirements of the Combined Code on the independence of directors. The process for appointing new directors is conducted by the Nomination Committee whose report, including a description of its duties, is set out on page 95.

The Combined Code requires that at least half the Board, excluding the Chairman, should comprise independent non-executive directors as determined by the Board. The Nomination Committee performs an annual review of directors' interests in which all potential or perceived conflicts, including time commitments, length of service and other issues relevant to their independence, are considered. It is the Board's view that an independent non-executive director also needs to be able to present an objective, rigorous and constructive challenge to management, drawing on his/her wider experiences to question assumptions and viewpoints and where necessary defend their beliefs. To be effective, an independent director needs to acquire a sound understanding of the industry and the Company so as to be able to evaluate properly the information provided. Having considered the matter carefully the Board is of the opinion that all of the current non-executive directors are independent and free from any relationship or circumstances that could affect, or appear to affect, their independent judgement, except Wim Dik due to his length of service as a non-executive director of the Company. Accordingly, over half of the directors, excluding the Chairman, are independent non-executive directors. Each of the directors being proposed for re-election at the 2009 Annual General Meeting has been subject to a formal performance evaluation and took part in a peer evaluation review during 2008. Details of the Directors standing for re-election at this year's Annual General Meeting are set out in the Notice of Meeting. Wim Dik will retire at this year's Annual General Meeting. Biographical details of all the directors are set out on pages 84 and 85.

The Chairman and Group Chief Executive

The respective roles of the Chairman and Group Chief Executive are set out in the Board's terms of reference. The Chairman's priority is the leadership of the Board and the Group Chief Executive's priority is the management of the Company. The Chairman's commitment to the Company is two to three days per week and his main interests outside the Company are set out in his biographical details on page 84. During the year the Chairman retired as the chairman and from the board of Aegis plc.

Senior Independent Director

Under the Combined Code the Board appoints one of the non-executive directors to act as Senior Independent Director. The main responsibility of the Senior Independent Director is 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. The Senior Independent Director is also responsible for leading the Board's discussion on the Chairman's performance and the appointment of a new chairman, when appropriate. Wim Dik served as the Senior Independent Director from 2004 to December 2008 and was succeeded in January 2009 by Richard Goeltz.

Board effectiveness

The effectiveness of the Board is vital to the success of the Group and the Company undertakes a rigorous evaluation each year in order to assess how well the Board, its committees, the directors and the Chairman are performing. The aim is to improve the effectiveness of the Board and its committees and the Group's performance. The process is led by the Chairman and supported by the Group Company Secretary. This year the evaluation was carried out by Boardroom Review, an independent consultancy, and interviews were conducted with each Board member. All directors also completed a questionnaire evaluating the Board and committees' processes, their effectiveness and where improvements may be considered. Boardroom Review prepared a report based on the interviews with the directors and the questionnaire circulated and the overall results of the evaluation were presented to and reviewed by the Board in January 2009.

The performance of the Chairman is also included in the above process and takes into account the views of both the executive and non-executive directors. The Chairman's evaluation is managed by the Senior Independent Director who provides feedback to the Chairman. As part of the Chairman's evaluation the non-executive directors meet separately under the chairmanship of the Senior Independent Director.

The Board evaluation process assesses the executive directors in their capacities as directors of the Company. They are evaluated in respect of their executive duties through a separate process whereby the Chairman and the non-executive directors assess the Group Chief Executive and the Group Chief Executive assesses the executive directors.

Following this comprehensive review, the directors have concluded that the Board and its committees operate effectively and agreed actions in respect of certain processes identified for improvement. Additionally, the Chairman has concluded that each director contributes effectively and demonstrates full commitment to his/her duties.

Training and development

The Board believes strongly in the development of all its employees and directors and it is a requirement of each director's appointment that they commit to continue their development. The form that this development takes is subject to individual director's requirements and the quality and relevance of the training available.

During the year, directors attended a number of courses ranging from external seminars for members of the Audit and Remuneration Committees and internal seminars on market risk. In addition, members of the Audit and the Risk and Regulatory Committees received tailored training sessions. Training sessions have also been built into the Board's and committees' work plans for 2009. The Board made visits to the Group's businesses located in the United Kingdom and Europe during the year to gain a closer understanding of their operations.

The Board has a comprehensive induction programme consisting of several separate sessions which take place over a number of months at times convenient for the director. The sessions include presentations from key members of senior management, visits to the Group's main operating businesses, 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 on a particular item.

