Where the world is going

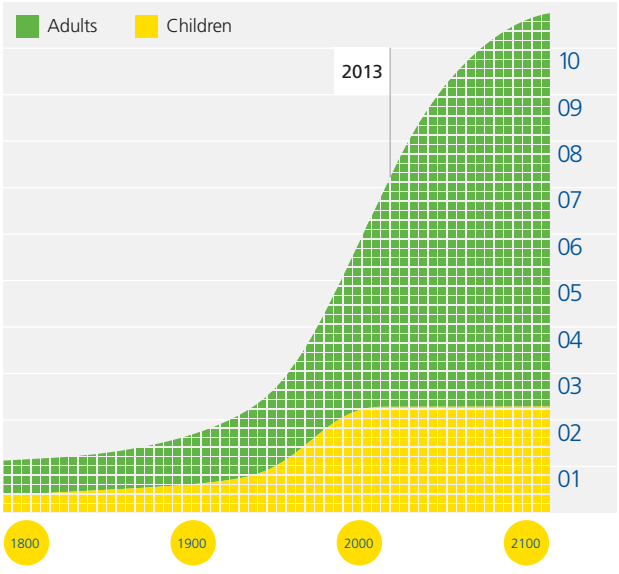
Many social and economic factors provide opportunities for the insurance and asset management industry. Here are some of them.

Older and healthier

- Baby boomers and higher life expectancy have created a large 50+ generation. Personal wealth is highly concentrated within this group
- There are significant opportunities for insurers to meet the developing needs of this segment and to manage their existing wealth
- We also operate in fast-growing, developing life insurance markets, which present opportunities for insurers to help new customers to accumulate assets.

World population

Billions



Source: United Nations Population Division

Ageing world population

Number of persons aged 60 or over (millions)

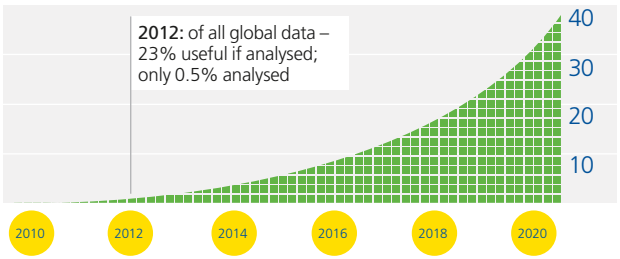
Source: United Nations Population Fund

The digital world and increasing availability of data

- The increased volume, variety and velocity of data allows for greater use of predictive analytics
- Automation of processes is likely to significantly reduce operating costs and fundamentally change the nature of the interaction we have with our customers
- Customers are increasingly open to digital sales channels and digital interaction. Mobile technology is prevalent and customers increasingly expect to manage their insurance on the move at a time and in a place that suits them.

Rapid growth in data volume

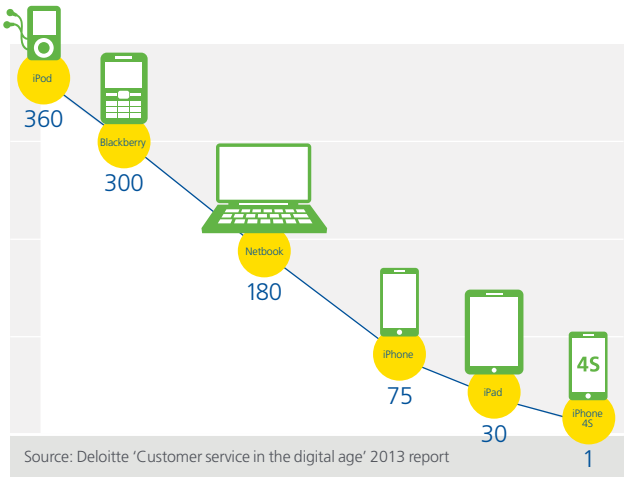
Global data (trillion gigabytes)



Source: IDC's Digital Universe Study, sponsored by EMC, December 2012

Pace of technology adoption

Days to sell one million units



Source: Deloitte 'Customer service in the digital age' 2013 report

Our purpose and plan

Our long-term strategic framework is based on four theses – investment, distribution, customer and people. The following pages outline our strategic direction.

Mark Wilson
Group Chief Executive Officer

Our values

"Having the right values is essential to achieving success. These values are important to us and will be at the heart of how we do business. The values will act as a guide whenever we decide on a course of action. Living the Aviva values will help us achieve our purpose."

For more information on our values **turn to page 23**

At Aviva, our purpose is to free people from fear of uncertainty, allowing them to get on with their lives.

A key priority is to make sure we remain financially strong, so that we can pay claims and deliver on the promises we have made to our customers, shareholders and business partners. To make this possible, we have focused on improving our capital position to place the company on a sound financial footing and give us financial flexibility. Today our economic capital surplus is double the level of two years ago.

One of our greatest opportunities is to share expertise across the Aviva Group, and make it simpler for our customers to have all their insurance needs met by us, whenever and however they choose. To help achieve this we have focused our 27,700 people on our common purpose, plan and values. There is already much to be proud of. We have a respected global brand, strong customer service, leading life and general insurance businesses, comprehensive distribution channels and an increasing presence in direct and online channels.

To build on our success and further improve our customer experience we are investing in three key focus areas: digital, predictive analytics and automation. By strengthening our capability in these areas we can deepen our customer relationships, and better identify and meet more of their financial needs.

The following pages provide more detail on our Aviva values, our customer, distribution, people and investment theses. By delivering on our purpose we will make Aviva stronger for our customers, our shareholders, our communities and our people.

Three areas of focus where we will allocate resource:

- **Digital:** We will prioritise investment in digital. This includes digital as a direct channel and also more broadly. Our aim is to increase our share of the direct digital channel and develop more effective use of data and new technology
- **Predictive analytics:** We will focus on enhancing our analytics capabilities, increasing the use of internal and external data to drive superior performance across the business including underwriting, pricing and claims
- **Automation:** We will reduce manual interventions in processes, reducing overheads by, for example, increasing auto-settled claims. This will enable us to move to a model of ongoing efficiency improvement that has significant customer benefits.

Our plan of action is based on four strategic theses

Investment thesis

The investment thesis sets out why investors should choose us, enabling investors to make an informed decision about our business

Customer thesis

The customer thesis identifies how we will meet customers' needs better than our competitors, so that we become the insurer of choice in our chosen markets

People thesis

The people thesis is about changing our culture, supporting our people to achieve their potential so they can best serve our customers

Distribution thesis

The distribution thesis ensures that we provide the range of channels through which our customers want to purchase products and services from us

Key statistics in 2013

£1.3bn
Cash remitted to Group[1]

13%
Growth in value of new business excluding Malaysia and Sri Lanka (2013 vs 2012)

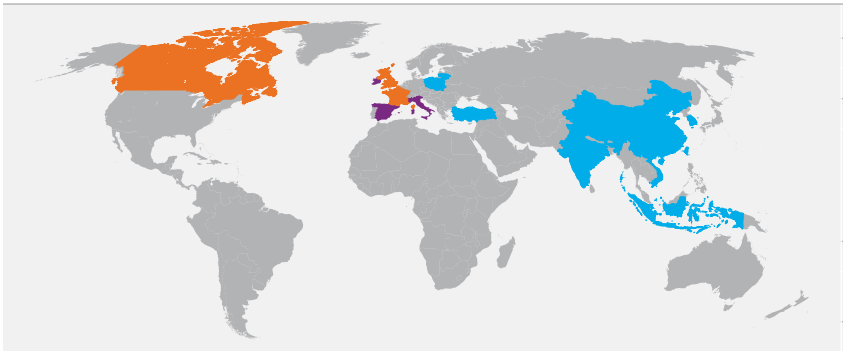
5
Key metrics: Cash flow, operating profit, expenses, Value of New Business (VNB), Combined Operating Ratio (COR)

Look at the KPI pages to see how we performed against our five key metrics. Read more on **pages 26–29**

The market focus shows how each market performed against the key metrics. Read more on **pages 30–42**

Cash flow and growth

Our aim is to be a diversified insurer with sustainable and progressive cash flows underpinned by good potential for growth.



The investment thesis sets out why investors should choose us. There are compelling reasons for investors to invest in Aviva. We offer both cash flow and growth potential.

We will present our results as simply and clearly as possible. Financial simplicity and clear financial priorities are essential for investors to make an informed decision about us.

Cash flow

We have businesses able to produce significant cash flow:

- We have three core business lines with scale – life insurance, general insurance and our asset management business, Aviva Investors
- Our business model gives us significant diversification benefits. The different mix of businesses reduces the impact on us of any market shocks
- We focus on progressive cash flow back to the Group centre. This is the cash that we use for paying dividends to shareholders
- We will maintain our balance sheet strength and reduce debt levels over time.

Insurance companies' financials have been overly complex. We have simplified our financial reporting metrics to focus on five key measures which can be seen in the adjacent table.

Growth

We have businesses that offer growth potential in value of new business which is a good proxy for future cash flow:

- We are driving cash flow growth in our established markets, for example in the UK, France and in Canada
- We have businesses in selected growth markets in Europe and Asia
- We are working hard to turn around the performance of our businesses in Italy, Spain and Ireland and to improve performance at Aviva Investors. We have made good progress in these businesses
- There are still expense and efficiency opportunities to realise. We remain on track to reduce expenses by £400 million in 2014 (vs. 2011 expense base).

Matrix of metrics – five clear financial priorities

	Cash flow	Operating profit	Expenses	VNB	COR
Group	●	●	●	●	●
UK&I Life	●	●	●	●	–
UK&I GI	●	●	●	–	●
France	●	●	●	●	●
Canada	●	●	●	–	●
Aviva Investors	●	●	●	–	–
Italy	●	●	●	●	●
Spain	●	●	●	●	–
Poland	●	●	●	●	●
Turkey	●	●	●	●	●
Asia	●	●	●	●	●

Key: ● Critical ● Significant ● Important

1 This includes £347 million remitted by UK general insurance in January 2014 relating to activity in 2013.

Simplicity, your way

We start with what our customers really need and deliver it more simply than anyone else.

Key statistics in 2013

31.4m
Customers

£27.5bn
Paid out in claims and benefits during 2013

£8.3bn
Economic capital surplus providing security for our customers[1]

Historically the relationship between customers and insurance companies has sometimes lacked trust, with the challenge being levelled that insurers don't understand or care about customers' lives or needs. Products and communications are viewed as overly complicated, with customers seeing little tangible difference between the products and service available from different companies.

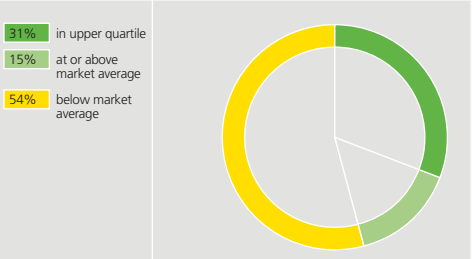
Our role is to ensure that customers feel confident in their purchase decisions and secure that the product they have chosen meets their needs. This means making sure our products, service and communications are simple and transparent, and enable customers to feel in control of their financial future.

Customers want to feel in control of their purchases and to feel confident that what they buy meets their needs. This means we must demonstrate we understand them as individuals, and deliver products and solutions that are personalised to them.

Additionally customers, quite rightly, want to interact with their insurer in the most convenient way. We need to ensure that our purchase and claims processes and the products themselves are as transparent and straightforward as possible.

The customer thesis represents our ambition to meet these customer needs better than our competitors, so that we become the insurer of choice.

Relationship Net Promoter Score® (2013) (%)



Our Relationship Net Promoter Score® measures the likelihood of a customer recommending us. It gives us a single, simple measure of customer experience which can drive improvements in customer loyalty.

For details on our Relationship Net Promoter Score in 2013, **turn to page 29**

Simplicity

To create simplicity for our customers, we strive to:

- Remain financially strong so that we are there to deliver on our promises to customers. This is our first priority
- Be obsessive about understanding the real needs of our customers and helping them to make the best decisions
- Be bold in creating solutions that take away customers' fears and problems
- Always do the right thing for the customer
- Ensure our products always do 'what they say on the tin' – customers will get exactly what they expect
- Simplify every aspect of our relationship with the customer – contracts, processes, products and communications
- Be a 'one-stop-shop' – single conversations, logins and telephone numbers across all the products we offer
- Enable customers to choose how they want to deal with us
- Reward customer loyalty.

Implementing the customer thesis

The customer thesis has been rolled out to all 27,700 of our employees to inspire our people to really focus on what will make the biggest difference for customers.

There won't be any 'big bang' changes – this is an evolution rather than a revolution.

In 2014, we will start to see a change in propositions, loyalty and online customer experience.

1 The economic capital surplus represents an estimated position. The 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.

Key statistics in 2013

100

We have around 100 bancassurance/ distribution agreements in place

22,000

We have around 22,000 sales employees/Aviva tied agents worldwide

Increase direct access to customers, build digital, maintain diversification

We will increase the share of business generated in our own channels, introduce new technology for distributors and customers, and maintain a diversified distribution mix in each market.

Distribution today

Insurance has always been a 'people business' with strong relationships existing between customers, distributors and insurers.

In each of our businesses, the spread of distribution varies from country to country. For example, in Spain the dominant distribution channel is bancassurance, in Canada most customers come to us via brokers and in Poland we have a strong direct sales force. Many UK life customers come to us via Independent Financial Advisers (IFAs) whereas UK general insurance customers are more likely to come to us directly.

Where distribution is going

A number of social, technological, regulatory and economic trends are impacting the established routes to market:

- In line with other industries, insurance has seen a significant increase in digitally-enabled communications, services and transactions
- Bancassurance, the distribution of our products through partners, remains a key channel globally, with fast growth especially in Asia and Eastern Europe
- The share of distribution by brokers, IFAs, tied agents and direct sales forces in some of our markets is falling as a result of customer choice.

Where we want Aviva distribution to be

- We are targeting a more balanced distribution portfolio in each of our business units
- We will support our bancassurance and broker partners by building best practice capabilities
- We have plans for more digital interaction with customers across all channels.

Access to customers

Our goal is to grow the share of business generated from our own channels by:

- Increasing sales through proprietary channels
- Making better use of our experience in other markets when developing new distribution channels.

Build digital

We plan to enhance performance and improve customer satisfaction by:

- Increasing our use of digital across all businesses, both in sales processes and in customer communication and servicing
- Investing in digital to support the growth of our direct distribution.

Maintain diversification

We plan to maintain a diversified distribution mix in each market by:

- Ensuring a more balanced distribution portfolio in each country
- Building best practice capabilities in bancassurance and broker channels and supporting partners by launching innovative products and technology.

Read more about our distribution networks in the market focus pages on **pages 30–42**

Achievement, potential, collaboration

Supporting people to achieve their potential; enabling us to achieve outstanding performance.

Key statistics in 2013

27,700
Employees across 17 countries

21%
Of senior managers are women

£6.2m
Invested in our communities plus 41,223 volunteering hours in 2013

For more information on our responsibility to our employees, **turn to page 46**

In our 318-year history, the important things have never changed – people matter to us. There are a number of trends affecting workplaces across the globe and these are impacting our global workforce.

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

We need to continue recruiting talented colleagues, improving performance management and boosting employee engagement. Our people thesis sets out how we will be different to other employers.

How we'll be different: the Aviva values

Values 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. Living our values will enable us to build a better place to work and care more about customers' real needs.

The Aviva values

Care more
At Aviva we care like crazy about our customers, each other, and the communities we operate in.

Kill complexity
At Aviva we are obsessed with making things simpler for our customers and each other – we manage complexity so our customers don't have to.

Create legacy
At Aviva we strive to create a future for our customers and each other, which is every bit as bright and sustainable as others created before.

Never rest
At Aviva we are driven every single day to be edgy, to think bigger and do better for our customers and each other.

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.

The Finlay family
High River, Canada

In 2013 southern Alberta suffered devastating floods and High River was badly affected. The waters rose so quickly that the Finlays left with only the clothes they stood in. Their first priority was to ensure their two young sons, Degan and Khail, were safe. Aviva sent a loss adjuster without delay who helped get the family into another house, allowing them to rebuild their lives. Husband D'Arcy Finlay says: "Life's full of uncertainties and major challenges; for us, after the flood, it became whether we'd even have a home. Fortunately, Aviva had our backs. Our boys are safe and now we're looking forward to making the new house into a family home."

Danuta Szmańska
Skrwilno, Poland

When Danuta's daughter announced she was getting married, Danuta wanted to pay for the wedding. But with an epileptic son requiring expensive medication and her husband's business facing tough times, that was going to be a struggle. Danuta told her Aviva agent that she wanted to cash in a policy to pay for the wedding. The agent advised her only to partially surrender the policy and keep the critical illness and death cover, just in case. The wedding was all paid for thanks to the Aviva policy. Unfortunately, nine months later, Danuta was diagnosed with bilateral kidney cancer. Her critical illness cover guaranteed quick access to treatment which saved her life. "None of us know what the future holds. But I have high hopes. And I have people to live for" she says.

Measuring our performance in 2013

In the following pages you can read more about our 2013 performance.

Financial key performance indicators

Cash remittances

Relevance and measurement	Performance
Sustainable cash remittances from our businesses to the Group is a key financial priority. This indicator measures the gross amount of dividends paid by businesses to the Group.	The overall improvement in cash remittances was driven by increases from UK & Ireland Life and UK General Insurance. The remittance from UK General Insurance was received in January 2014, although in future we expect to receive remittances in the fourth quarter each year. We continue to take action on capital efficiency to increase these cash remittances.

Adjusted operating profit[1, 2]

Relevance and measurement	Performance
This measures our operating profitability on an International Financial Reporting Standards (IFRS) basis. It excludes non-operating items such as restructuring costs, impairments, short-term investment volatility and profits or losses arising on disposals.	Operating profit on a continuing basis was up 6%, principally due to lower operating costs across our markets. The results also include a £129 million adverse impact from the Canadian floods in June and July 2013.

IFRS profit/(loss) before tax[2]

Relevance and measurement	Performance
This measures the total IFRS profit or loss during the year including operating profit and non-operating items such as restructuring costs, impairments, short-term investment volatility and profits or losses arising on disposals.	The IFRS profit before tax was £2.8 billion for the year. This includes a £0.8 billion profit on the disposal of our US Life business (including recycling of reserves of £0.6 billion on completion). Excluding the impact of the US disposal, expense efficiencies achieved across the Group have driven an increase in profit before tax. The loss in 2012 reflected the write-down of £3.3 billion in the value of our US business.

Our performance

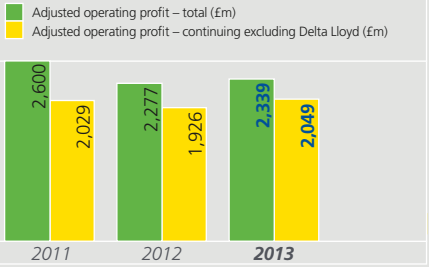
Cash remittances
(£m)

2013
£1,269m

2012
£904m

2011
£778m

Adjusted total operating profit



IFRS profit/(loss) before tax
(£m)

2013
£2,819m profit

2012
£(2,521)m loss

2011
£184m profit

1 The Group's accounting policy for operating profit (also referred to as adjusted operating profit) remains consistent with prior periods and is set out in 'IFRS Financial Statements – Accounting Policies' in the annual report and accounts.
2 The Group adopted the amendments to IAS19 during the year and the requirements of the revised standard have been applied retrospectively. Comparatives have been restated accordingly.