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 perform their duties. The attendance of the directors at the Board and committee meetings held in 2008 was as follows:

Board and Board committee attendance 2008

	Board	Audit Committee	Corporate Social Responsibility Committee	Nomination Committee	Risk and Regulatory Committee	Remuneration Committee
Number of meetings held	12	7	4	2	5	9
Nikesh Arora	10	–	–	1#	4	–
Mary Francis	12	6	–	–	5	9
Richard Goeltz	12	7	–	1#	–	9
Euleen Goh (appointed 1 January 2009)	n/a	n/a	n/a	n/a	n/a	n/a
Mark Hodges (appointed 26 June 2008)	7	–	–	–	–	–
Andrew Moss	11	–	3	2	–	–
Carole Piwnica	12	6	3	–	–	9
Philip Scott	11	–	–	–	–	–
Lord Sharman	12	–	3	2	–	–
Russell Walls	11	6	–	2	5	–
Scott Wheway	11	–	4	–	–	9
Wim Dik (will retire on 29 April 2009)	9	–	3	1*	5	–
Former directors						
Guillermo de la Dehesa (retired 31 December 2008)	10	–	3	1*	–	–

– Indicates not a member of that committee.

* Ceased to be a member of the Nomination Committee on 29 July 2008.

Became a member of the Nomination Committee on 29 July 2008

During 2008 the Chairman and the non-executive directors met in the absence of the executive directors and there was one meeting of the non-executive directors chaired by the Senior Independent Director at which the Chairman was not present in order to appraise the Chairman's performance.

Corporate governance report continued

Board committees

The Board has established the following standing committees to oversee and debate important issues of policy and oversight outside the main Board meetings.

Audit Committee;

Corporate Social Responsibility Committee;

Nomination Committee;

Risk and Regulatory Committee; and

Remuneration Committee.

Throughout the year the chairman of each committee provided the Board with a summary of the key issues considered at the meetings of the committees and the minutes of the meetings were circulated to the Board. The committees operate within defined terms of reference which are available from the Group Company Secretary upon request. Board committees are authorised to engage the services of external advisers as they deem necessary in the furtherance of their duties at the Company's expense.

Reports of the committee chairmen are set out on pages 95 to 119.

Conflicts of interest

In line with the Companies Act 2006, the articles of association were amended at the 2008 Annual General Meeting to 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 decision the directors must act in a way they consider in good faith will be most likely to promote the Company's success. The Company has established a procedure whereby actual and potential conflicts of interest are regularly reviewed and for the appropriate authorisation to be sought prior to the appointment of any new director or if a new conflict arises. During 2008 this procedure operated effectively.

Internal controls

The Combined Code requires directors to review and report annually to shareholders on the effectiveness of the Company's systems of internal control which include financial, operational and compliance controls and risk management. The Board has the overall responsibility for maintaining the systems of internal control of the Company and for monitoring their effectiveness; while the implementation of internal control systems is the responsibility of management. The Group's systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material financial misstatement or loss.

The systems are designed to:

Safeguard assets;

Maintain proper accounting records;

Provide reliable financial information;

Identify and manage business risks;

Maintain compliance with appropriate legislation and regulation; and

Identify and adopt best practice.

The principal features of the control framework and the methods by which the Board satisfies itself that it is operating effectively are detailed below.

Control environment

The Group has an established risk management and governance framework, the key features of which include:

Terms of reference for the Board and each of its committees;

A clear organisational structure, with documented delegation of authority from the Board to executive management;

A Group policy framework, which sets out risk management and control standards for the Group's operations worldwide;

Defined procedures for the approval of major transactions and capital allocation; and

Committees of senior executives responsible for reviewing the Group's financial risks (Asset and Liability Management Committee) and non-financial, ie strategic and operational risks (Group Operational Risk Committee).

The Group's risk management and governance framework is consistent with the requirements of the Financial Services Authority's risk-based framework for integrating the embedding risk and capital management (Prudential Sourcebook).

Risk identification, assessment and management

There is in place an ongoing process for identifying, evaluating and managing the significant risks faced by the Group which has operated throughout 2008 and up to the date of signing this report. The Group's risk management and governance framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of the Group's business objectives. The Group has a set of formal policies which govern the management and control of both financial and non-financial risks. The adoption of these policies throughout the Group enables a consistent approach to the management of risk at regional and business unit level. At Group level, policy owners maintain policy content and guidance material and are responsible for the definition of the management information requirements from the businesses to support the risk oversight committees in the discharge of their responsibilities. Policy owners are also responsible for the Group-wide aggregation and oversight of their specific risks. During 2008 the Group policy set has been embedded, the risk management framework has been reviewed and a new Chief Risk Officer appointed.