Financial key performance indicators

Expenses

Relevance and measurement	Performance
Managing our expense base is essential to delivering our investment thesis to improve competitiveness. Expenses include integration and restructuring costs and operating expenses. Operating expenses include claims handling costs, non-commission acquisition costs and other expenses.	Operating expenses (on a continuing basis) reduced by 7% showing the impact of cost savings initiatives across all markets. The overall 2011 baseline for the Group-wide expense reduction target is £3,366 million, meaning that £360 million of savings out of the £400 million target have been delivered by the end of 2013. On a continuing basis, integration and restructuring costs were 21% lower than 2012 and mainly include expenses associated with the Group's transformation programme.

Value of new business (VNB)

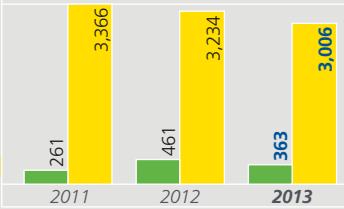
Relevance and measurement	Performance
Value of new business is a key measure of our growth and the source of future cash flow in our life businesses. VNB is calculated on a Market Consistent Embedded Value (MCEV) basis.	Value of new business increased 13%, primarily driven by France, Asia[1], Poland and the UK. Growth in these markets was partly offset by reductions in Italy, which was impacted by lower product margins, and Spain, where volumes and margins were affected by difficult local market conditions and the disposal of Aseval.

General insurance combined operating ratio (COR)

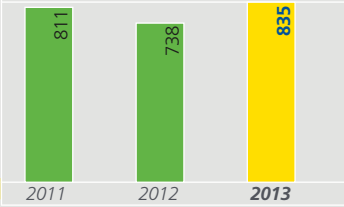
Relevance and measurement	Performance
COR measures the profitability of general insurance business. A percentage below 100% indicates that the general insurance business has delivered an underwriting profit. COR is calculated as net incurred claims expressed as a percentage of net earned premiums, plus written commissions and expenses expressed as a percentage of net written premiums.	Profitability in our general insurance business decreased slightly to 97.3% (*2012: 97.0%*) principally due to the impact of the Alberta and Toronto floods in Canada, which more than offset the positive effect of favourable weather in the UK & Ireland and improved underwriting discipline in Europe.

Our performance

Expenses



Value of new business – excluding Malaysia and Sri Lanka (£m)



General insurance combined operating ratio (%) excluding Delta Lloyd and RAC

2013
97%

2012
97%

2011
98%

1 Excluding Malaysia and Sri Lanka.

Financial key performance indicators

Operating capital generation (OCG)[1]

Relevance and measurement	Performance
OCG measures the amount of surplus capital generated by our business and is one of the indicators we use to monitor future cash remittances from businesses to Group. OCG in our life business represents surplus on a MCEV basis, after investment in new business. For non-life business, we use after tax operating return adjusted for movements in capital requirements.	OCG on a continuing basis is down 5% impacted by losses incurred in the Canada floods, partly offset by expense savings across the Group. The life business contributed £1.2 billion (*2012: £1.3 billion*) and the non-life business contributed £0.6 billion (*2012: £0.6 billion*) to OCG in 2013.

Economic capital surplus[2]

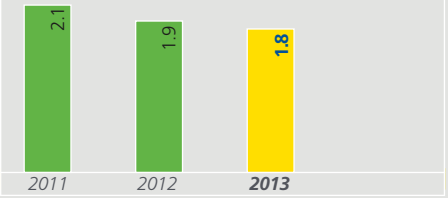
Relevance and measurement	Performance
This is a measure of the financial strength of our business. A ratio over 100% represents a surplus of available economic capital over our required economic capital.	Economic capital surplus has increased by £3.0 billion in 2013, driven in part by the completion of the US, Delta Lloyd, Aseval and other disposals. In addition, there was a further contribution from profits earned in the year and positive market movements, partly offset by changes in the pension scheme and Polish pension reform.

Return on equity[1]

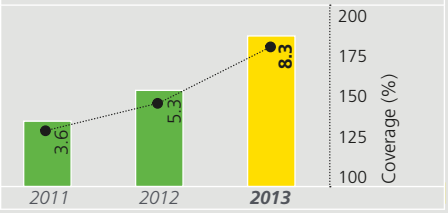
Relevance and measurement	Performance
This shows the return generated on the capital we have invested. Return on equity is calculated as total after tax operating return divided by opening equity shareholders' funds.	Return on equity has increased in 2013 principally due to a reduction in opening capital as a result of a write-down of the United States life and annuities business following the announcement to sell this business.

Our performance

Operating capital generation – continuing excluding Delta Lloyd (£bn)



Economic capital surplus
(£bn)



Return on equity
(%)

2013
17.8%

2012
11.2%

2011
12.5%

1 The Group adopted the amendments to IAS19 during the year and the requirements of the revised standard have been applied retrospectively.
2 The economic capital surplus represents an estimated position. The 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 third parties.

Non-financial metrics

Business ethics

Performance

95% of our employees accepted our business ethics code in 2013 (*2012: 88%*). We aim for 100% each year and continue to work towards this goal.

95%

Reduction in CO_2e

Performance

CO_2e data includes emissions from our buildings, business travel, outsourced data centres, water and waste to landfill. Our long-term reduction target remains a 20% reduction from 2010 to 2020.

8%
CO_2e reduction 2013

Board membership

Males | Females

We remain committed to having a diverse Board in terms of gender as well as diversity of experience, skills and knowledge, background and nationality. There were 11 members on the Board in 2013, of whom nine were male and two were female.

9 | **2**

Group executive

Males | Females

In 2013, 21% of Group executive members were female (*2012: 29%*). From April 2014, Monique Shivanandan will be joining the Group executive as Chief Information Officer. We recognise that a diverse senior management team is better for business.

11 | **3**

Senior management

Males | Females

There were 638 senior managers at Aviva, including those in Aviva's subsidiary Boards. Of this number, 502 were male and 136 were female.

502 | **136**

Aviva Group employees

Males | Females

There were 27,718 employees at Aviva as at 31 December 2013 of whom 13,538 were male and 14,180 were female.

13,538 | **14,180**

Customer advocacy

Performance

Our Relationship Net Promoter Score® measures the likelihood of a customer recommending Aviva. It gives us a single, simple measure of customer satisfaction which can drive improvements in customer loyalty. Our 2013 survey shows four of our businesses achieved upper quartile, two were at market average and seven were at lower quartile relative to their local markets. Encouragingly, UK General Insurance, one of our largest businesses, has moved into an upper quartile position. Our customer thesis work should improve this measure.

31%
in upper quartile

15%
at or above market average

54%
below market average

Employee engagement and enablement

Performance

We measure employees' views on Aviva through our annual global Employee Promise Survey and two of our key measures are engagement and enablement. We know that we need to increase our employees' sense of engagement and enablement. Our employees should feel they can build a future career at Aviva and trust their senior leaders after a period of instability. We need to demonstrate that we value our employees and are focused on creating an environment in which they can thrive.

56%
engagement in 2013

64%
enablement in 2013

Community investment

Performance

In 2013, we invested £6.2 million (*2012: £11 million*) into the community including cash, in kind donations and skills-based volunteering.

£6.2m

UK & Ireland Life

Aviva is a leading life insurer in the UK and Ireland, offering retirement, risk and savings products to both individuals and groups.

Business in brief

We offer:
Pensions, annuities, protection, bonds and savings, investment sales, private medical insurance

12.9m[1]
Customers

6,000
Employees

Market type	
Cash generator	●
UK Life	
Turnaround	●
Ireland Life	

For more information about market priorities, **turn to page 20**

David Barral
CEO, Aviva UK & Ireland life insurance

Our strategy

By focusing on providing our customers with competitive products that meet their changing needs, we aim to continue to improve cash generation and deliver profitable growth. Our overall business is focused on risk products and long-term savings.

Our expertise across a comprehensive range of risk products, including protection, annuities, equity release and private medical insurance, is underpinned by our underwriting and investment management expertise, as well as our strong distribution networks and our brand.

We intend to grow our business by focusing on the needs of our customers at key times in their lives. We have championed the importance of life protection for families, and will develop digital tools to help them choose our products in a simple and informed way.

The retirement market is a crucial area of our business and one we have successfully campaigned on for several years to ensure consumers get the best deal. We work closely with our customers to help them prepare for their retirement and consider their options. This preparation includes assisting customers as they consolidate their pension savings and choose the best way to fund the different stages of their retirement.

We also intend to grow our award-winning private medical insurance business.

We take care of more than £90 billion of assets on behalf of our pensions and investments customers. By managing our existing book of business efficiently we are able to offer continued value-for-money for our customers and shareholders. Customer service is paramount at Aviva, and we are continually looking at ways to improve our service by using more efficient processes and automated tools.

Retaining our customers remains a priority for us. For instance, in the area of automatic enrolment and workplace pensions we are helping employers prepare for the date when their automatic enrolment duties come into force for their businesses.

We are also growing our investment platform by helping advisers consolidate their clients' pension savings.

Consumers' increasing use of digital tools and mobile devices is providing the impetus for Aviva to develop simple, differentiated software applications which allow customers to interact with us quickly and easily at a time that suits them. In February 2014, we launched a new online portal to enable our customers to access all of their Aviva products from a single login, ensuring they receive the same simple, accessible and high-quality online experience across our businesses in the UK.

We need to have a deep understanding of our customers, including their attitudes, behaviour, lifestyle and health to help us innovate and price fairly in the market. Our use of data from our extensive customer base and external sources is invaluable to this understanding.

Our employees shape our customers' experience. Our focus is to build on our employee engagement and drive improved effectiveness, as well as develop and retain our key talent. We recognise there has been a period of uncertainty for our employees as we have transformed our UK & Ireland Life business and remain committed to developing a workplace that fulfils individuals' career aspirations and supports their wellbeing.

1 This figure represents the total unique customers in the UK and Ireland and does not include the number of people covered by our policies, which is considerably more.

Full year performance

UK & Ireland Life	2013 £m	2012 £m
Cash remitted to Group	**370**	150
Operating capital generation	**595**	688
Life operating profit: IFRS basis	**952**	892
Expenses		
Operating expenses	**607**	736
Integration and restructuring costs	**59**	71
	666	807
Value of New Business (VNB)	**441**	412
IFRS profit before tax	**717**	107

In 2013 we delivered solid results across our key financial metrics, despite a challenging macroeconomic and regulatory environment. We increased our dividend to Group to £370 million, improved life operating profits by 7%, reduced operating expenses by 18% to £607 million and improved VNB by 7%. This reflects our focus on cost efficiency and pricing discipline.

The performance of our business in Ireland has started to improve. A dividend of £70 million was paid in July 2013, life operating profit was up at £22 million from £5 million in 2012, VNB was up at £6 million and operating expenses were down 38% to £38 million. The improvements reflect cost reductions and a strategic shift in the business mix to more profitable risk products, away from low margin pensions.

UK & Ireland Life operating profit increased by 7% primarily due to greater efficiency and an improved result in our Irish life business. Our large back book of business ensures an element of earnings stability and gives the opportunity for future efficiency improvements.

During the year, we increased the provisions for commerical mortgage defaults by £300 million due to impairments above the long-term trend. Following an extensive review, we reorganised our commercial finance team.

> “Our businesses have performed strongly through significant market, regulatory and economic change, and are well positioned to sustain improvements in cash flow and growth.”

David Barral
CEO, Aviva UK & Ireland Life

Our focus on achieving our financial targets has not reduced our commitment to our customers. Despite the level of transformational change seen during 2013, our Customer Transaction Net Promoter Score® has increased to +23, four points higher than 2012. We continue to receive external recognition for improvements to service, winning 47 awards during 2013, including Best Protection Provider (Money Marketing), Best Annuity Provider (Professional Adviser), six gold awards (Money Marketing Service), and Health Insurance company of the Year for a fourth year running at the Health Insurance Awards.

The market in 2014

We are well positioned to take advantage of any market recovery and the long-term structural trends in our target markets.

We are seeing increased activity in the protection market as the mortgage market becomes more buoyant. The annuities market is in a long-term growth phase as the UK population ages, and a greater proportion of employees retire with a defined contribution pension scheme. Automatic enrolment reaches its peak period for new joiners in 2014, whilst our platform business continues to grow as investment funds move to modern platforms.

Whilst these trends are positive, the unprecedented regulatory focus on the UK life insurance industry continues.

In February 2014, the Financial Conduct Authority (FCA) reported on its review of annuities, with a focus on customer outcomes and a concern that too few customers shop around in the open market. The FCA concluded that many customers are not getting the best available retirement income and is launching a market study on retirement products. This is a view that Aviva supports. We offer the same rates to our existing pension customers and open market customers and have launched a five point plan for the industry to raise standards and help customers get a better deal in their retirement.

In 2013, the Department for Work & Pensions published a Workplace Pension charges consultation paper. The paper made a number of proposals relating to charge caps, adviser commission and disclosure of information. The original planned implementation date of April 2014 has now been delayed for at least a year. We expect the impact on us to be immaterial. We took action in 2000 to cap charges on our group and individual pension book, pricing at 1% or less. New schemes are currently being written at charges well below the proposed charge caps.

We are leading the debates affecting our customers and are confident our underlying strengths and commitment to our customers position us well in 2014.

Our five point plan on annuities

At Aviva, we encourage customers to shop around for the best annuity. However many more people could get better deals. We are calling on the industry to help customers get a better deal on their retirement income. This is our plan:

- Consumers must be given clear guidance to help them understand the choices available and the importance of comparing rates
- Providers must obtain medical information and ensure customers understand the potential benefits this can have on increasing their income
- Both existing and open market customers should be given competitive annuity rates
- The limitations of ‘restricted’ panels should be made clear to customers
- Customers should take care when shopping around for an adviser.

For more information on financial performance see ‘Other Information – Financial and Operating Performance’ in our annual report and accounts

Business in brief

We offer:
Personal home and motor insurance, general insurance for businesses, corporate and speciality risks

12.9m[1]
Customers

9,000
Employees

Market type
Cash generator
UK general insurance
Turnaround
Ireland general insurance

For more information about market priorities, **turn to page 20**

UK & Ireland General Insurance

We are the UK's largest general insurer and a leading general insurer in Ireland, providing a wide range of products to personal and commercial customers.

Maurice Tulloch
CEO, Aviva UK & Ireland general insurance

Our strategy

We are focused on providing our customers with products that meet their insurance needs. We will support the Group's investment thesis by delivering cash and profitable growth through our expertise in underwriting, pricing and claims management.

We plan to improve cash flow by reducing our cost base through further efficiencies, increasing average product holdings per customer as part of our digital investment, and extending our reach through targeted growth in commercial business.

We have a diverse distribution model in UK & Ireland General Insurance, selling our products through brokers, partners and directly to customers and we continue to focus on establishing clear and compelling propositions which deliver an excellent customer experience.

We are investing in the latest technology to serve our customers more effectively. In 2014, we will accelerate our use of predictive analytics, which uses advanced modelling techniques to identify trends in a variety of data. We will make full use of this to improve pricing sophistication, target growth in profitable lines of business, improve fraud detection in both underwriting and claims, and be more informed in how we target customer communications.

In commercial lines we are implementing Guidewire, an insurance software solution, across our policy administration and claims activities. The increased automation this provides will improve accuracy and efficiency of processing and will enable us to build products that better reflect changing customer needs.

Customers are our top priority. Their feedback continues to be our richest source of insight. In 2013 we redesigned existing products and created new ones following extensive customer research and the introduction of independent third-party and customer online rating and review tools. As a result, our personal home and motor products are now Defaqto five-star rated. In addition, a new online portal will enable our customers to access all of their Aviva products from a single login, ensuring they receive the same simple, accessible and high-quality online experience across our life and general insurance businesses in the UK.

Our product range will continue to be guided by customer research, and in addition we will supplement the existing insights with a broader range of customer satisfaction measurements across all distribution channels.

Our people strategy is designed to foster a high performing culture with a focus on achievement, potential and collaboration. As part of this, we are developing our technical learning programmes and acting upon the results of our internal employee survey. We are also continuing to improve our apprenticeship programme and enhancing our graduate programme.

We continue to work on the turnaround of the Irish general insurance business. Our strategy in Ireland is to focus on strengthening our position as a leading broker-based insurer and increase our retail market share through a digital offering that puts the customer at the centre of everything we do.

1 This figure represents the total unique customers in the UK and Ireland and does not include the number of people covered by our policies, which is considerably more.

Full year performance

UK & Ireland General Insurance	2013 £m	2012 £m
Cash remitted to Group	**347***	150
Operating capital generation	**374**	376
Operating profit: IFRS basis	**489**	502
Expenses		
Operating expenses	**818**	826
Integration and restructuring costs	**24**	170
	842	996
Combined Operating Ratio (COR)	**97.2%**	98.6%
IFRS profit before tax	**387**	248

*FY13 dividend remitted from UKGI of £347 million was received by Group in January 2014.

Overall performance in 2013 has been good, with improvements seen in most of the key financial metrics that we use to measure progress against our investment thesis of 'cash flow plus growth'.

Our dividend has risen to £347 million (*2012: £150 million*), benefitting in part from the one-off impact of the Group restructuring undertaken during 2013.

The combined operating ratio has improved to 97.2% (*2012: 98.6%*), reflecting a combination of more disciplined underwriting, favourable weather experience compared to 2012 (despite the stormy end to 2013) and lower expenses.

Total expenses have fallen by 15% to £842 million (*2012: £996 million*). This has been driven by a substantial reduction in restructuring costs from 2012, which included the impact of the Ireland transformation programme and simplification of the UK business operation.

Operating profit is marginally lower at £489 million (*2012: £502 million*), with the impact of the improved underwriting performance offset by a reduction in investment return. This primarily reflects the lower rate of return received on the internal loan in 2013 compared to that previously received in 2012.

> "We are investing in the latest technology to serve our customers more effectively."

Maurice Tulloch
CEO, Aviva UK & Ireland General Insurance

We have significantly strengthened our senior management team, most notably with the appointments of Maurice Tulloch as CEO in September (Maurice was previously CEO of Aviva in Canada, our second largest general insurance business), Colm Holmes as CFO, Steve Treloar as MD of UK Direct and, most recently, we announced the appointment of Ian Foy as MD Personal Lines.

In July we appointed Alison Burns as CEO of our Irish business and John Quinlan as MD of our general insurance company in Ireland. We expect this strong leadership team to drive the business forward.

The market in 2014

Market conditions for private motor and home insurance remain highly competitive in the UK and Ireland and we expect this to continue throughout 2014. Consumers are price conscious and we do not expect this to change. Our market-leading capabilities in predictive analytics will become increasingly important as success in this environment depends on being able to price risk, and serve customers effectively.

In the UK motor insurance market, legal reforms such as the ban on referral fees may reduce claims settlement costs and reduce premiums. However there is uncertainty over the impact of these reforms and the Competition Commission review. This uncertainty will remain until a new 'normal' for claims patterns and costs establishes itself.

In commercial lines, the fragile economic environment has stifled business investment and growth in recent years, and whilst the economic 'green shoots' are likely to give welcome uplift to business volumes, we expect the rating environment to remain generally soft in 2014. We continue to see capital flowing into the market which has the effect of suppressing commercial rates.

We continue to be an active participant with the Association of British Insurers on the design and implementation of Flood Re, whose primary purpose is to ensure that flood insurance remains accessible and affordable to those domestic properties at high risk of flood. The severe flood events of the winter only serve to re-emphasise the importance of this market solution to all parties: customers, insurers and Government.

We expect further regulatory interest in the conduct of the UK general insurance market and we will continue to build on our strong relationships with the regulators to preserve the competitiveness and accessibility of the UK market.

Aviva Drive app

We have re-entered the telematics market with 'Aviva Drive', a new app which won the Insurance Times 'Innovation of the Year' award. It provides discounts on motor premiums based on customers' individual driving habits. Over the course of 2013 the app was downloaded 215,000 times and we recorded nearly four million miles' worth of driving data. In 2014, we will build on this data to provide enhanced rating insight, increase customer engagement and improve personalisation.

For more information on financial performance see 'Other Information – Financial and Operating Performance' in our annual report and accounts

Business in brief: ***Europe***

We offer:
Pensions, protection, annuities, bonds and savings, personal and commercial general insurance, health insurance

12.9m[1]
Customers

6,600
Employees

Market type	
Cash generator	●
France	
Growth	●
Poland, Turkey	
Turnaround	●
Spain, Italy	

For more information about market priorities, **turn to page 20**

Europe

We are focused on five markets: France, a strong cash generator; Poland and Turkey, growth markets; and Spain and Italy which we are turning around.

David McMillan
CEO, Aviva Europe

Our strategy

Our strategy for the European business is to continue improving operational performance and to deliver sustainable and reliable cash remittances to Group. We focus on capital efficient products that meet the needs of our customers.

We will deliver our strategy through maintaining our strong presence in profitable segments in France. We will conclude the turnaround of our Italian and Spanish businesses so they are well-positioned to benefit from recovery in their markets, and capitalise on growth opportunities in Poland and Turkey through a multi-product multi-channel strategy.

This is underpinned by a continuous focus on balancing cost efficiency and investment.

Full year performance

Over the past year we have made significant progress in transforming our European portfolio and have increased cash remittances to Group by 13% to £388 million. Value of New Business (VNB) grew by 12% to £303 million, profitability improved in general insurance and we delivered modest cost savings.

Life operating profit was £851 million (*2012: £869 million*). Excluding Aseval (which was sold in April 2013), life operating profit is up 5%. This was primarily driven by strong growth in France and Poland as margins improved and expenses reduced. General insurance operating profit increased by 14%, largely driven by the continued turnaround in Italy. Our operating expense base reduced by 3% (7% in local currency) as we continue to focus on efficiency.

We have also successfully reshaped our portfolio, disposing of a number of non-core businesses.

Our European businesses should benefit both from any macroeconomic recovery and also from our strategic focus on value and capital efficiency.

Europe	**2013 £m**	2012 £m
Cash remitted to Group	**388**	343
Operating capital generation	**558**	571
Operating profit: IFRS basis		
Life	**851**	869
General insurance & health	**112**	98
	963	967
Expenses		
Operating expenses	**644**	662
Integration and restructuring costs	**34**	28
	678	690
Value of New Business (VNB)	**303**	271
Combined Operating Ratio (COR)	**98.1%**	99.4%
IFRS profit before tax	**1,144**	931

France: cash generator

Our strategy and full year performance

Our French business is one of Aviva's main cash generators whilst also delivering profitable growth. Our strategy is focused on delivering sustainable dividends to Group through increasing profitability in our life business, targeted growth in attractive general insurance market segments, and a continuous focus on efficiency and customer service.

In France we have a market share of 4% in life and 2% in general insurance[2]. We have a well-diversified presence across products, channels and customer segments with over 3.2 million customers and over €80 billion of assets under management.

One of our key strengths is our diverse distribution model. We have a large owned distribution network including more than 900 tied agents and UFF (the largest IFA network with a 10% market share). We distribute our products

1 This represents unique customers and not the number of people who are covered by our policies, which is considerably more.
2 According to Fédération Française des Sociétés d' Assurances (FFSA), 2012.

through more than 1,200 active brokers and online through our Eurofil brand. We also have key partnerships with AFER, the largest savers' association in Europe, and Antarius, our joint venture with Crédit du Nord.

In addition, we have invested in growing our direct business. We are currently the largest direct provider of funeral protection and the second largest direct general insurer.

In 2013 we made strong progress improving our life product mix, focusing on capital efficient products. Unit-linked savings and life protection VNB increased by 130% and 35% respectively.

In 2014 we are continuing this trend, launching new unit-linked funds and other innovative solutions, for example Eurocroissance (a hybrid with-profit and unit-linked product). We also plan to launch new protection products and simplify underwriting procedures.

We are also focused on strengthening our product range for small businesses with new dedicated products for health and retirement. In 2013 we increased health premiums from small and medium sized businesses by 15%.

We have recently introduced a 'systems thinking' approach, empowering our employees to meet customer requirements more effectively through simplifying and improving our processes.

To do this, we are investing in the development of our customer-facing people, providing them with the skills and training to have greater autonomy and discretion when serving customers. We are importing this approach from our UK business where it has been highly successful in improving customer service and reducing cost.

> "Distribution is one of our key strengths in Europe. We will build on our existing relationships and further invest in digital and owned distribution."

David McMillan
CEO, Aviva Europe

Our business in France showed strong growth on most key financial metrics. Total operating profit improved by 6% to £448 million (*2012: £422 million*) and cash remittances grew by 16% to £235 million (*2012: £202 million*). In addition, there was particularly strong growth in VNB, which increased by 39% to £166 million. While our reported COR increased in the year to 97.1% (*2012: 94.9%*), underlying profitability, excluding adverse weather events and reserve movements improved.

The market in 2014

France is a stable market with a large, well-developed insurance sector. We expect higher growth in the protection, health and retirement sectors as a result of changes in customer needs and the role of the government in the provision of social welfare.

Health market reforms currently underway will take effect in 2016 and change the market structure. Our strategy is focused on individuals and sole traders outside the scope of the reforms.

Poland and Turkey: growth markets

Our strategy and full year performance

Poland and Turkey are markets that offer exciting growth opportunities. They have growing economies with relatively young and under-penetrated insurance markets. According to Swiss Re, life insurance penetration in 2012 in Poland and Turkey is 1.9% and 0.2% of GDP compared to the European average of 3.9%.

Our focus in these markets continues to be growing VNB by strengthening existing distribution networks and relationships, and broadening our distribution channels.

Poland

We are the second largest insurer by profit in Poland with over 3.5 million customers and over £17 billion assets under management. Our life business has a 7% market share, whilst our general insurance business is small but growing. We also operate a life subsidiary in Lithuania where we are the second largest life insurer and third largest pension provider.

We have a direct sales force with 2,300 tied agents and a key relationship with Bank Zachodni WBK (part of the Santander group). Our life business remains centred on unit-linked and life protection sales. Whilst the protection market has seen significant growth in recent years, premium penetration rates remain low.

In 2013, we extended our bancassurance relationship with Santander increasing our network from 500 to 900 branches. We have also improved our digital and online presence.

Businesses in brief:
France

We distribute through:
AFER, UFF, 900 tied agents, over 1,200 active brokers, Eurofil (online), Crédit du Nord

3.2m
Customers

4,100
Employees

For more information on financial performance see 'Other Information – Financial and Operating Performance' in our annual report and accounts

Market focus continued

Business in brief:
Poland and Turkey

In Poland, we distribute through:
Two joint ventures and six bank partners, 2,300 tied agents, 600 multi-agencies, 800 brokers

In Turkey, we distribute through:
Akbank and other partners (1,100 branches), 700 direct sales advisors, 140 agencies

5.6m
Customers

1,400
Employees

For more information about market priorities, **turn to page 20**

We have launched a virtual branch selling life investment products directly to customers, set up agreements with price comparison sites to sell our products, and invested in social media engagement. We are one of the biggest direct general insurance providers with a 15% market share[1].

We are the second largest pension provider based on assets under management. The Polish government has now introduced legislation changing the pensions system; however our pensions business has been closed to new customers since 2011, therefore the impact of the changes on VNB will be marginal.

Our life business generates most of our operating profit and cash in Poland. The life market remains attractive and we plan to continue to grow our life business in 2014. We will do this by increasing the productivity of our current direct sales force, launching a new branch based network with a focus on a younger demographic, selling both insurance and other financial products (including third-party mortgages and loans), and further developing innovative online solutions.

Operational efficiency has continued to improve, driven by automation and digitalisation of core processes and implementation of customer self-service tools. This is an area we plan to invest more in over the next few years.

In Poland, VNB increased strongly to £51 million (*2012: £35 million*) driven by higher sales and improvements in product mix. Total operating profit increased to £184 million (*2012: £167 million*) and there was also an increased dividend of £85 million (*2012: £70 million*).

Turkey

Our life business in Turkey, which operates through a joint venture with Sabanci Group, continued to show strong growth in 2013. VNB increased 23% to £37 million (up 28% in local currency). Life protection premiums increased year-on-year by 33% and pension contributions by 80% driven by favourable regulatory developments.

Changes to pensions legislation effective January 2013 have helped to improve VNB. The introduction of a 25% government matching contribution has encouraged customers to set up or recommence personal contributions. The benefit of these additional contributions has been only partially offset by a legislated reduction in fund and allocation charges.

Our main distribution channel is Akbank, one of the largest private banks in Turkey, part of the Sabanci Group. We have successfully piloted a hybrid distribution arrangement using our sales force to sell in Akbank branches.

In 2013, we increased our bancassurance distribution with three new partnerships with Abank, Odeabank and Burgan Bank.

Our life and pensions business has the largest direct sales force in the market. We are focused on expanding our direct sales force and agency channel, whilst we are also exploring affinity partnerships within the Sabanci Group.

In 2014 we are looking to pilot the sale of pension and protection products through the retail branches of other Sabanci Group companies including Carrefour SA and EnerjiSA.

We are focused on operating excellence and we are currently consolidating all our operating platforms into one, to provide better customer interactions, improve efficiency and reduce operational complexity.

We also have a small, fully owned general insurance business in Turkey that is held for sale at the year end. In 2013 we have reduced premiums to focus on more profitable segments. Performance continues to be unsatisfactory despite 13.2 percentage points improvement in COR.

The market in 2014

The economy in Poland remains resilient with insurance penetration forecast to continue to increase from current low levels.

The political and economic environment in Turkey remains uncertain. However, 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.

In both markets we are well-placed to make the most of the growth opportunities.

> “Our strategic focus has shifted from targeting volume, to preserving capital and creating value.”

David McMillan
CEO, Aviva Europe

1 Polish Insurance Chamber.

Spain and Italy: turnaround businesses

Our strategy and full year performance

Our strategic focus for Spain and Italy is to deliver sustainable cash remittances to Group. In 2013 we made progress in addressing market challenges and turning the businesses around, but there is still more to do.

In Spain we have increased our focus on standalone protection sales and the profitability of products with guarantees, while improving the efficiency of our operations. In Italy we are exiting non-core, unprofitable distribution, improving profitability of products with guarantees and focusing on protection and general insurance.

Spain

In Spain we are a strong bancassurance player, operating through five partnerships. We also have a retail network selling life, pensions and protection products through more than 1,000 brokers and Seguros Pelayo.

Our retail business has been recognised by ADECOSE (the broker and IFA association) as the best insurance company in Spain to work with in the protection and accidents category.

We are the fourth largest protection player with 7% market share[1].

In April 2013, we concluded our settlement with Bankia regarding our Spanish business, Aseval. This agreement realised €608 million cash for the Group.

We continue to improve cost efficiency through standardising processes and leveraging shared services between our bancassurance and retail businesses.

In Spain, operating profit was £151 million *(2012: £217 million)*, with most of the reduction from last year driven by the disposal of Aseval in April 2013. VNB was also impacted by this disposal and the continuing tough economic conditions, reducing to £33 million for the year *(2012: £56 million)*. Cash remittances reduced to £51 million *(2012: £68 million*, including a one-off dividend payment).

Italy

In Italy we have a strong life presence and a profitable general insurance business. We have a successful bancassurance network including relationships with three of the country's top five banks.

Our Italian business made good strategic progress in 2013, exiting underperforming and non-core distribution agreements.

In November 2013, we reached an agreement to sell our entire 39% stake in Italian insurer Eurovita to JC Flowers. This is a significant step towards realising our strategy to focus on more capital efficient, profitable products.

Our product mix is well-balanced with unit-linked accounting for 37% of our total sales. We have re-priced our unit-linked and protection products to increase profitability. We have also led the market with the introduction of zero percent guarantee products.

In general insurance, significant progress has been made implementing pricing actions, exiting underperforming agencies and reducing cost. This has resulted in a significantly improved COR of 95.2% *(2012: 99.8%)*.

During 2013, we further developed our partnership with Banco Popolare SC by launching a telematics-based motor insurance product sold through their branches.

In 2013, Italy repaid a loan to Group of €6 million and paid a dividend of €14 million. This represents a key turning point for the business which did not pay a dividend in the preceding two years.

Operating profit was stable at £169 million. For our life business VNB reduced to £15 million, particularly as lower risk-free rates impacted margins in Eurovita (which is held for sale). However, excluding Eurovita, VNB increased by £4 million in the year.

The market in 2014

Although still challenging, the Spanish economy has stabilised and started to show signs of improvement, with a return to positive GDP growth, falling unemployment and improving investment sentiment. Our focus remains on further improving the mix towards protection and capital efficient saving products and improving operating efficiency.

The Italian market is also expected to show early signs of recovery; economic forecasts are improving, although subject to political uncertainty.

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 and made product changes to improve profitability. In life, customer demand for with-profit products will continue but the market is now becoming accustomed to lower/zero percent guarantee products. The protection market is expected to grow as the economy starts to recover.

Business in brief:
Spain and Italy

In Spain, we distribute through:
five bancassurance partnerships, Pelayo Vida, 1,000 brokers

In Italy, we distribute through:
partnerships with three major banks and other smaller networks (4,400 branches), 4,000 financial advisors, 600 agents and brokers

4.1m
Customers

1,100
Employees

For more information on financial performance see 'Other Information – Financial and Operating Performance' in our annual report and accounts

1 ICEA, Insurance Association in Spain.

Business in brief

We offer:
Personal home and motor insurance, general insurance for businesses

2.6m[1]
Customers

3,600
Employees

Market type
Cash generator ●
Canada

For more information about market priorities, **turn to page 20**

Canada

We are the second largest general insurer in Canada, providing personal and commercial insurance products.

Greg Somerville
CEO, Aviva Canada

Our strategy

Our Canadian business is a cash generator with a strong track record of delivering cash returns to Group. This ability is founded on our absolute commitment to customers and a strong underwriting capability where our risk selection and pricing have become a source of competitive advantage. We have a focus on strengthening the performance culture and employee engagement across the business, whilst maintaining and growing strong relationships with our distribution partners.

We are entering into 2014 with good momentum underpinned by our pricing, underwriting and predictive analytics sophistication.

In 2014, we aim to improve underwriting profits and cash flow as we deliver the benefits of investments in automation. We are enhancing our claims systems for personal lines to deliver a better service for customers and this will also have significant cost benefits. Commercial lines will benefit from significant investments which will deliver improved efficiency combined with greater risk selection and pricing sophistication. Several opportunities for customer growth are being pursued. In particular our growth strategy focuses on western Canada where both the economy and population are expected to grow at rates above the Canadian average.

We continue to innovate and offer new products to meet our customers' needs. In 2014, we will launch 'Ovation' nationwide, a product targeted at higher net worth individuals, and 'Green Assure', a new insurance enhancement that enables customers to replace their damaged or destroyed property with energy efficient and environmentally-friendly alternatives.

We remain prepared to help our customers when they need us most. The 2013 Calgary and Toronto major weather events show us at our best, working for our customers and partners and highlighting the value of our service.

The Canadian insurance business, unlike many other businesses in the Group, is mostly intermediated. We sell our products through a distribution network of 1,600 independent broker partners.

We continue to work closely with our broker partners to help them integrate digital technology and faster quoting tools into their businesses. This will help enable them to address increasing customer demand for choice, simplicity and self-service.

To maintain our competitive advantage in underwriting we continue to enhance our talent programme to ensure we have the best people in place at all levels of the organisation.

We are also continuing to develop our world-class predictive analytics capabilities. Significant opportunities to improve underwriting results exist, for example by combating fraudulent claims. Fraud costs all customers and our shareholders. We are deploying sophisticated predictive tools that review claims and activity across all elements of the claims process. The potential for improved claims management and service delivery is significant and we intend to embed further these capabilities into our underwriting processes.

1 This represents unique customers and not the number of people who are covered by our policies, which is considerably more.

Full year performance

Canada	2013 £m	2012 £m
Cash remitted to Group	**130**	136
Operating capital generation	**177**	192
Operating profit: IFRS basis	**246**	277
Expenses		
Operating expenses	**378**	401
Integration and restructuring costs	**9**	11
	387	412
Combined Operating Ratio (COR)	**94.6%**	93.4%
IFRS profit before tax	**104**	245

During the year total cash remitted to Group was £130 million and this is in line with the cash remitted in 2012 on a local currency basis.

General insurance operating profit was £246 million (*2012: £277 million*), an 11% reduction compared with the prior year (9% reduction on a local currency basis). The reduction was driven by the impact of the severe weather events seen during 2013. The floods in Alberta and Toronto were the first and third largest insurance catastrophe loss events ever to hit the industry in Canada.

As a result there has been a 2.3 percentage point deterioration in the combined operating ratio for personal and commercial property. This was partially offset by lower expenses and when normalising catastrophe activity and excluding the two 1-in-100 year severe weather events, the COR would have been 92.3%.

Business volumes have increased during 2013, with net written premiums up 3% to £2,250 million (*2012: £2,176 million, 5% growth on a local currency basis*), driven by rating increases in personal and commercial property and growth in new business volumes across most lines, with particularly strong growth seen in western Canada.

> "We are entering into 2014 with good momentum, with a focus on providing solutions to our customers."

Greg Somerville
CEO, Aviva Canada

Operating expenses were £378 million (*2012: £401 million*), a reduction of 6% reflecting the continued focus on expense management and the benefits of cost savings initiatives.

In October 2013 we announced the appointment of Greg Somerville as President and CEO of Aviva Canada. Greg has extensive experience in the property and casualty insurance industry and has been part of the Aviva Canada Executive Committee since 2004.

The market in 2014

In 2014 we expect that industry premiums will grow at a low single digit rate. Overall premium growth is likely to be tempered by the proposed auto rate reductions in Ontario, as part of regulatory motor reform. We expect any potential impact on profitability from the lower rates to be largely offset by cost reduction measures and other initiatives that form part of the regulatory reform.

In personal property, we expect the current hard market conditions to continue due to severe and catastrophic weather events in recent summers which have negatively impacted the industry's results.

In commercial lines, we believe that the elevated level of catastrophes in 2013 together with improving economic conditions, particularly in the manufacturing sector, will translate into a firmer market.

We expect to see further market consolidation amongst both insurance carriers and brokers, reshaping our competition.

Distribution trends continue to point towards customers increasingly preferring self-service. This favours direct-to-customer models. The broker channel is now beginning to adapt to self-serve consumer needs whilst still offering advice and choice.

In 2014, we expect competitors to increase significantly their usage based insurance product lines such as pay-as-you-drive, an area in which we have experience. This, together with personal auto rate reductions in Ontario, will drive further marketing investment by our competitors.