Management monitors the completeness of the Group's risk profile on a regular basis. Each quarter, businesses report risk profiles and the adequacy of the mitigating action programmes, where risks are outside of the Group's risk appetite. These assessments are based on financial, reputational and operational criteria. This enables the Group risk function to assess the overall risk exposure and to develop a Group-wide risk profile that is refreshed quarterly. Material items in the Group risk report are reported to the committee of the Group's senior executives (Executive Committee), the Risk and Regulatory Committee and in respect of social, environmental and ethical risks, the Board's Corporate Social Responsibility Committee. The Executive Committee considers whether the residual risks are within the Group's risk appetite, and the adequacy of the mitigating actions. In addition the Executive Committee receives a fortnightly Group-wide risk update report.

The Boards, audit committees and management of the operational businesses also consider local risk reports in a similar way. Regular reports are supplemented by escalation procedures for new or deteriorating risks. In addition, business units provide a certificate every six months to confirm compliance with the Group's risk management framework and governance, and the terms of their delegated authority. Any risk or control issues not already reported through the regular risk management processes must be specifically highlighted.

Control procedures and monitoring systems

The Group has a well-developed system of planning, incorporating Board approval of a rolling three-year Group plan. Performance against the plan is subsequently monitored and reported to the Board each time it meets. This report also includes updates on relevant measures of solvency and liquidity. Performance is reported through the half-yearly publication of the Company's results based on accounting policies that are applied consistently throughout the Group. Operational management reports quarterly to the Executive Committee on a wide range of key performance and other significant matters and the Board receives regular representations from the senior executives responsible for each region and business function.

The Risk and Regulatory Committee has the overall responsibility of monitoring the Group's internal control and risk management systems on behalf of the Board. In addition, the Audit Committee performs an annual review of the effectiveness of the internal audit function and the framework for the Group's internal financial controls and financial reporting. Throughout 2008, the Audit Committee and the Risk and Regulatory Committee received quarterly reports from the Chief Audit Officer on issues arising and updates on previously reported items. More detailed reports on the work of these committees during 2008 are set out on pages 96 and 98.

The Board has conducted a review of the effectiveness of the Group's systems of internal control. This annual review has been supplemented by a major review of the adequacy and effectiveness of financial reporting controls across the Group. This additional review is being undertaken so that the Group will be able to meet the financial reporting requirements of the Sarbanes-Oxley Act 2002 in the event of a possible listing of the Company on the New York Stock Exchange. The necessary actions have been or are being taken to remedy significant failings or weaknesses identified from these reviews. These actions are being monitored by the Risk and Regulatory Committee or the Audit Committee as appropriate on behalf of the Board.

Internal audit

The Group's internal audit function advises management on the effectiveness of its internal control systems, the adequacy of these systems to manage business risk and to safeguard the Group's assets and resources. Through the Chief Audit Officer, the internal audit function provides objective assurance on risk and control to both the Audit Committee and the Risk and Regulatory Committee. The effectiveness of the Group's internal audit function is reviewed each year by the Audit Committee.

Communication with shareholders

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

The Group has an ongoing programme of dialogue and meetings between the executive directors and institutional investors, fund managers and analysts. At these meetings a wide range of relevant issues including strategy, performance, management and governance are discussed within the constraints of information already made public.

The Company's Investor Relations department is dedicated to facilitating communication with institutional investors. The directors consider it important to understand the views of shareholders and, in particular, any issues which concern them. The Board receives reports on matters that have been raised with management at the regular meetings held with the large investors. During the year the Chairman held a meeting with the major institutional investors and attended investor meetings with management. In addition, the Senior Independent Director is available to meet with major shareholders to discuss any areas of concern that cannot be resolved through normal channels of investor communication and arrangements can be made to meet with the Senior Independent Director through the Group Company Secretary. Similarly, arrangements can be made for major shareholders to meet with newly appointed directors. In addition, the Board consults with shareholders in connection with specific issues where it considers appropriate. For example, the chairman of the Remuneration Committee consulted with investors in 2008 regarding the introduction of the One Aviva, Twice the Value Bonus Plan which is outlined in the Remuneration Committee report on page 103.