Aviva is well-positioned to take advantage of the heightened competitive environment and further drive improvement in earnings and cash flow.

Our community fund

Every year Aviva donates CAN$1 million in funding to community projects through the Aviva Community Fund competition in Canada. Projects are invited to compete for funding and the winners are announced each January. Last year's winner was the Riehl Skatepark in Pelham, Ontario, named after Isaac Riehl, a 14 year-old boy who died after being hit by a car while skateboarding. One of his classmates applied to the fund to build a skateboard park. Aviva awarded the project CAN$115,000 and the sum was immediately matched by local government. The park has now been built, and local children can skate in safety.

For more information on financial performance see 'Other Information – Financial and Operating Performance' in our annual report and accounts

Business in brief

We offer:
Protection, savings, pensions, accident and health insurance

3m[1]
Customers

1,100
Employees

Market type	
Growth	●
Asia	

For more information about market priorities, **turn to page 20**

Asia

In Asia we are focused on growth, primarily in China and South East Asia.

Khor Hock Seng
CEO, Aviva Asia

Our strategy

Our Asian businesses are future cash generators. Our strategy is to expand profitably into selected areas of this growing market, supporting growth in the Value of New Business (VNB), a key element of the investment thesis. We continue to review our product and distribution mix to maximise value of new business, growing in channels, product lines and locations which offer the greatest opportunities.

In order to contribute to Aviva's future growth, our primary goal is to meet the needs of customers in China and South East Asia. We want to grow our businesses in a sustainable way, over the long term.

Alongside the rapid growth of our business in Singapore and China, in January 2014, we announced plans, subject to regulatory approval, to form an equal joint venture partnership with Astra International, Indonesia's largest publicly listed company, to sell and distribute life insurance products in Indonesia. The partnership will also be the preferred life insurer for Astra's 179 affiliated companies including PermataBank[2], one of Indonesia's top ten banks.

In Singapore, to complement our successful bancassurance business, we have a leading position in the financial advisory channel.

In China, to get closer to our customers, our strategy is to grow our multi-distribution channels in second and third tier cities and we are a leading foreign insurer in five of the 12 provinces in which we operate, with a presence in 54 cities.

We are making it easier and simpler for customers to come to us direct by growing and enhancing our product portfolio, for example offering convenient protection and savings products. In China we recently launched an 'all-in-one' protection product. This product makes it simpler to buy comprehensive life cover as we have bundled together benefits relating to life and critical illness into one product.

We're responding to customers' increased use of technology and providing new ways of buying our products in China and Singapore. An example of this is our travel insurance app in Singapore which allows customers to buy travel insurance on the move, for example on their way to the airport, using their mobile devices. We are one of the first insurers in Singapore to launch an online only, direct-to-consumers general insurance offering, which we continue to strengthen.

We are also servicing and approving policies faster and more efficiently by using straight-through processing technology which means information comes to us directly no matter where our customers purchased our product.

> "We continue to review our product and distribution mix to maximise value of new business."

Khor Hock Seng
CEO, Aviva Asia

1 This represents unique customers and not the number of people who are covered by our policies, which is considerably more.
2 Subject to regulatory approval.
3 OECD: General assessment of the current economic situation November 2013.
4 Swiss Re Sigma: World insurance in 2012.

In order to deliver more to our customers we are helping our people to reach their full potential by setting clear performance goals and providing personal growth and learning opportunities. We are focused on attracting, developing and retaining key talent. We remain strongly committed to helping our people move into and across the region, building growth and knowledge from across Aviva.

Full year performance

Asia	2013 £m	2012 £m
Cash remitted to Group	**20**	25
Operating capital generation	**97**	80
Operating profit: IFRS basis		
Life	**96**	69
General insurance & health	**1**	(5)
	97	64
Expenses		
Operating expenses	**86**	93
Integration and restructuring costs	**7**	4
	93	97
Value of New Business (VNB) – excluding Malaysia & Sri Lanka	**91**	55
Value of New Business (VNB) – total Asia	**92**	63
Combined Operating Ratio (COR)	**108.1%**	105.6%
IFRS profit before tax	**98**	62

Overall operating performance in Asia has been strong, with satisfactory growth in the value of new business and operating profit.

Growing VNB is the critical performance objective in Asia and we achieved 65% growth in 2013 to £91 million (*2012: £55 million*). Life operating profit also grew by 39% to £96 million (*2012: £69 million*).

Singapore and China were the main contributors to both VNB and operating profit growth. Singapore grew VNB by 52% to £64 million through a combination of sales growth across all distribution channels and a shift in product mix to protection sales.

China grew VNB by 74% to £16 million as a result of a focus on more profitable protection products and repricing action in the less profitable bancassurance and broker channels. A notable success in China was the launch of our 'all-in-one' protection product in September.

The relatively high general insurance combined operating ratio of 108.1% is due to an increase in reserves in Singapore's motor book following a change in the reserving methodology.

We have continued to strengthen our management team in Asia. In 2013 we appointed Khor Hock Seng as Chief Executive of Aviva Asia. Khor has over 30 years' experience of the Asian insurance market and has the requisite market and cultural knowledge that is critical to success in the region. During the year we also appointed a highly experienced human resources director, Margaret Chiu; Ken Rappold will be joining us shortly as our Asia Regional CFO; and we have appointed Trang Nguyen Ngoc as CEO of our Vietnamese business.

The market in 2014

South East Asia and China are expected to deliver relatively good GDP growth in 2014[3]. Importantly, life insurance penetration remains low in these markets, ranging from 0.6% in Vietnam to 4.4% in Singapore[4], and we expect this 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.

China is currently the fourth largest life insurance market in the world, and is expected to overtake Japan as Asia's largest market in the next decade[4]. Singapore has recently been growing at an average annual growth rate of 15% for new business[5].

Indonesia is one of the world's fastest growing life insurance markets with a population of 245 million, making it the fourth largest population in the world[6]. It also has low insurance penetration and a growing consumer class.

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 effectively.

Taken together, these trends underline the attractiveness of holding selective positions in Asia, where significant growth over the long term is possible.

Street to school programme

Aviva Asia takes its responsibilities to society very seriously and supports some of the region's most vulnerable citizens – street-connected children. This year the Asian business helped over 130,000 children and our employees and customers dedicated over 15,000 hours of work to voluntary projects for Aviva's Street to School programme. Over the year we entered into new community projects in Indonesia to help street children in Jakarta, held an awareness campaign on the plight of left-behind children in China and hosted a round table with the United Nations in Singapore on the rights of street children in South East Asia, to name just a few of our initiatives.

For more information on financial performance see 'Other Information – Financial and Operating Performance' in our annual report and accounts

4 Swiss Re Sigma No 3/2013, Swiss Re Asian Insurance Outlook March 2013.
5 Life Insurance Association, Singapore, 2009-2012.
6 World Development Indicators, The World Bank.

Business in brief

800
Institutional investors

900
Employees

£241bn
Assets under management

Market type
Turnaround ●
Aviva Investors

For more information on financial performance see 'Other Information – Financial and Operating Performance' in our annual report and accounts

For more information about market priorities, **turn to page 20**

Aviva Investors

We are Aviva's investment management business, managing funds for Aviva and external clients. We have £241 billion of assets under management.

Euan Munro
CEO, Aviva Investors

Our strategy

We aim to increase our contribution to the Group by capitalising on our expertise managing Aviva's own funds to become a strong third-party manager. We are focused on capabilities and propositions that build on our experience in managing long-term savings. This includes our expertise in fixed income, real estate, and multi-asset funds.

In January 2014 Euan Munro joined as chief executive. Euan brings substantial expertise in fixed income and multi-asset investing. In the latter area of investing he gained his reputation as the architect and principal manager of the UK's largest absolute return fund. His appointment underlines our commitment to growing our asset management business.

During 2013 we reviewed our strategy with a view to building a stronger, more profitable business with increased third-party business. At the heart of this is a focus on offering investment propositions which deliver predictable returns with low volatility. Future success will be driven by serving Aviva customers and external clients even better, and sharpening the performance of the business.

Aviva Investors will use its existing global, multi-channel distribution network to promote investment strategies and capabilities identified during the strategic review.

Full year performance

Aviva Investors	2013 £m	2012 £m
Cash remitted to Group	**14**	15
Operating capital generation	**23**	7
Aviva Investors: Operating profit, IFRS basis		
Fund management	**68**	39
Long-term insurance and savings business – Pooled Pensions	**2**	3
Other operations – client compensation costs	**(96)**	—
	(26)	42
Expenses		
Operating expenses	**290**	306
Integration and restructuring costs	**41**	33
	331	339
IFRS (loss)/profit before tax	**(89)**	2

In 2013 we paid a dividend to Group of £14 million (*2012: £15 million*). Aviva Investors fund management operating profit was £68 million (*2012: £39 million*) driven by higher revenues reflecting positive market movements and performance fees together with reduced operating expenses as a result of cost savings initiatives.

In 2013, we identified some breaches of the dealing policy which occurred between 2006 and 2012. The relevant regulatory authorities were notified. A thorough review of internal control processes relating to the trading activities has been carried out.

There is a total adverse impact on Aviva Investors operating profit from this activity of £96 million, reflecting the compensation expected to be claimed in respect of these breaches and associated costs.

The market in 2014

We are operating in a low interest rate environment and investor risk appetite is slowly returning. However, institutional investor risk appetite is likely to remain subdued. This is due to regulatory factors, giving us the opportunity to help clients achieve more predictable returns with limited risk.

SouthGate shopping centre
Bath, United Kingdom

Aviva Investors was the principal investor in the regeneration of an unloved part of the city of Bath, a World Heritage site. The 460,000 sq ft shopping area with 99 residential apartments was designed with environmental sustainability in mind, from conception through to design, planning and construction. Flagged with the distinctive local stone, it is the first major city centre development in Bath since the 1970s. Chris Paterson, real estate fund manager at Aviva Investors, says: "We've created a legacy for Bath in this sustainable, long-term investment. The design complements the city's historic architecture and will stand the test of time, so we won't have to create carbon waste by continually redeveloping it to keep it contemporary."

Key statistics in 2013

£8.3bn

Economic capital[1] surplus
(2012: £5.3bn)

182%

Economic capital cover ratio
(2012: 147%)

Our risks

Our focus on three core business lines with scale – life, general insurance and asset management – means we have chosen to accept and manage the risks inherent to 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

General insurance risk: Includes risks arising from loss events (fire, flooding, windstorms, accidents etc.) covered under the policies we underwrite.

Life insurance risk: Includes longevity risk (annuitants living longer than we expect), mortality risk (customers with life protection dying), expense risk (cost to service contracts) and persistency risk (customers not renewing their policies).

Some of our life and savings products provide guaranteed minimum investment returns to customers. As a result we accept from them investment type risks such as **credit** and **market risk** in order to offer upside potential but providing them with protection against the downside.

Risks arising through our **investments**

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.

Risks arising from our **operations** and other business risks

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 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 themselves.

1 The economic surplus represents an estimated unaudited position. The capital requirement is based on Aviva's own internal assessment and capital management policies, measuring the amount of economic capital at risk in a 1-in-200 year loss event over a one year time horizon. The term 'economic capital' does not imply capital as required by regulators or other third parties.

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, comprising:

- **Our risk appetite:** The risks that we select in pursuit of return, the risks that we accept but seek to minimise and the risks we seek to avoid or transfer, including quantitative expressions of the level of risk we can support (e.g. the amount of capital we are prepared to put at risk)
- **Our risk governance:** Includes risk policies and business standards, risk oversight committees and roles and responsibilities
- **Our processes:** The processes we use to identify, measure, manage, monitor and report risks, including the use of our risk models, and stress and scenario testing.

How we manage our risks

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.

Having identified and measured the risks of our business, depending on our risk appetite, we either accept these risks or take action to reduce, transfer or mitigate them.

Top risks ranked by economic capital at risk

Ranked according to the amount of economic capital at risk in a 1-in-200 year loss event over a one year time horizon; the three most significant types of risk affecting our current in-force business and investments are **credit, longevity** and **equity**.

Our appetite is to retain most of our exposure to these risks due to the better risk-adjusted returns we expect to earn compared to accepting other risks, and our expertise in managing them.

This appetite is supported in part by our belief that longevity risk diversifies well against other risks we retain (i.e. has little or no correlation). While assuming credit risk enables us to take advantage of the structural investment advantages enjoyed by insurers with long-dated, relatively illiquid liabilities to earn superior investment returns.

We manage credit and equity risk through rigorous research and analysis at the point of investment, and continuous monitoring of our exposures and setting investment limits to our exposure by asset class, counterparty, geography, sector and other pre-established risk criteria, such as credit rating. We monitor longevity risk against the latest external industry data and emerging trends.

While we have appetite for our top three risks by type, we transfer or mitigate specific risks within these categories, where the risk-adjusted returns are insufficient or where we believe that we have excess exposure. Specific risk transfer and mitigation solutions which we employ to manage these and other risks include:

- Reinsurance, to transfer insurance risks including longevity risk
- Derivatives, to hedge equity, credit and other risks
- Collateral requirements, to mitigate credit risk
- Business disposals.

Emerging risks

We also manage and monitor risks which may impact our ability to write profitable new business over the longer term. For example, such risks 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.

US disposal – bolstering our financial strength and reducing our credit and interest rate risk exposure

In October 2013 we successfully disposed of our US Life business, resulting in an increase in the Group's economic capital surplus coverage ratio by 19 percentage points (or the economic capital surplus by approximately £1.2 billion). The sale reduced the Group's exposure to credit and interest rate risk, and also reduced the sensitivity of the Group's economic capital results to credit spread movements.

The disposal means the Group is now within its risk appetite for total required economic capital and credit risk.

Read about how we address the risks of climate change through our corporate responsibility programmes **overleaf**

Read about how we address the risks and the opportunities presented by new technologies through our strategic framework on **page 19**

Key statistics in 2013

CO_2e

200,000

People impacted through our carbon offset programmes across the globe

United Nations Global Compact

We are the only insurer listed in the Global Compact 100 Index

FTSE4Good

We are one of the top global organisations in the FTSE4Good

Our wider impact

In the following section, we describe our strategy in relation to our employees, the environment, climate change, as well as social, community and human rights issues.

People

Achievement

Recognising exceptional performance and rewarding outcomes; providing clarity and enabling accountability through the way we structure the organisation and the way we operate.

Potential

Inspiring our people to dream more, learn more, do more and become more; recognising that our performance is improved by embracing people who think and act differently.

Collaboration

Inviting challenge and asking fierce questions with the right intent; winning together by readily adopting good ideas from others; enabling conversations that are transparent and engaging regardless of hierarchy.

Corporate responsibility

Environment and climate change

Controlling our impacts and influencing the actions of others; creating quantifiable positive environmental change with financial and social benefits.

Trust and transparency

Strengthening Aviva's ethical practice and reputation, clearly demonstrating our sustainability.

Community development

Acting responsibly in our communities, extending our positive impact through insight, expertise and partnership.

Our people thesis and corporate responsibility (CR) strategy ensure that we meet our commitments to the issues which are material to our employees, the environment, and the communities in which we operate.

As the transformation of Aviva continues, we are focused on maximising our contribution to society while improving financial performance and building resilience.

You can read more about our approach at **www.aviva.com/2013cr**

Our people

Being a responsible business is a vital differentiator. We want to recognise exceptional performance in our people and invite collaboration – key components of our people thesis. Building our leadership capability is critical to achieving this.

Organisational change has had a significant impact on our people. Engaging them is a priority for rebuilding pride.

We focus on attracting the best talent and making the most of their potential. We understand people need to be recognised and appreciated, so we encourage our employees to tell us how we're doing, through regular dialogue and our annual Employee Promise Survey (EPS). Our commitment to ensuring consistency in our people management is reflected in our business standard.

Values-based culture

In 2013 we challenged ourselves to ensure we have the right values as a company in light of the environment in which we operate, the culture which we wish to nurture and our strategic priorities. Following extensive consultation with our employees across all levels of the organisation in November 2013, we introduced four new values with associated behaviours as part of our people thesis: care more, kill complexity, never rest, create legacy.

Our values will be reinforced throughout the organisation, not only through demonstration by our leaders, but also by their integration into key internal processes, such as performance management. The desired culture will be further enabled through the development of our internal communication channels, to provide employees with effective ways to enter into dialogue about the things that are most important to them.

Learning and development

In 2013, we focused on supporting our leaders at transition points in their career, so 15% of our senior leaders enrolled in our new Leadership Transitions programme with the Saïd Business School, University of Oxford.

Ireland, Canada, Singapore and the UK now use a common Learning Management System. This enables 20,000 employees to access shared learning materials and create and track personal development plans online.

Attracting talent

We take a long-term view of the people we need to meet our future priorities and assess individuals' performance and long-term potential. We consider our apprenticeship programme in the UK to be a credible alternative to higher education. We better aligned our recruitment advertising to the university application calendar and local schools outreach programmes. A further 17 apprentices joined our programme this year.

Diversity

We aim for a culture which respects difference and recognises individuality. We support people who think and act differently which is essential to reaching our full potential.

Women make up 51% of our employees globally. We still have some way to go to reflect that in our senior management. In 2013, the percentage of women in senior management remains at 21%, 21% of our Group Executive, and 18% of the Board were women. We're committed to achieving 25% female Board membership by the end of 2015.

In 2013, 75% of employees reported that we are an organisation where people from diverse backgrounds can succeed. We are the only insurer in the 2014 Stonewall Workplace Equality Index which benchmarks Britain's most gay-friendly employers.

It is important that we appoint the most appropriate person for the job and that opportunities for development and promotion are available to everyone. Full and fair consideration is given to applications for employment by disabled persons. We are committed to supporting employees who become disabled during their employment including any adaptations to their working life and providing suitable training. All employees are encouraged to agree a training plan with their manager to help them achieve their career goals. Our fairness and equality policies ensure that all employees adhere to these principles.

Employee engagement

Our annual engagement survey helps us to understand our people and identify where we can do more. This year it told us our employees understand our vision, what is expected of them (93%), and they feel safe to speak up and challenge the way we do things. In 2013, we saw the biggest decline in pride in working at Aviva following a period of restructuring and job losses. There was also a clear request for opportunities to grow and develop their careers.

People managers are required to have honest conversations with their teams about their results, and work together to prioritise areas of focus. Aviva's senior executives have an objective focused on taking action against the EPS results to improve engagement and enablement, and

Living wage

We are proud to be a partner of the Living Wage Foundation. We've been a London Living Wage (LLW) employer since 2005 and, in 2013, we became an accredited London Living Wage employer. For the rest of the UK, our minimum pay for direct staff exceeds the UK national living wage. We are discussing payment of the Living Wage for onsite contractors with our suppliers, following the value the LLW has brought to our contracted relationships in London.

Climate-resilient communities

We believe in a more joined-up approach to help build resilience against climate change.

Aviva has supported a series of 'Building Climate Resilience in Cities' workshops. Insurance industry leaders and city stakeholders in Boston, San Diego and Toronto came together to identify opportunities to collaborate and build the resilience of their cities. Key headlines:

- Increasing the resilience of physical infrastructure is a priority
- District level collaboration can be more effective than action at an asset level
- Resilience ratings could help assess and recognise improvements made by stakeholders
- This combination of activities could preserve and enhance the insurability of assets.

In 2013, Aviva France launched a partnership with the Red Cross to improve community resilience to natural disasters. The project educates people and professional bodies on how to rebuild and work together after a natural disaster, such as a flood.

spend time hosting 'town halls' where they share their response to the results and commit to actions they will take as an executive. To support conversations with employees about changes in the business, we have employee consultative forums in both the UK and Europe.

Employee involvement in business performance is encouraged through a number of share plans including Save As You Earn, share matching plan and share awards are given as a long-term incentive for some senior managers.

Safety and wellbeing

We provide a safe and healthy environment for all our employees, contractors and people on our premises. This is reflected in our health and safety business standard. We aim to provide a supportive working culture and we encourage a healthy work/life balance. We operate flexible working practices including career break options and employee assistance programmes.

Environment and climate change

We judge the importance of environmental issues based on the impact on our customers, on direct and indirect business impacts and stakeholder concerns. Climate change is society's most pressing environmental challenge. We have a commercial interest in making sure certain risks don't become uninsurable and in understanding the potential long-term impacts on our investments.

Extreme weather events pose a serious risk to our business, with the potential for fluctuations in claims and challenges to risk pricing. We are using our expertise as insurers, such as our knowledge of historical weather events and cutting-edge predictive modelling to map future scenarios, reducing the risk to our business and our customers. For example, Canada suffered two 1-in-100 year flood events within two months of each other in 2013. Due to our effective risk management approach, in these cases we were able to pay customer claims, deliver great service and still make a profit in our insurance business.

Our strategy to mitigate impacts on climate change includes improving energy efficiency, investing in the low-carbon economy and understanding our indirect impacts as an asset owner. We are building environmental considerations into our products, such as Aviva Canada's new Green Assure which offers more environmentally responsible replacements to damaged or destroyed property.

Controlling our impact

We publish annual Group performance data for 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 also use Accounting for Sustainability's connected reporting framework.

Aviva plc – Global greenhouse gas emissions data from 1 January 2013 to 31 December 2013

Tonnes CO_2e	**2013**	2012	2011
Scope 1	**21,787**	23,849	44,471
Scope 2	**56,842**	75,733	97,988
Scope 3	**37,260**	26,920	22,655
Absolute CO_2 footprint	**115,889***	126,502*	165,115
CO_2e tonnes per employee	**3.1**	2.9	4.6
CO_2e tonnes per £m GWP	**5.26**	5.56	6.28
Carbon offsetting **	**(115,889)**	(132,827)	(173,371)
Total net emissions	**0**	(6,325)	(8,256)

Scope 1 – operational emissions from owned sources eg. gas, vehicle fleet as part of product/service.

Scope 2 – operational emission from non-owned sources eg. electricity.

Scope 3 – business activity emissions from non-owned sources – eg. business travel.

*Limited assurance provided by PricewaterhouseCoopers LLP.
** carbon offsetting through the acquisition and surrender of emissions units on the voluntary market.

We report on all of the Greenhouse Gas (GHG) emission sources on a carbon dioxide emissions equivalents (CO_2e) required under the Companies Act 2006 (Strategic Report and Directors' Reports) 2013 Regulations, which are material to our business operations. We report our emissions using the operational control approach as defined by our organisational boundary. We do not have responsibility for any emission sources that are not included in our business operations or included in our carbon footing boundaries.

Our reporting follows the GHG Protocol Corporate Accounting and Reporting Standard, and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2013.

We have used the two most appropriate intensity measures to our business CO_2e per employee and CO_2e per £ million GWP which are expressed in the table above.

Aviva has also reported on its Scope 3 emissions which goes beyond the requirements of the 2013 Regulations.

We purchase 48% 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).

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** | Outsourced data centres, electricity

Waste | Water | Rental cars

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

We are liable under the CRC Energy Efficiency Scheme. 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. Our annual CRC Report 2012–13 showed total emissions of 108,013 tonnes which cost £1,296 million in the purchase of Government allowances.

Our target is to cut CO_2e emissions by 20% between 2010 and 2020. We aim for a 5% year-on-year reduction. In 2013, we cut our emissions by 7.5% compared with 2012, and we've achieved a 12% reduction since 2010.

In 2013, for the first time, we have been able to measure the additional benefits our carbon offset have had on local communities. Two such projects have positively impacted the lives of more than 200,000 people.

Trust and transparency

As a long-term business with long-term commitments, we create legacy through the jobs we create, the products and services we offer, and our investment in community infrastructure. We are focusing on making our products, services and expertise more beneficial and accessible.

Our general insurance philosophy rules out insuring certain business sectors on ethical and risk grounds – such as tobacco, arms and munitions, and GM crops.

Trust is a vital issue for our industry and we are committed to simplifying every aspect of how we deal with customers and making sure our communications with them are straightforward and transparent. This commitment is reflected in our customer thesis and business standard.

We uphold the highest stardards in managing our business and this commitment is set out in our business ethics code. In 2013, 95% of Aviva employees agreed to abide by the code *(2012: 88%)*. We aim for 100%, with a 5% variation allowed for employees on long-term leave etc.

Financial crime

Financial crime including insurance fraud costs the insurance industry billions of pounds every year. This increases costs to customers industry-wide. It's our responsibility to manage the risks of financial crime so these extra costs are not incurred by the customer. Our financial crime business standard ensures we manage the risks to our global business and customers. Our employees receive training on financial crime prevention including anti-money laundering and fraud.

Should a breach of policy occur, our global confidential malpractice reporting service allows employees to report by email, via the internet or in our larger businesses, over the telephone. All cases are referred for independent investigation. In 2013, 27 cases reached conclusion and four cases remain under investigation.

There has been no material litigation arising from cases reported through our malpractice reporting service in 2013.

Access to insurance

We increase our social and economic impact by promoting access to insurance for all areas of society. We invest in social housing and help low-income households access affordable home contents insurance.

We launched a new flexible insurance solution for learner drivers in 2013 in the UK. Dayinsure Learner provides short-term cover from just one day up to three months to allow provisional licence holders to access affordable insurance.

As the largest private micro-insurer on the Indian sub-continent, Aviva provides low-cost insurance policies which cover the lives, health, crops and property of people on low incomes for less than £2 a year.

Going further with our critical illness cover

Over the last five years, we have paid out more than £2.2 million in critical illness claims to customers who didn't realise they could claim under their policies. We identified the claims when customers contacted us to make changes to existing policies or to apply for a new insurance plan.

In 2013, we radically expanded our critical illness cover for new customers to ensure as many cases as possible will be paid. Our cover includes 57 conditions. We also extended the scope under which people will qualify for three of the five most claimed for conditions: multiple sclerosis, stroke and heart attack.

In 2013, we paid out more than 99.2% of critical illness claims.

You can read more about our approach at **www.aviva.com/2013cr**

£500m

Immediate allocation of £500 million in the UK's economic growth plan as part of the insurance industry's commitment of £25 billion to infrastructure investment

£28m

Over £28 million for student accommodation in York

£3m

£3 million for a new medical centre in Salford

£32m

£32 million to help build 11 new fire stations

Leading responsible investment

As a founding signatory to the UN Principles for Responsible Investment, we believe that companies conducting their business in a sustainable and responsible manner are more likely to succeed. Our dedicated Global Responsible Investment team at Aviva Investors is on-hand to work with fund managers and analysts globally and across all asset classes, to help them integrate environmental, social and corporate governance (ESG) issues into our investment decision-making and analysis, to deliver long-term shareholder value for our clients.

Over 20 years, we have developed a deep understanding of the conflicts, barriers and challenges to good governance. We believe such experience and insight are crucial in identifying and addressing risks and opportunities within our clients' portfolios. We have a strong commitment to international standards and principles of good governance, such as the UK Stewardship Code and International Corporate Governance Network Principles. Our corporate governance and corporate responsibility voting policy outlines our approach and expectation of companies. Where we withhold support for a company, we engage with them to help them address our concerns.

In 2013, Aviva Investors was recognised at the Sustainable City Awards convened by the City of London Corporation, winning the Leadership in Sustainability Award.

Promoting low carbon

Aviva Investors is targeting long-term profitability with a reduced risk appetite by investing in low-carbon economy infrastructure projects. In 2013, key acquisitions included:

- a 12.3 megawatt portfolio of residential photovoltaic systems, which convert sunlight directly into electricity, installed on 4,000 UK domestic houses
- an 8.6 megawatt portfolio of residential solar photovoltaic systems installed on over 3,000 properties across the UK.

We are funding one of the UK's largest NHS energy centres with the UK Green Investment Bank, a UK Government initiative which aims to accelerate the transition to a green economy. This will provide around £36 million for a new energy innovation centre at Addenbrooke's Hospital in Cambridge.

In the UK investment property portfolio, we aim to have energy performance certificates in place for our entire real estate portfolio by 2018.

Leading public debate

We take a leadership role in tackling the big social issues relating to our sector through research and open debate with consumers, industry bodies, Government and other stakeholders. In 2013, we carried out our 10th Customer Attitudes Survey, in 13 countries, and we have surveyed more than 250,000 people since 2004 when the survey first started. The three greatest concerns facing people and their finances include: unexpected expenses, significant increases in the price of basic necessities, and serious illness. We also conduct other studies:

- Our Family Finances Report looks into the financial experiences of different family types
- Our biannual Small and Medium Enterprise (SME) Pulse identifies the trends and challenges facing small business owners
- Aviva Spain's Savings and Pensions Institute encourages consumers to save more for their future.

Human rights

Respect for human rights should go beyond policy setting. It has to become part of the culture and decision-making ethos of an organisation. Aviva is committed to upholding globally accepted human rights principles reflected in standards and other instruments including:

- United Nations Universal Declaration of Human Rights (UNUDHR)
- United Nations Guiding Principles for Business and Human Rights
- International Labour Organisation (ILO) core labour standards
- United Nations Global Compact LEAD
- UN Women's Empowerment Principles
- UNICEF, Global Compact and Save the Children 'Business and Child Rights Principles'.

During 2013, we refreshed our human rights policy in light of the UN Guiding Principles for Business and Human Rights. Our due diligence and risk assessments have shown that our most material human rights risks relate to the five stakeholder groups shown on the next page.

Community development

Aviva has a rich legacy of community investment. By focusing on the issues that matter most to our customers and those that are most closely aligned to our expertise, we will maximise the value of our investment. This year our community development contribution was £6.2 million, a reduction of £4.8 million due to divestments and reshaping our community investment agenda in the UK.

Human rights stakeholder groups

Employees: We manage our risks by delivering on our commitment to respecting and promoting fair reward, diversity and inclusion, equal opportunities, labour relations and freedom of association.

Supply chain: We request suppliers disclose their human rights policies and engage with them where necessary to address any concerns. Our procurement contracts require suppliers to commit to ILO core labour standards and uphold the universal declaration of human rights.

Customers: Our business ethics code requires us to conduct business in a way which respects human rights. This includes being clear in our communications, ensuring accessibility to our expert staff and privacy of their data.

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

Investment: We embed the 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.

Employee involvement

75% of Aviva employees agree we do a good job of contributing to communities. We encourage all our employees to take up to three days of paid volunteering leave a year. As well as contributing towards our community targets, this improves the motivation, wellbeing and skills-base of our people.

In 2013, 27% of employees volunteered time equivalent to 41,223 hours *(2012: 56,357)*. We are continuing to roll out our new volunteering strategy and system which prioritises skills-based volunteering to improve these figures. It was launched in 2012 in the UK, where we have now achieved 58% skills and leadership-based volunteering.

We are proud to have achieved the UK Government's payroll giving Gold Standard award. In 2013, 27% of employees made financial donations through payroll giving (*2012: 28%*) totalling £536,639.

Street to School

We launched Street to School in 2009. It now operates in 17 countries and has helped over 800,000 street-connected children.

The third International Day for Street Children took place in April 2013 to raise awareness of the global issue. Since 2011, the number of countries participating has grown from 30 to 128.

In December 2013, we held a round table in Singapore in partnership with the UN Office of the High Commissioner for Human Rights (OHCHR) and the Consortium for Street Children.

The round table brought together Government representatives with UN agencies, academia and business, to discuss issues related to the rights of street-connected children. The round table discussion was a recommendation of the 2012 OHCHR report on street children, supported by Aviva.

Oxfam 365

Aviva supports global emergency relief charity Oxfam 365, which provides immediate help to communities suffering life trauma, such as the devastation caused in the Philippines by Typhoon Haiyan. In 2013, our contribution to Oxfam 365 exceeded £1 million.

PASSPORT 2012

PASSPORT 2012 was the first global study to include the views of children involved in the Street to School programme. They were positive about the benefits they have received, including improved wellbeing and better future prospects.

The report made a number of key recommendations for practitioners and stakeholders involved in supporting young people under similar circumstances.

You can read more about our approach at **www.aviva.com/2013cr**

Ocado
Hatfield, United Kingdom

Grocery delivery service Ocado minimises its insurance costs and reduces risk by putting video cameras in its delivery vans. The cameras, triggered by an accelerometer or the driver, film the road ahead and the driver, and were an important consideration when the company agreed its insurance cover with Aviva. The van-cams speed up liability decisions, which helps Ocado to control costs. They have also helped to combat 'crash for cash' incidents, in which fraudsters cause road accidents to make insurance claims – even leading to a successful prosecution. "The cameras encourage safer driving, which reduces our accident rate and they are great for training" says trainer, Steve Grant.

Mehmet Ozdemir
Istanbul, Turkey

Mehmet was involved in a serious car accident and spent over two months in intensive care. He suffered serious head injuries, and is now blind and partially deaf. Before the accident Mehmet had taken out an Aviva credit-linked life insurance policy to support a loan. This policy paid for his recuperation and allowed him to take time to recover and plan for the future, without the worry of putting financial pressure on his family. Losing his sight has meant making changes to many aspects of Mehmet's life, including having to install specialist software on the laptop computer from which he is rarely parted. "To be frank, I never really believed in things like insurance before, but Aviva proved me wrong," he says.

Board of directors

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

Front *(left to right):* Sir Adrian Montague CBE, Mark Wilson, John McFarlane, Patrick Regan

Back *(left to right):* Glyn Barker, Gay Huey Evans, Michael Hawker AM, Patricia Cross, Michael Mire, Bob Stein, Scott Wheway

Read the Chairman's governance letter for committee information, **turn to page 62**

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 has recently been appointed Chairman of FirstGroup plc (transport operator), and is a Non-Executive Director of Westfield Holdings Ltd (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), Managing Director of Citicorp Investment Bank Ltd and later head of Citicorp and Citibank in the UK and Ireland (banking).

Formerly a Non-Executive Director of National Westminster Bank plc (banking), The Royal Bank of Scotland Group plc (banking), the London Stock Exchange and Capital Radio plc (media). 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.

Mark Wilson
Group Chief Executive Officer

b.1966

Mark joined the Board in December 2012 and became 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 and 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.

Patrick Regan
Chief Financial Officer

b.1966

Patrick joined the Board in February 2010 as Chief Financial Officer.

He is currently a member of the supervisory board of Delta Lloyd NV (insurance) which was formerly an associate company of Aviva plc.

Prior to joining Aviva, Patrick had been Group Chief Financial Officer and Chief Operating Officer at Willis Group (insurance). He was also Chairman of Willis Capital Markets and Advisory, the investment banking business which he established.

Patrick was also Group Financial Controller at Royal & Sun Alliance plc (insurance), and finance and claims director for UK general insurance at AXA SA (insurance). He began his career in General Electric Capital (financial services), and at Grant Thornton (professional services).

Patrick has extensive global experience in various executive functions within the insurance industry. He has been instrumental in improving the Group's financial strength, resilience and performance against the backdrop of a challenging macroeconomic and regulatory environment.

Patrick resigned on 22 January 2014 and will step down from the Board and leave the Group before the AGM.

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), Anglian Water Group Ltd (utilities) 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 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.

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 financial issues.

He possesses a deep understanding of accounting and regulatory issues together with in-depth transactional and financial services experience.

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), Falcon Private Wealth Ltd (wealth management), Bank Itaú 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 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).

Michael Hawker, AM
Independent Non-Executive Director

b.1959

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 a Non-Executive Director of Macquarie Group Ltd, Macquarie Bank Ltd (banking) and Washington H Soul Pattinson and Company Ltd (investment).

Michael is Chairman and Non-Executive Director of the Australian Rugby Union and SANZAR Pty Ltd (rugby union) and is a member of the International Rugby Board Council and Executive Committee.

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.

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). 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 US, Europe and Australia.

Michael Mire
Independent Non-Executive Director

b.1948

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's independent hospital and adult social care regulator).

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 N M Rothschild (financial advisers) 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

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) 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

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. He has chaired the Remuneration Committee with vigour and has rebuilt the Group's standing with its significant investors in relation to the Group's remuneration policy. Following the issues raised at the 2012 Annual General Meeting, he led an extensive consultation exercise with the Company's major shareholders and a significant review of the Group's remuneration policies and practices.

Group executive

The Group executive is made up of the executive directors and the senior executives whose biographies are below. The Group executive meets broadly twice a month as a forum for the Group CEO to discuss the strategic, financial, reputational and commercial aspects of the Group. The forum does not have decision-making authority in its own right and authority rests with each of the members (within their respective remits), subject to the control and oversight of the Board.

Mark Wilson
Group Chief Executive Officer

b.1966

Go to page 55 to read the full biography.

Patrick Regan
Chief Financial Officer

b.1966

Go to page 55 to read the full biography.

Nick Amin
Group Transformation Director

b.1956

Nick joined as Group Transformation Director in April 2013 and currently has responsibility for Group Operations. He has a strong international background in consumer banking and insurance, having most recently held a number of senior management roles within AIA Group. He has significant experience of general management, business operations and transformation projects over a 40 year career history.

Within the AIA Group, he was Executive Vice President and Group Chief Administration Officer, responsible for the execution of AIA's transformation strategy which resulted in AIA's successful IPO; Senior Vice President and Chief Transformation Officer; and Senior Vice President, strategic initiatives. He was previously an advisory principal to buy-side private equity transactions, most recently in Asia but also previously in the UK and Europe. He was also previously President and Chief Operating Officer at CIGNA Asia Pacific and senior vice president and Chief Executive Officer of CIGNA Latin America, and has held a number of management roles at Citibank within Europe.

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

b.1962

David joined Aviva in 1999 and is Chief Executive Officer, Aviva UK & Ireland Life.

He was previously Aviva's Director of Independent Financial Advisor Business and was appointed Distribution Director in 2005 covering independent financial advisor (IFA), retail, partnership and employee benefit channels. In 2008 he was appointed Marketing Director and led the Aviva rebrand for the UK Life business and then became Chief Operating Officer for Aviva UK Life responsible for customer propositions, pricing and customer operations. During his time at Aviva, he has spearheaded much of the UK Life and pensions business' activities to champion the customer, including supporting a move to the open market option for UK annuity customers.

David has 20 years in financial services including roles in sales, marketing, operations and business transformation at organisations including Eagle Star, Prudential and Morgan Grenfell.

Paul Boyle, OBE
Chief Audit Officer

b.1959

Paul joined Aviva in November 2010 as Chief Audit Officer.

He is also currently a director of the Financial and Legal Skills Partnership and JSSP (licensed sector skills councils).

Paul was the first Chief Executive of the Financial Reporting Council (FRC), the UK's independent regulator responsible for promoting confidence in corporate reporting and governance.

Whilst in this role, he led the establishment of the International Forum of Independent Audit Regulators, serving as its Chairman and Vice Chairman.