The Board is equally interested in the concerns of private shareholders and, on its behalf the Group Company Secretary oversees communication with these investors. It is the practice of the Company to issue a postage paid reply form with its Annual General Meeting documentation to enable shareholders to put relevant questions to the directors. This is considered to be particularly helpful for those shareholders who are unable to attend the meeting. Written responses are provided through a brochure containing answers to the most frequently asked questions which is also placed on the Company's website. All material information reported to the regulatory news services is simultaneously published on the Company's website affording all shareholders full access to Company announcements.

The Company has taken full advantage of the provisions within the Companies Act 2006 allowing communications to be made electronically to shareholders where they have not requested hard copy documentation. As a result the Company's website has become the primary method of communication for the majority of its shareholders. Details of the information available for shareholders on the website can be found on the Shareholder information pages 330 to 332.

Corporate governance report continued

The Company's Annual General Meeting provides a valuable opportunity for the Board to communicate with private investors. At the meeting, the Company complies with the Combined Code as it relates to voting, the separation of resolutions and the attendance of committee chairmen. Whenever possible, all directors attend the Annual General Meeting and shareholders are invited to ask questions during the meeting and have an opportunity to meet with the directors following the conclusion of the formal part of the meeting. In line with the Combined Code, details of proxy voting by shareholders, including votes withheld, are made available on request and are placed on the Company's website following the meeting.

The Company's annual report and accounts and annual review, together with the Company's interim reports, interim management statements and other public announcements are designed to present a balanced and understandable view of the Group's activities and prospects and are available on the Company's website. The Chairman's statement, Group Chief Executive's review, and Business review provide an assessment of the Group's affairs and they will be supported by a presentation to be made at the Annual General Meeting.

Institutional investor

Aviva Investors, the Group's core asset management company, believes that good governance plays an important role in protecting and enhancing shareholder value. In keeping with the Group's values, Aviva Investors looks to act as a responsible investor, monitors the governance of the companies in which it invests and seeks to maintain an effective dialogue and engagement with companies on matters which may affect the future performance of those companies.

Aviva Investors maintains a detailed Corporate Governance and Voting Policy as part of its investment strategy, which underpins its approach to engaging and voting at company general meetings. The policy encompasses social, environmental and ethical issues and is applied pragmatically after careful consideration of all relevant information. In addition, Aviva Investors makes detailed voting reports available to clients, as well as providing some summary reporting on its website www.avivainvestors.com.

Directors' responsibilities

The directors are required to prepare accounts for each accounting period that comply with the relevant provisions of the Companies Act 1985, the Companies Act 2006 (where applicable) and International Financial Reporting Standards (IFRS) as adopted by the European Union, and which present fairly the financial position, financial performance and cash flows of the Company and the Group at the end of the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the directors to:

select suitable accounting policies and verify that they are applied consistently in preparing the accounts, on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business;

present information, including accounting policies, in a manner that is relevant, reliable, comparable and understandable;

provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and the Group's financial position and financial performance; and

state that the Company and the Group have complied with applicable IFRS, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy, at any time, the financial position of the Company and the Group. They are also ultimately responsible for the systems of internal control maintained by the Group for safeguarding the assets of the Company and the Group and for the prevention and detection of fraud and other irregularities. Further details of the systems of internal controls maintained by the Group are more fully described on page 92.

Directors' responsibility statement pursuant to the Disclosure and Transparency Rule 4

The directors confirm that, to the best of each person's knowledge:

- (a) the Group and Company financial statements in this report, which have been prepared in accordance with IFRS as adopted by the EU, International Financial Reporting Interpretations Committee's interpretation and those parts of the Companies Act 1985 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and results of the Company and of the Group taken as a whole; and
- (b) the management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Andrew Moss
Group Chief Executive

Philip Scott
Chief Financial Officer

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 Overview on pages 1 to 11 and the Business Review on pages 12 to 81. The business review includes sections on Group Performance (pages 22 to 27), Capital Management (pages 28 to 31), and Risk Management (pages 32 to 35). In addition the financial statements include notes on the group's borrowings (note 47); its contingent liabilities and other risk factors (note 50); its capital structure and position (notes 53 and 54); management of its major risks including market, credit and liquidity risk (note 55); and derivative financial instruments (note 56).

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 despite the current uncertain economic outlook.

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 accounts.