Before joining the FRC, he was a member of the leadership team at the Financial Services Authority (regulatory predecessor to the PRA and FCA), serving as Chief Operating Officer.

He has also held senior management roles in WH Smith Group plc and Cadbury Schweppes plc.

Kirstine Cooper
Group General Counsel and Company Secretary

b.1964

Kirstine joined Aviva in 1991 and is the Group General Counsel and Company Secretary and heads the Office of the Chairman.

She established the legal and company secretarial function as a global team and is responsible for the provision of legal services to the Group, legal risk management, and compliance with UK and US listing requirements.

She also supports the Chairman and the Board in the discharge of their responsibilities.

Kirstine is a lawyer and held a number of legal roles within Aviva's legacy companies before leading the property division of General Accident and the Group legal function of CGU for eight years.

She was formerly Deputy Group Company Secretary and Legal Counsel of Aviva plc before securing her current role.

She currently sits as a director on the boards of Aviva Insurance Limited and Aviva France SA.

Left to right: Khor Hock Seng, Jason Windsor, Amanda Mackenzie OBE, David McMillan, John Lister, Maurice Tulloch, Mark Wilson, Christine Deputy, David Barral, Pat Regan, Kirstine Cooper, Euan Munro, Paul Boyle OBE, Nick Amin

Christine Deputy
Group HR Director

b.1965

Christine joined Aviva in March 2013 as the Group HR Director with responsibility for developing the global HR strategy.

Christine has a significant track record of leading human resources functions and being responsible for the delivery of successful cultural change programmes across a number of businesses.

She was most recently head of HR, global retail and business banking at Barclays where she took a leadership role in the cultural change programme.

She was formerly senior vice president, Chief Human Resources Officer at Dunkin' Brands Group; held a number of roles at Starbucks Coffee Company, culminating in being Vice President, Partner Resources, Asia Pacific and Greater China Regions, and held a number of roles at Thomas Cook Group (Canada) culminating in being Vice President Human Resources.

Amanda Mackenzie, OBE
Chief Marketing and Communications Officer

b.1963

Amanda joined Aviva in 2008 to oversee the rebrand from Norwich Union and to set up a global marketing and communications function.

She has responsibility for customer, marketing, brand, corporate & public affairs and corporate responsibility. She is also the executive sponsor for diversity.

Amanda has a BSc in Psychology from the University of London, is a graduate of the Insead Advanced Management Programme, a Life Fellow of the RSA and Fellow and past President of the Marketing Society. Amanda has over 25 years of commercial experience, including director roles at British Airways Airmiles, BT and British Gas. She is also a Non-Executive Director and audit committee member of Mothercare plc.

She is on the board of the National Youth Orchestra and is a member of Lord Davies' steering group to increase the number of women on boards.

Amanda was awarded an OBE in the 2014 New Year Honours List for services to marketing.

John Lister
Group Chief Risk and Capital Officer

b.1958

John joined Aviva in 1986 and is the Group Chief Risk and Capital Officer with responsibility for managing capital across Aviva, preparing the business for Solvency II and ensuring that an appropriate risk management framework is in place.

He has more than 25 years' experience working in the UK Life business. He is an actuary and spent the first nine years of his career in a variety of senior actuarial roles across the UK Life business before becoming its Chief Actuary in 2005. In 2009 John became Finance Director of Aviva UK Life, and in July 2012 he was appointed Group Chief Risk and Capital Officer.

David McMillan
Chief Executive Officer, Aviva Europe

b.1966

David joined Aviva in November 2002 and is Chief Executive Officer, Aviva Europe with accountability for the Group's businesses in Italy, Lithuania, Poland, Spain and Turkey. He is also Chairman of Aviva France SA.

He was previously Group Transformation Director with responsibility for managing the implementation of Aviva's strategic plan across the Group, refocusing and optimising the Group's business portfolio, achieving financial strength, improving performance, and building a high-performance ethic across Aviva. He was previously Chief Executive Officer, Aviva UK General Insurance, Chief Operating Officer for Aviva UK General Insurance, Chairman of Aviva Global Services and Non-Executive Director of Aviva Health. He began his career with Aviva as Director of Partnerships (bancassurance).

David has 12 years' experience in management consulting with PricewaterhouseCoopers LLP where he led projects spanning mergers and acquisitions, retail banking, organisational strategy and change.

Euan Munro
Chief Executive Officer, Aviva Investors

b.1970

Euan joined Aviva in January 2014 and is Chief Executive Officer, Aviva Investors with responsibility for capitalising on Aviva Investors expertise in managing Aviva's own funds, becoming a stronger third-party manager and increasing Aviva Investors profit contribution to the Group.

He was most recently global head of multi-asset investing and fixed income teams at Standard Life Investments with responsibility for the management of all the assets of Standard Life Assurance Company and Standard Life Investments' fixed income and multi-asset investment funds.

He was also a member of Standard Life Investments' board and Standard Life plc's executive leadership team.

Euan has significant experience in fixed income and multi-asset management in an insurance environment.

Khor Hock Seng
Chief Executive Officer, Aviva Asia

b.1959

Khor joined the Group as Chief Executive Officer, Aviva Asia in March 2013. Khor was formerly Chief Executive and Managing Director of AIA's Malaysian business and regional executive. From 2008 he successfully drove the transformation of AIA Malaysia leading the business to capitalise on development opportunities, generating strong growth in value and cash flow, despite the difficult economic environment.

He has over 30 years of insurance experience with roles in actuarial, operations, sales & marketing and general management at Manulife, Hong Leong, British American Life & General and Malaysian American Insurance. This experience gives him a deep business understanding and extensive knowledge of the Asian market and culture which is critical to our success in the region.

Maurice Tulloch
Chief Executive Officer, Aviva UK & Ireland General Insurance

b.1966

Maurice joined Aviva in 1992 and is Chief Executive Officer, Aviva UK & Ireland General Insurance with responsibility for leading Aviva's largest general insurance business.

He was previously President and Chief Executive Officer of Aviva Canada with responsibility for the strategic direction and operation of Canada's second largest property and casualty insurer. Prior to that he was Executive Vice President and Chief Operating Officer, Aviva Ontario and specialty distribution and has held several senior management positions in the Group.

Prior to moving to the UK Maurice was Chair of the Insurance Bureau of Canada (IBC), the Property & Casualty Insurance Compensation Corporation (PACICC) Board, and the Insurance Institute of Canada (IIC) Board and a member of a number of other Canadian insurance bodies.

Jason Windsor
Chief Strategy and Development Officer

b.1972

Jason joined Aviva in August 2010 and is the Chief Strategy and Development Officer. He has responsibility for the development of Aviva's strategic agenda and plans as well as the ongoing monitoring of the financial performance of the Group's portfolio of businesses.

He also oversees the Group's mergers, acquisitions and disposals activity and has led the Group's recent disposal programme, including the sale of Aviva USA.

Jason was previously Strategy and M&A Director with responsibility for M&A, the Group's strategic plan and the oversight of Aviva's Investor Relations function.

Prior to joining Aviva, he was Managing Director in the Financial Institutions Group at Morgan Stanley, with responsibility for the European asset management sector. He also had periods of responsibility for regulatory capital and funding for financial institutions, and a period with a focus on project finance in Asia.

Jason has spent his entire career in financial services, building significant knowledge of insurance, asset management and banking.

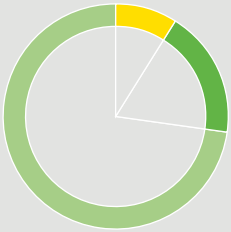
Paul Harley
Avon, United Kingdom

When Mr and Mrs Harley downsized to a bungalow they had to downsize one of their clocks too; they replaced an inherited grandfather clock with an antique Viennese clock. In June 2013, the new clock fell off the wall and was badly damaged. Aviva arranged for the clock to be expertly repaired and it now hangs in its rightful place in the hall, keeping better time than ever. "Without insurance, I would be on edge all the time" says Paul. "You can't always know what's going to happen, but insurance gives you a sense of relief."

Board composition in 2013

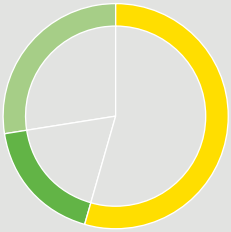
Balance of executive and non-executive directors

1 Chairman
2 Executive directors
8 Non-executive directors



Nationalities of Board members

6 UK
2 US
3 Australasian



Dear shareholder

The role of the Board is to set the tone from the top on the Group's governance, culture and values.

John McFarlane
Chairman

The Board ensures through its oversight that the Group's values are adhered to in everything we do. We care about our customers and endeavour to ensure that we provide them with products that meet their needs and that their dealings with us are undertaken in an efficient, simple and fair manner.

For the Board and Board committees this means ensuring we have high standards of internal control and risk management; that we comply with all relevant laws and regulations; that we run our businesses with integrity; that we use our capital efficiently; that we deliver on our strategy; and that we always put our customers first. If we can be consistent in all of these areas we will be able to deliver strong, sustainable returns to our shareholders.

Our values were in action during the year when we found evidence of late allocation of trades on a number of funds within Aviva Investors. The Audit Committee led a thorough investigation of the issue and reviewed the potential financial impact on the investors in the funds, and has agreed and monitored the implementation of measures to improve the controls to prevent a reoccurrence. We engaged the relevant authorities at an early stage and have kept them fully apprised of the issue. We are taking steps to ensure that customers will not ultimately be disadvantaged as a result of these breaches of the dealing policy.

Key activities during 2013

Board

The Board has delegated greater authority to its committees during 2013, including expanding the remit of what is now the Governance Committee, and now receives more extensive reporting from the committees. This has allowed the Board to concentrate more on strategy; financial strength and performance; risk management; internal controls and compliance; and succession planning. I believe the Board and management have made good progress in achieving the turnaround aims we set at the beginning of the year. We have agreed a realistic and achievable strategy and plan for the coming years.

Audit Committee

The Audit Committee has continued to monitor the integrity of the Company's financial statements; the system of internal controls and issues arising through internal audits. It has an open and transparent relationship with the Company's auditor. One area of focus for the committee throughout the year has been the oversight of the project to 'raise the bar' on the internal control environment and the committee is satisfied that good progress is being made. Glyn Barker, the committee chairman, also commissioned an external evaluation of the quality and effectiveness of the Group's internal audit function and the committee. The significant issues discussed by the committee during the year are disclosed in the Audit Committee report in the annual report and accounts in line with the new requirements in the UK Corporate Governance Code.

Governance Committee

During the year we reviewed the purpose and responsibilities of the Corporate Responsibility Committee and decided to significantly expand its remit. It has been renamed the Governance Committee and now covers the following areas:

- Shareholder (Governance);
- Regulatory and Government;
- Reputation;
- Customer; and
- People and Community.

The key activities that the committee has undertaken during the year include: strengthening subsidiary governance; monitoring reputational issues; initiating a programme of work to develop a greater insight into product governance; reviewing and contributing to the development of the Customer and People theses and reviewing and approving the Group's Corporate Responsibility Plan.

Nomination Committee
The Nomination Committee led the process for the appointment of Michael Mire and Patricia Cross as non-executive directors and has also considered and recommended to the Board a number of committee membership changes and Sir Adrian's appointment as senior independent director. We are conscious that we currently have only 18% female representation on the Board and increasing this is a priority for the committee. The committee has considered each non-executive director's independence and each director's contribution to the Board during the year, and their suitability for election or re-election at the 2014 AGM, and fully supports the election or re-election of all Board members.

Remuneration Committee
Directors' remuneration continues to be an area of focus for investors and a hot topic in the media. Further to the work carried out following the 2012 AGM, and with the mandatory vote on remuneration policy being introduced this year, the committee has spent considerable time reviewing our remuneration policy and we engaged with institutional investors ahead of publishing the Group's policy in this report. I believe that the policy is clear and aligns executive remuneration with the Company's performance and shareholder outcomes. I hope that you will support the policy at this year's AGM.

"We care about our customers, and endeavour to ensure that we provide them with products that meet their needs."

John McFarlane
Chairman

Risk Committee
During the year the Group was designated a Global Systemically Important Insurer (G-SII), which brings the Group within scope of the policy requirements issued by the International Association of Insurance Supervisors (IAIS). The consequences of this include the development by July 2014 of a Systemic Risk Management Plan; the development of recovery and resolution plans; and from January 2019 additional loss absorbency capital requirements, if the Group remains a G-SII.

The committee has closely monitored the Group's capital and liquidity position throughout the year and reviewed all significant transactions with a capital and liquidity impact ahead of Board approval. This included the sale of the US life business and actions taken to reduce leverage. The committee continues to monitor plans to achieve compliance with Solvency II and the EIOPA interim measures effective 1 January 2014.

UK Corporate Governance Code
The Company has adopted the new provisions of the 2012 version of the UK Corporate Governance Code (the Code), and is compliant with all provisions. 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.

Subsidiary governance
Governance is important at all levels of the organisation. We apply many of the provisions of the Code to our subsidiaries to ensure that we maintain the same high standards of governance throughout the Group. We have appointed non-executive directors to the boards of all our principal subsidiaries and each principal subsidiary also has a board audit and risk committee. This strengthens the degree of oversight and challenge to the business and also provides a mechanism for information flows up and down the organisation both between management and non-executive directors, and subsidiary and Group non-executive directors.

John McFarlane
Chairman
5 March 2014

Extract of directors' remuneration report

Dear shareholder

On behalf of the Board, the Remuneration Committee is pleased to present an extract of the Directors' Remuneration Report (DRR) for the year ended 31 December 2013.

Responding to new requirements

Aviva's 2013 DRR reflects the new reporting requirements introduced by the Department for Business, Innovation & Skills regulations. We have endeavoured to reflect the letter and the spirit of those new requirements in the DRR. We have drawn on the guidance, notably by the GC100 Investor Group, in its preparation.

In addition, we have consulted widely with shareholders on the contents of our new directors' remuneration policy and, following consideration of their comments, we have made a number of amendments in this final version.

Paying for performance

We believe there is a clear link between the performance of the Group, the value we add for shareholders and the remuneration of our most senior executives. Our remuneration policy and practice reflects performance against the Group's main strategic priorities, which are:

- Improve financial performance – total remuneration is heavily weighted towards pay dependent on outcomes against the Key Performance Indicators (KPIs) of our business, notably cash flow, profit and Return On Equity (ROE)
- Build capital and financial strength – the expenditure on variable pay is very much aligned to the measurement of the financial strength of our business. The Remuneration Committee assures itself that any bonus proposed is justifable based on the business being sustainable over the long term
- Focus on core businesses – through the measurement of a number of key financial, operational and longer-term return measures, overall remuneration is closely aligned to the achievement of the Group's strategic objectives

Our reward approach in practice

The application of our policies and practices in the 2014 reward round has resulted in the following outcomes for the Group Chief Executive Officer (Group CEO):

- Basic pay – basic salary of £980,000 will remain unchanged
- Annual bonus – a 2013 bonus of 112.5% of basic salary, equivalent to £1,102,500 was approved. The basis for this decision is set out in the remuneration report in the annual report and accounts
- Long-Term Incentive Plan (LTIP) – an LTIP grant in 2014 with a face value of £2,940,000 which is 300% of basic salary

Appointment of new CFO

The Board announced on 28 February 2014 the appointment of Tom Stoddard as CFO. Mr Stoddard will join on 5 May 2014. Details of his remuneration arrangements were included in the announcement of his appointment, and are set out in the DRR.

Continuing the shareholder dialogue

We have met our major institutional shareholders and the main proxy agencies regularly in the course of 2013.

We believe this regular contact is proving beneficial for both parties in increasing mutual understanding, addressing and resolving issues of concern and helping informed decision making. We remain committed to continuing that dialogue.

Remuneration reward review

Our remuneration policy report reflects our reward framework as we will apply it for senior executive remuneration in 2014.

Usual practice would be that our remuneration policy is put to a vote every three years, although we expect to conduct a strategic review of our executive remuneration in 2014 to ensure our reward frameworks, policies and practices remain fit for purpose, aligned with the wider talent market and compliant with relevant regulation.

If that review leads to proposed changes to our remuneration policy, we expect to consult with shareholders in the latter half of 2014.

Subject to the outcomes of that consultation, we will aim to put proposals to shareholders at our 2015 Annual General Meeting (AGM) for approval.

Patricia Cross
Chairman, Remuneration Committee

Directors' remuneration policy for Executive Directors (EDs)

Element	Operation and recovery provisions (if applicable)	Maximum opportunity	Performance measures
Basic salary **Purpose and link to strategy** 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 the 25 FTSE-listed companies either side of Aviva in terms of market capitalisation ▪ Levels of increase for the broader UK employee population ▪ Individual and business performance	Current basic salaries are disclosed in the full DRR. 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 The committee is aware of shareholder concern on ED basic salary racheting and would consult on proposed increases if they were to significantly exceed the general level of increases for UK staff.	Any movement in basic salary takes account of performance.
Element Annual bonus **Purpose and link to strategy** To incentivise EDs to achieve the annual business plan. 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. Unvested awards are subject to reduction for misconduct or materially adverse misstatement of accounts. Discretion remains with the committee to amend the bonus payout taking account of financial, market and other considerations. In particular the committee will review the alignment of bonus awards with the experience of shareholders.	Maximum bonus opportunity is 150% of basic salary with 75% 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 and customer targets and personal objectives as set by the committee. For example, in 2013 the financial KPIs were: ▪ Net capital returns ▪ IFRS profit before tax ▪ MCEV value of new business ▪ Combined operating ratio ▪ Total expenses Financial performance is the major factor in considering overall expenditure on bonuses.
Element Long-Term Incentive Plan (LTIP) **Purpose and link to strategy** To motivate EDs to achieve the Company's longer-term objectives, to align ED's 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. Unvested awards are subject to reduction in the event of misconduct or materially adverse misstatement of accounts. The committee has discretion to amend vesting downwards depending on business or individual performance or conduct.	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 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 section of the full DRR.
Element Pension **Purpose and link to strategy** 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.	The level of benefit takes account of the seniority of EDs and of the local market. Ordinarily, the employer contribution to pension benefits under UK contracts does not exceed 31% of basic salary, minus an employee contribution of 8% of the 'Scheme Specific Earnings Cap', (£141,600 for 2013/14).	N/A
Element Benefits **Purpose and link to strategy** To provide EDs with suitable core benefits as part of a competitive remuneration package, which 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 allowance 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 is appropriate against comparable roles in companies of a similar size and complexity to provide a reasonable level of benefit. Cost 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 reported in the DRR.	N/A
Element Relocation & mobility **Purpose and link to strategy** To assist with mobility across the Group to ensure the appropriate talent is available to execute strategy locally.	Employees who are relocated or re-assigned either in country or internationally 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
Element Shareholding requirement **Purpose and link to strategy** To align EDs' interests with those of shareholders.	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.	N/A	N/A

Single total figures of remuneration for 2013 – Executive Directors and Non-Executive Directors (audited information)

The table below sets out in the required form the total 2013 remuneration for each of our Directors who served with the Company during 2013.

Total 2013 Remuneration – Executive Directors and Non-Executive Directors

	Basic salary / Fees		Benefits		Annual bonus[4]		LTIP[5]		Pension[7]		Total	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Executive Directors												
Mark Wilson[1]	**980**	—	**239**	—	**1,103**	—	**—**	—	**293**	—	**2,615**	—
Patrick Regan[2]	**720**	699	**37**	34	**—**	—	**—**	490[6]	**199**	193	**956**	1,416
Former Executive Directors												
Trevor Matthews[3]	**311**	720	**16**	85	**—**	—	**450**	—	**92**	212	**869**	1,017
Total emoluments of Executive Directors	**2,011**	1,419	**292**	119	**1,103**	—	**450**	490	**584**	405	**4,440**	2,433
Chairman/Executive Chairman												
John McFarlane	**550**	413	**101[8]**	145	**—**	—	**—**	—	**—**	—	**651**	558
Current Non-Executive Directors												
Glyn Barker	**122**	76	**—**	1	**—**	—	**—**	—	**—**	—	**122**	77
Patricia Cross	**8**	—	**1**	—	**—**	—	**—**	—	**—**	—	**9**	—
Michael Hawker	**137**	137	**1**	—	**—**	—	**—**	—	**—**	—	**138**	137
Gay Huey Evans	**105**	96	**1**	—	**—**	—	**—**	—	**—**	—	**106**	96
Michael Mire	**29**	—	**1**	—	**—**	—	**—**	—	**—**	—	**30**	—
Sir Adrian Montague	**113**	—	**2**	—	**—**	—	**—**	—	**—**	—	**115**	—
Bob Stein	**89**	—	**1**	—	**—**	—	**—**	—	**—**	—	**90**	—
Scott Wheway	**118**	112	**1**	—	**—**	—	**—**	—	**—**	—	**119**	112
Former Non-Executive Directors[9]												
Russel Walls	**47**	129	**—**	2	**—**	—	**—**	—	**—**	—	**47**	131
Richard Karl Goeltz	**44**	119	**—**	1	**—**	—	**—**	—	**—**	—	**44**	120
Total emoluments of Non-Executive Directors	**1,362**	1,082	**109**	149	**—**	—	**—**	—	**—**	—	**1,471**	1,231
Total emoluments of All Directors	**3,373**	2,501	**401**	268	**1,103**	—	**450**	490	**584**	405	**5,911**	3,664

Notes

1 Mark Wilson joined the board with effect from 1 December 2012, and became Group CEO on 1 January 2013. He received no emoluments in respect of 2012.
2 Patrick Regan tendered his resignation as Chief Financial Officer on 22 January 2014 and will leave the Board and the Group prior to the AGM and so received no bonus award for 2013. His LTIP awards granted in 2011, 2012 and 2013 will lapse.
3 Trevor Matthews left Aviva on 6 June 2013 and so 2013 figures represent the period up to that date.
4 Bonus payable in respect of the financial year including any deferred element at face value at date of award.
5 Value of the LTIP for 2013 relates to the 2011 award, which had a three year performance period ending on 31 December 2013. 34.48% of the award will vest in March 2014. An assumed Aviva ordinary share price of 431.9 pence has been used to determine the value of the award based on the average share price over the final quarter of the 2013 financial year.
6 The LTIP value for Patrick Regan for 2012 has been updated to reflect the actual value at vesting of the award. The figure previously disclosed was £607,302.
7 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.
8 Benefits for John McFarlane include the entitlement previously agreed for him to be reimbursed against evidenced expenditure for reasonable and appropriate costs associated with his relocation to the UK, up to a maximum of £125,000, inclusive of any tax liability, which was rolled forward to 2013.
9 Richard Karl Goeltz and Russell Walls retired from the Board with effect from 8 May 2013. The remuneration figures shown in the table are for or relate to the period during which they were a director of the Company.

This Strategic Report was approved by the Board on 5 March 2014.

Mark Wilson
Group Chief Executive Officer

Governance

In this section

Directors' and Corporate governance report 68
Directors' remuneration report 86

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).

Further details of how the Company has 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.

It is the Board's view that the Company has been 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 to help the business run smoothly and 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 and 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 issues and list those items that are specifically reserved for decision by the Board. Matters requiring 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 and Capital Officer (CRCO), Board and committee succession planning and the constitution of Board committees)

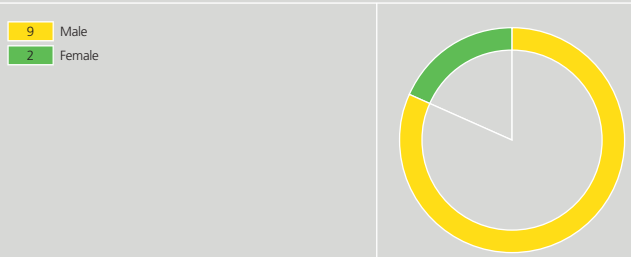
The Board's terms of reference also set out those matters that must be reported to the Board, such as senior leadership changes, significant litigation or material regulatory breaches, and explain how matters requiring consideration by the Board that arise between scheduled meetings should be dealt with.

The directors

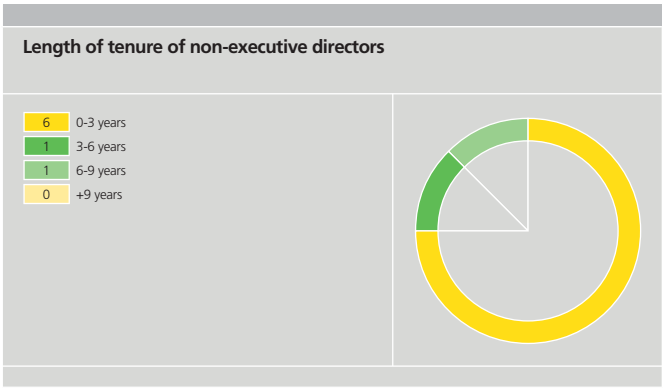
As at the date of this Report the Board comprises the Chairman, Group Chief Executive Officer (Group CEO), Chief Financial Officer (CFO) and eight Independent Non-Executive Directors (NEDs). The following charts show the balance of the Board between executive and non-executive representation, length of tenure and the diversity of the Board in terms of gender and nationality.

Balance of executive and non-executive directors

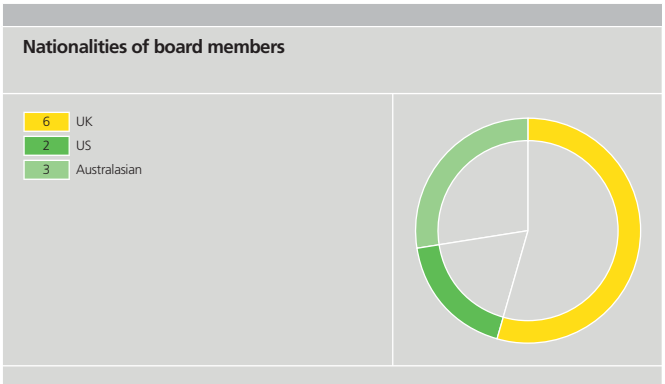
Gender split of directors



Length of tenure of non-executive directors



Nationalities of board members



The Board's policy is to appoint and retain non-executive directors, who can apply their wider business knowledge and experiences to their oversight of the Group, and to review and refresh regularly the skills on the Board. In line with Code requirements regarding the independence of NEDs, Russell Walls and Richard Goeltz retired from the Board on 8 May 2013 having completed nine years' service. The Report of the Nomination Committee sets out the work carried out during the year on succession planning which culminated in the appointment of Michael Mire and Patricia Cross as NEDs in

September and December 2013 respectively. Committee membership is also regularly refreshed and a number of changes have recently been implemented.

NEDs need 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, a NED needs to acquire a sound understanding of the industry and the Company so as to be able to evaluate properly the information provided. All of the current directors were subject to a formal performance evaluation. The Board, having considered the matter carefully, is of the opinion that all of the current NEDs are 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 six years, was subject to a particularly rigorous review of his independence. 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 the Strategic report.

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 41 days a year on Company business, with the chairmen of the Audit, Risk, Governance and Remuneration Committees spending substantially more. The Chairman has recently been appointed as Chairman of FirstGroup plc. The Nomination Committee reviewed the time commitment required for the role and had no objection to the Chairman taking up this appointment.

The Chairman and Group CEO

Role profiles are in place for the Chairman, John McFarlane and the Group CEO, Mark Wilson, which clearly set out the duties of each role. The Chairman's priority is leadership of the Board and ensuring 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 consideration and approval.

Senior Independent Director

Sir Adrian Montague became the Senior Independent Director on 8 May 2013 when Richard Goeltz retired from the Board. The role of a senior independent director is to provide 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 Richard Goeltz and then Sir Adrian Montague, have 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 2013

The work of the Board follows an agreed annual work plan and principally falls under six main areas. The following chart shows how the Board allocated its time during 2013.

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 revised strategy and the new 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 operational performance; competitor results; the Group's operational plan; treasury activities; and progress against Solvency II
- Reports from the CRCO on the Group's capital and liquidity position; regulatory issues; risk appetite; and compliance with business standards and controls
- Reports and recommendations from each Board committee
- Presentations 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 strategy and the transformation programme.

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

- Approved the disposal of the Group's remaining holding in Delta Lloyd N.V.
- Approved a proposal to reduce the complexity of the Group's corporate structure to give a greater degree of direct control over subsidiaries
- Agreed a new strategy and the four strategic theses
- Agreed a new set of values and behaviours to support a culture that will enable the Group to achieve the strategy
- Approved an early repayment of £300 million of the intra-Group loan to reduce internal debt
- Approved the final terms of the disposal of the US Life business
- Approved a new, sustainable dividend policy
- Approved the entering into of negotiations with Pt Astra International Tbk to set up a joint venture life insurance company in Indonesia

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

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 overall performance. For the 2013 evaluation an

external review was facilitated by Independent Board Evaluation and supported by internal questionnaires to the Board committees. The results were 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. Areas for greater Board focus in 2014 included making more time on the Board agendas for the evolving business strategy; adding diversity to the Board; and further developing the induction process for new directors. The focus for the Board committees in 2014 are detailed in each committee's report.

Independent Board Evaluation have no other connection with the Company.

The review of the performance of the Chairman, led by the Senior Independent Director, concluded that the Chairman is an inclusive leader, welcoming contributions from all Board members and works well with the Group CEO. He has built a cohesive Board and continues to make a valuable contribution to Board discussions.

The Chairman and Independent Board Evaluation 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 development.

During the year, directors attended a number of internal training sessions, including sessions on economic capital, the Own Risk Solvency Assessment and stress and scenario testing. Training sessions have been built into the Board's and committees' work plans for 2014.

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 on a particular issue. All new directors also receive induction materials, which include 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.

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 meetings held in 2013 is shown in the following table and the attendance at committee meetings is shown in the committee reports.

Board attendance 2013

Director	Number of meetings attended	Percentage attendance[1]
Glyn Barker	11	100%
Patricia Cross[3]	1	100%
Richard Karl Goeltz[4]	5	100%
Michael Hawker	11	100%
Gay Huey Evans[2]	9	82%
John McFarlane[2]	10	91%
Trevor Matthews	4	80%
Michael Mire[5]	4	100%
Sir Adrian Montague[6]	11	100%
Patrick Regan	11	100%
Bob Stein[7]	11	100%
Russell Walls[4]	5	100%
Scott Wheway[2]	10	91%
Mark Wilson[2]	10	91%

1 This shows the percentage of meetings which the director attended during the year whilst a member of the Board.
2 The director was unable to attend Board meeting(s) due to prior commitments, the meetings being called at short notice or where a conflict of interest prevented the director from taking part in the meeting.
3 Patricia Cross was appointed on 1 December 2013.
4 Russell Walls and Richard Karl Goeltz retired on 8 May 2013.
5 Michael Mire was appointed on 12 September 2013.
6 Sir Adrian Montague was appointed on 14 January 2013.
7 Bob Stein was appointed on 28 January 2013.

During 2013, there were 11 Board meetings held, of which, eight were scheduled Board meetings and three 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 seven times during 2013.

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.

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. 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 Committee, the Risk Committee and the Governance Committee 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.

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 details on procedures for the management of risks are given 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 IFRS 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 has delegated 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 has delegated 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.

The CFO has established the Asset Liability Committee (ALCO) which assists him in discharging his responsibilities in relation to management of the Group's balance sheet within risk appetite and to provide financial risk management oversight. This includes recommending financial and insurance risk appetites and limit frameworks, evaluating the asset and liability impact of strategies and business plans, financial risk oversight, monitoring and management of the Group's capital and liquidity position, transaction risk oversight, stress and scenario testing, and identification of emerging financial risks.

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 Committee and the Audit Committee.

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.

To assist with the execution of his duties the CRCO has established the Operational Risk and Reputation Committee (ORRC) which oversees operational risks and reputational impacts arising from activities across the Group. It oversees the operational risk elements of the implementation and maintenance of the risk policies and business standards, the Group's adherence to the Operational Risk Policy, and the adequacy and implementation of the RMF throughout the Group.

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.

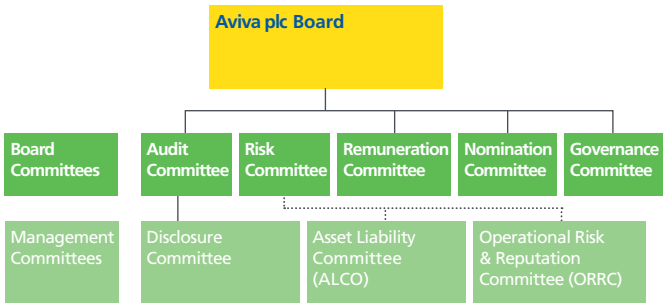
Board oversight
The Risk Committee assists the Board in its oversight of risk and risk management across the Group and makes recommendations on risk appetite to the Board. The responsibilities and activities of the Risk Committee are set out in the Risk Committee Report.

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.

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 behavior and the Group's relationship with customers.

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 overleaf 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 CRCO 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 full review of the effectiveness of the systems of internal control and risk management in March 2014, 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 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. 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. In 2013 the Board, through the then Remuneration Committee chairman, consulted with institutional investors on executive remuneration, particularly on the proposed remuneration policy being put to shareholders for approval at the 2014 Annual General Meeting (AGM).

The AGM also provides a valuable opportunity for the Board to communicate with private shareholders. All serving directors attended the 2013 AGM except Bob Stein, who had a prior commitment on the date that arose before he joined the Board. There is a dedicated email address which shareholders can use to ask questions on the business of the AGM at aviva.shareholders@aviva.com. The dedicated email 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.

Nomination Committee report

Committee role and responsibilities

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. 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 key 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
- Monitor succession plans for the appointment of non-executive directors, the Group CEO and other executive directors to the Board
- 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
- Approve a report on the committee's activities for inclusion in the Company's Annual report and accounts

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]	4	80%
Glyn Barker	5	100%
Patricia Cross[3]	1	100%
Richard Karl Goeltz[4]	2	100%
Michael Hawker	5	100%
Gay Huey Evans[2]	4	80%
Michael Mire[5]	2	100%
Sir Adrian Montague[6]	4	100%
Bob Stein[6]	4	100%
Russell Walls[4]	2	100%
Scott Wheway	5	100%

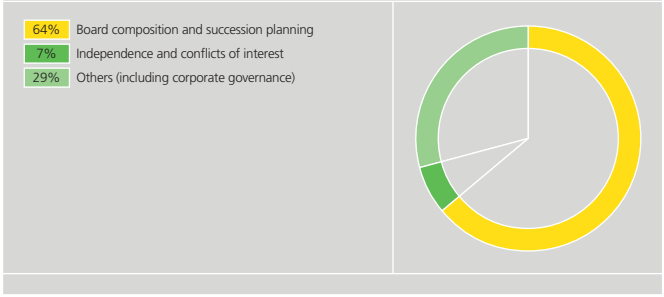
1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 John McFarlane did not attend a meeting where his external appointment to FirstGroup plc was the only agenda item. Gay Huey Evans could not attend an ad hoc meeting called at short notice due to a prior commitment.
3 Patricia Cross joined the committee on 1 December 2013.
4 Richard Karl Goeltz and Russell Walls retired from the committee on 8 May 2013.
5 Michael Mire joined the committee on 12 September 2013.
6 Sir Adrian Montague and Bob Stein joined the committee on 6 March 2013.

The committee met on five occasions in 2013, of which two were additional meetings called at short notice due to new Board appointments during the year. The Group Company Secretary acts as the secretary to the committee. Members of the committee took no part in any discussions concerning their own circumstances. 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 2013

During 2013 the committee was principally focused on the recruitment of new non-executive directors as part of the continual cycle to refresh the Board and maintain an appropriate balance of skills, knowledge and experience. These issues are discussed in detail below. The chart below shows how the committee allocated its time during 2013.

Nomination Committee – allocation of agenda time



Non-executive director search

The committee continued the process to refresh the Board and engaged The Zygos Partnership and Egon Zehnder to identify and review suitable candidates. Comprehensive candidate search briefs were prepared and approved by the committee and shortlisted candidates were interviewed by the Chairman, the Senior Independent Director and two NEDs. All the NEDs had the opportunity to meet with the preferred candidates before their appointment. Following regulatory approval, the Board accepted the committee's recommendations and appointed Michael Mire and Patricia Cross as NEDs with effect from 12 September and 1 December 2013 respectively. The committee considered the cross-directorships of Patricia Cross and Michael Hawker in Macquarie Group Ltd and Macquarie Bank Ltd and was satisfied that this did not compromise their independence.

The Group uses The Zygos Partnership to identify suitable non-executive director candidates for Group subsidiary companies and Egon Zehnder for senior executive recruitment.

Diversity

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. During the year, candidate searches were conducted and Board appointments were made, on merit, against the criteria identified by the committee, having regard to the benefits of diversity on the Board, including gender. The committee and the Board believe that diversity also includes criteria such as nationality, race, age and experience of different businesses.

With the appointment of Patricia Cross there is now 18% female representation on the Board. The Board remains committed to achieving a minimum of 25% female representation on the Board as soon as possible. Recruitment of a further NED is therefore ongoing and we aim to meet this target during 2014, which will be ahead of Lord Davies' target of 25% by 2015. At the date of this Report, 21% *(2012: 29%)* of Group Executive members and 21% *(2012: 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 will create a stronger talent pipeline and is better for business. There is also a policy to encourage senior executives to take up one non-executive position at other organisations and Amanda

Mackenzie, Chief Marketing and Communications Officer, is a Non-Executive Director of Mothercare Plc.

Other activities
During the year the committee reviewed the composition of the Board's committees and recommended changes to the Board for approval. In addition the committee made the recommendation to appoint Sir Adrian Montague as the Senior Independent Director following the retirement of Richard Goeltz from the Board. The committee was involved in the process to recruit a new Chief Executive Officer for Aviva Investors which resulted in the appointment of Euan Munro who joined in January 2014. Several committee members met Christine Deputy prior to her appointment as Group HR Director and the committee discussed potential candidates to succeed the Chief Executive Officer of Aviva Canada and provided advice on executive succession matters to the Group CEO.

The committee reviewed and agreed to John McFarlane's appointment as Chairman of FirstGroup plc, taking into account the time commitment involved. The committee also reviewed the independence of each NED, all directors' conflicts of interest and the balance of skills, knowledge, experience and diversity on the Board prior to recommending the directors' election or re-election at the AGM. Following consideration of these issues the committee recommended each director standing for election or re-election at the 2014 AGM. Following Patrick Regan's resignation in January 2014, the committee appointed Spencer Stuart to search for suitable CFO candidates. Spencer Stuart also carries out other executive search activities for the Group.

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 2014.

Audit Committee report

Committee role and responsibilities

The purpose of the committee is to assist the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, assessing the effectiveness of the Group's system of internal controls and monitoring the effectiveness, performance, independence and objectivity of the internal and external auditors. Whilst the Board as a whole has a duty to act in the best interests of the Company, the committee has a particular role, acting independently of management, to ensure that the interests of shareholders are properly protected in relation to financial reporting and the effectiveness of the Group's systems of financial internal controls. The key 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 system of internal controls, including financial reporting, financial controls and the Internal Audit function
- Consider and review the performance of the Chief Audit Officer (CAO), and agree with management his effectiveness and 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

Revised terms of reference for the committee were adopted in December 2013 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 committee comprises independent NEDs only. The Group Company Secretary acts as the secretary to the committee. 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]
Russell Walls (Chairman[2])	6	100%
Glyn Barker (Chairman[3])	13	100%
Patricia Cross[4]	1	100%
Richard Karl Goeltz[5]	6	100%
Sir Adrian Montague[6]	9	90%
Michael Hawker	13	100%

1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 Russell Walls chaired the committee until 8 May 2013 when he retired from the Board.
3 Glyn Barker became chairman of the committee on 8 May 2013.
4 Patricia Cross joined the committee on 1 December 2013.
5 Richard Karl Goeltz retired from the Board on 8 May 2013.
6 Sir Adrian Montague joined the committee on 6 March 2013 and was unable to attend one meeting which was called at short notice.

The committee met on 13 occasions in 2013, of which three meetings were called at short notice. During the year the committee members attended meetings of business unit audit committees in UK Life, Ireland Life, Ireland Health, Aviva Investors, Canada, France and Italy.

The Chairman, Group CEO, CFO, CAO and the external auditor normally 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, and with the CAO and the external auditor without management present. The committee chairman held regular meetings with management, the CAO and with the external audit partner to ensure he and the committee were aware of issues that needed to be raised at 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.

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.

Committee expertise

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. 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. Patricia Cross has held a number of senior executive roles at National Australia Bank, Chase Manhattan Bank and Banque Nationale de Paris in addition to non-executive roles at a number of financial services companies and has held honorary roles on the Australian Financial Centre Forum and Financial Sector Advisory Council. Sir Adrian Montague was formerly Chairman of Friends Provident plc and Deputy Chairman of UK Green Investment Bank plc and has significant experience in the financial services industry.

The Board is satisfied that Glyn Barker and Michael Hawker each have recent and relevant financial experience and that Glyn Barker meets the US requirements to be an audit committee financial expert.

Glyn Barker succeeded Russell Walls as committee chairman on 8 May 2013. As former Vice-Chairman of PwC, Glyn Barker has a recent connection with the Group's current auditor. However, in the two years prior to his retirement he did not perform any audit work and had no responsibility for the audit business of PwC and has confirmed that he does not have any significant ongoing financial connection with the firm. As he retired from PwC before PwC was appointed as the Company's auditor and, as he complies with the rules of the US Securities and Exchange Commission and the Auditing Practices Board's Ethical Standards on auditor independence, the committee is satisfied that PwC is independent of the Company.

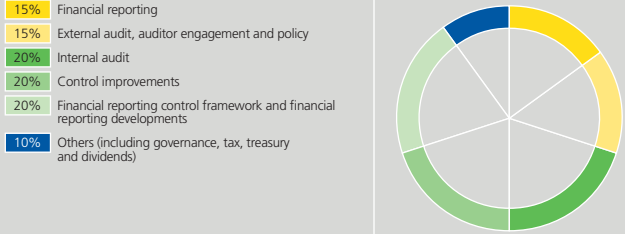
Committee activities during 2013

The work of the committee followed an agreed annual work plan and principally 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 following chart shows how the committee allocated its time during 2013.

Financial statements and accounting policies

In conjunction with members of management and the internal and external auditors, 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 and the reasonableness of the judgement factors and appropriateness of significant accounting policies used in their preparation.

Audit Committee – allocation of agenda time



The committee considered a number of significant issues in relation to the financial statements including judgements, methodology and assumptions which are described below.

Commercial mortgages

In the Half Year 2013 results the Company announced a net increase in the credit default allowance on the commercial mortgage portfolio by £300 million to £1.5 billion. This resulted from recognition of the risk of default on the riskier mortgages in the portfolio. The committee called an ad hoc meeting specifically to discuss this issue in July 2013 and challenged management on whether the proposed reserve increase was sufficient. The committee was satisfied with management's review. The committee agreed the net increase in allowance was appropriate based on current facts. At Full Year 2013 the total allowances for commercial mortgage defaults was £1.3 billion *(2012: £1.2 billion including an implicit investment margin of £0.2 billion)* against the risk of default on our riskier mortgages. The value of the commercial mortgage portfolio at 31 December 2013 was £11.1 billion. The allowance was reassessed by the committee in February 2014 and the committee was satisfied that the allowance remained appropriate. Given the significance of the estimate the committee will continue to monitor this issue closely.

Insurance liabilities

The committee reviewed the key assumptions used in calculating long-term business contract liabilities, including the annuitant mortality assumptions and the credit default allowance on the corporate bond portfolio adopted by the UK Life business. The committee was satisfied with management's review of these assumptions.

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 believes that the methodology and assumptions applied in calculating the year end liabilities for that business are appropriate.

Aviva Investors

In 2013 we found evidence of improper allocation of trades in fixed income securities in Aviva Investors which occurred between 2006 – 2012 and a thorough investigation was carried out by Internal Audit. The committee considered the valuation of the provision for potential client compensation arising from these breaches of the dealing policy.

Valuation of investments

The Committee has reviewed management's judgements on the Group's fair value hierarchy of disclosures. The Committee approved management's proposal to change the classification level for financial assets, in particular, commercial mortgage assets which have been classified as Level 3. Further detail is contained in note 23.

US sale
The sale of the Aviva USA business completed on 2 October 2013 and the transaction proceeds received were based on the estimated earnings and other improvements in statutory surplus over the period from 30 June 2012 to 30 September 2013. The final purchase price is subject to customary completion adjustments. The process to agree completion adjustments is on-going and is expected to complete by mid-2014. Until the outcome of this process is known there remains uncertainty on the final determination of the completion adjustment. The committee considers the fair value less costs to sell reflected in the 2013 Annual report and accounts to be appropriate.

Other matters
The committee also considered the carrying value of goodwill in the Group's Spanish business and the classification of a number of businesses as held for sale, including Eurovita, Taiwan, Korea, Indonesia and Turkey general insurance as disclosed in note 4. With regard to the Group's accounts on the Market Consistent Embedded Value basis, the committee considered and challenged the key assumptions presented by management.

Internal control

During the year the committee received quarterly updates on the effectiveness of the Group's financial reporting control framework and discussed rectification of any deficiencies in controls. The controls improvement programme at Aviva Investors was monitored closely and made good progress during the year. In addition, the committee commissioned PwC to review how the improper trading in fixed income securities at Aviva Investors was allowed to happen and whether the controls instigated since then are sufficiently robust. Measures to improve controls have been implemented.

The committee challenged management to improve the quality of the overall control environment across the Group. Significant work has been carried out by management to close issues raised by Internal Audit and the Group's risk policies and business standards have been mapped against the Committee of Sponsoring Organizations of the Treadway Commission's Enterprise Risk Management Framework (COSO framework) to provide a baseline position to assess where further development is required.

An Integrated Assurance Framework (IAF) is also being rolled out across the Group as a mechanism for bringing 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 system of internal controls extends 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 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 on any significant complaints received. A description of the Company's systems of internal control and the Group's risk management framework is included on pages 70 to 72.

Internal audit

Internal Audit reports to the Board (primarily via the Audit Committee) and to management on the effectiveness of the Company's system of internal controls and the adequacy of this system to manage business risk 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 three 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
- Investigate and report on cases of suspected financial crime and employee fraud
- Undertake 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.

Annual plan and focus of reviews in 2013
Internal Audit's 2013 annual plan was reviewed and approved by the committee. Planned reviews reflected the priorities in the Group's 2013-2015 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. Reviews included the implementation of corporate decisions; maintenance of adequate financial strength and resilience; the effectiveness of governance, decision making and risk management; treating customers fairly; the availability, security and recoverability of IT systems; and the improper allocation of trades in fixed income securities at Aviva Investors. 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. The CAO prompted management to increase focus throughout the year on closing overdue audit issues and on areas where further improvement is still required.

Effectiveness of the internal audit function
The committee commissioned an independent review of the effectiveness of the Internal Audit function against the standards published by the Institute of Internal Auditors (IIA). Overall, the independent reviewers found that the Internal Audit function complies with the IIAs standards, code of ethics and conduct and is fit for purpose. The function demonstrates expertise in insurance governance, and risk and control. A number of recommendations were made as to how the function could develop further, including enhancing the use of data analytics and related IT tools, and developments to the audit reports such as including management's view of risks and controls. The Internal Audit function intends to implement all of the recommendations and the committee will oversee progress.

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. During the year the CAO's reporting line changed from the CFO to the Group CEO.

Whilst 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 the independence, authority and standing of the CAO and the Internal Audit function. 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 auditor in 2012 following a formal tender process. The external audit contract will be put out to tender at least once every ten years.

During the year, the committee performed its annual review of the independence, effectiveness and objectivity of the external auditor, assessing the audit firm, audit partner and audit teams. 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 external auditor against those criteria. Based on this review, the committee concluded that the audit service of PwC was fit for purpose.

The Company has an external auditor business standard in place which is aimed at safeguarding and supporting the independence and objectivity of the external 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 external auditor. It distinguishes between (i) those services where an independent view is required and services that should be performed by the external auditor (such as statutory and non-statutory audit and assurance work); (ii) prohibited services where the independence of the external auditor could be threatened and must not be used; and (iii) other non-audit services where the external 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) 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 £16.6 million to PwC for audit and audit-related assurance services in 2013, relating to the statutory audit of the Group and Company financial statements, the audit of Group subsidiaries, additional fees relating to the prior year audit of Group subsidiaries and audit-related assurance services *(2012: £15.8 million)*.

The fees for other services, which are in compliance with applicable UK, US and International Federation of Accountants independence rules, included Market Consistent Embedded Value 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 Solvency II implementation, were £7.6 million *(2012: £16.0 million)*, giving a total fee to PwC of £24.2 million *(2012: £31.8 million)*. In addition the Group paid PwC £0.2 million *(2012: £0.2 million)* in relation to the audit of Group occupational pension schemes.

The Group paid £1.1 million to PwC in relation to other non-audit services in respect of continuing operations. This included £0.2 million relating to a regulatory advice engagement and £0.9 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 2014 should include: monitoring implementation of compliance with the requirements of being classified as a Global Systemically Important Insurer; continuing to monitor improvements in the control environment; greater oversight of management actions to reduce operational risk; and increasing the level of reporting from business unit audit committees.

Risk Committee report

Committee role and responsibilities

The purpose of the committee is to assist the Board in its oversight of risk within the Group through reviewing the Group's risk appetite and risk profile in relation to capital and liquidity, the effectiveness of the Group's Risk Management Framework (RMF), the methodology and assumptions used in determining the Group's capital requirements, and the monitoring of prudential regulatory requirements. The committee 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 oversaw all aspects of risk management in the Group, including market, credit, liquidity, insurance and operational risk (including franchise risk), and their impact on both the financial and non-financial goals of the Company. In late 2013, oversight of franchise risk was transferred to the Governance Committee.

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 and challenge the Group's forward-looking risk profile against its risk strategy and capital and liquidity risk appetite and review the drivers of changes, if any, in the Group's risk profile
- Review and challenge proposed management actions if the Group's capital or liquidity risk position against appetite reaches the level at which it needs to be escalated to the committee
- Review the design, completeness and effectiveness of the RMF relative to the Group's activities
- Assess the adequacy and quality of the risk management function and the effectiveness of risk reporting within the Group
- Review the Group's investment risk strategy, credit limit framework and approve individual counterparty exposures in excess of limits
- Review the governance, methodology and assumptions used in the Group's models for determining its economic and regulatory capital requirements
- Review and approve risk policies
- Satisfy itself that risks to the Group's business plan and any capital implications are adequately identified and assessed by management and that appropriate mitigating actions are in place
- 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 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

Revised committee terms of reference were adopted in December 2013 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 committee comprises independent NEDs only. 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)	7	100%
Glyn Barker	7	100%
Michael Mire[2]	2	100%
Bob Stein[3]	4	100%
Russell Walls[4]	4	100%

1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 Michael Mire joined the committee on 12 September 2013.
3 Bob Stein joined the committee on 6 March 2013.
4 Russell Walls retired from the committee on 8 May 2013.

The committee met on seven occasions in 2013. The Chairman of the Company, Group CEO, CRCO, CFO and the CAO normally attended all committee meetings. Other members of senior management were also invited to attend as appropriate to present reports. The committee has held regular private sessions with the CRCO 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 agenda and the minutes of each meeting of the committee. The committee chairman also sat on the Audit Committee throughout the year and the Remuneration Committee until 8 May 2013 to ensure that risk considerations were fully reflected in the decisions of those committees. Bob Stein is currently a member of both the Risk Committee and the Remuneration Committee, Glyn Barker is a member of the Risk Committee and Chairman of the Audit Committee and Michael Mire is a member of the Risk Committee and the Governance Committee which ensures the committee is linked to the work of the other Board committees.

In performing its duties, the committee had access to the services of the CRCO, CAO, the Group Company Secretary and external professional advisers.

The chairman followed a programme of attending meetings of business unit risk committees and, during the year, members of the committee attended meetings in the UK Life, Ireland Life and Healthcare, Canadian, French and Italian business units.

In November 2013, the committee chairman hosted a two-day conference for the chairmen of the risk and audit committees of the Group's principal subsidiaries and their Chief Risk Officers. The agenda included discussions on what it means to be a Global Systemically Important Insurer (GSII); Solvency II; raising the bar on internal controls and moving to integrated assurance; key operational risks and management's response to them; cyber crime; conduct risk; and what makes an effective audit or risk committee.

The committee chairman, with the CRCO, 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.

External environment

Financial market conditions during 2013 were more benign than recent years, benefiting from the maintenance of expansionary monetary policies followed by central banks across a number of economies. Whilst some Western economies are beginning to grow, 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 immediate future at least. There are, however, still several sources of macroeconomic and

geopolitical uncertainty, which have the potential to depress economic growth and cause financial market volatility such as the potential for adverse consequences from the removal of quantitative easing, a slowdown in the US recovery, renewed challenges in emerging markets and political impasse in the eurozone.

During the year the Group was designated a GSII, which brings the Group within scope of the policy requirements issued by the International Association of Insurance Supervisors, including the development by July 2014 of a Systemic Risk Management Plan, the development of recovery and resolution plans and additional loss absorbency capital requirements from January 2019, if the Group remains a GSII.

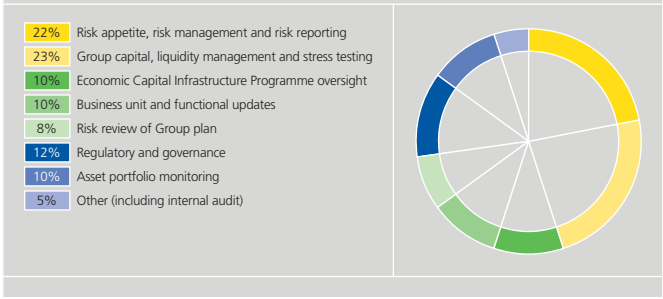
It is now proposed that Solvency II will be implemented on 1 January 2016, following political agreement between the Trilogue parties in relation to long term guarantee product and investment measures. Until the "Level 2" Delegated Acts are finalised there remains uncertainty over the final capital impact on the Group.

Committee activities during 2013

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 Group Company Secretary and the CRCO 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 2013.

Risk Committee – allocation of agenda time



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 these appetites, particularly in relation to liquidity appetite and Individual Capital Adequacy (ICA) surplus and how the Group's business plan improves the Group's capital position over time.

Capital and liquidity management

Following the approval of a revised capital management framework in 2012, the committee has closely monitored 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 surplus has increased throughout the year following implementation of a programme of strategic, economic and operational actions approved by the committee and the Board to strengthen and provide greater resilience to the Group's capital and liquidity position. Actions included the sale of the US Life business, sale of the Group's remaining interest in Delta Lloyd N.V., and actions to reduce the Group's internal and external debt.

The committee received regular one-year liquidity forecasts and closely monitored the Group's ability to satisfy the 2012 final, 2013 interim and 2013 final dividend.

The committee requested that management develop a plan to address the potential capital impact of future events such as being classified as a GSII and the transition to Solvency II and what contingent actions could or should be taken.

During the year the committee recommended to the Board, approval of a new unguaranteed Euro Commercial Paper Programme and issuance of new hybrid debt and considered options to reduce the Group's debt.

Methodology and assumptions

In early 2013, the committee considered and approved the methodology and assumptions used to calculate the economic capital for the 2013 ICA submission. In late 2013 the committee considered and approved the methodology and assumptions for the 2014 ICA submission.

Economic Capital Infrastructure Programme

The implementation of the Solvency II Directive (SII) has been delayed by the European Union until 2016. The Group continues to work towards compliance based on currently available guidance from the European Insurance and Occupational Pensions Authority and is moving to an enhanced economic capital model ahead of SII implementation as it is strategically important for Aviva to have a view of its businesses on an economic capital basis to inform our business decisions.

Risk management and governance

The committee had 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 businesses in Italy, Spain, France, the UK and the European region as a whole, and in respect of the Corporate and Speciality Risks business in the UK and business lines in UK Life, Ireland Life, Poland, France and Aviva Investors. The committee also received updates on issues concerning IT and data security and UK with-profits policies. The committee received regular reports from the CRCO and monitored the effectiveness of the Company's RMF which is described in more detail in the Corporate Governance Report and in note 58.

The committee assessed a customer culture review carried out at the Group centre and in the UK Life and General Insurance businesses and requested that the Risk function review whether customer risks had been appropriately identified in business plans, that sufficient processes were in place to monitor such risks and that customer risks be included in the strategic planning process.

The committee reviewed an internal assessment of the adequacy, quality and effectiveness of the Risk and Compliance functions and was satisfied that overall, the function was effective although the level or quality of resource needed to be increased in some business units.

Regulatory oversight

The committee monitored the impact of the Financial Services Authority's split into the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) in the UK 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. The committee is monitoring management's

development of the Group's Systemic Risk Management Plan and the plans to meet the potential capital requirements.

Fraud and financial crime
The committee reviewed compliance with controls against financial malpractice including fraud, and the arrangements for employees to report in confidence any concerns about lack of probity (whistleblowing). It oversaw the roll out of a financial crime plan and an upgraded system to screen for sanctions and politically exposed persons.

Asset portfolio review
Throughout the year the committee has 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 how the investment decision process worked in the context of the RMF, asset allocation framework and relevant risk policies.

Personnel and remuneration policy
During the year, the committee approved the CRCO's objectives for 2013 and reviewed his performance against 2012 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. 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.

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 2014 should be to maintain the Group's capital and liquidity position consistent with an AA rating; grow the Group's economic capital surplus; monitor economic trends and emerging risks; monitor compliance with increased regulation; improve asset diversity and asset performance oversight and discussion; and implement Solvency II.

Governance Committee report

This Report provides details of the role of the Governance Committee (formerly known as the Corporate Responsibility Committee) and the work it has undertaken during the year.

Committee role and 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
- oversee the brand and reputation of the Group
- ensure 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 with customers, including the regulatory requirements relating to treating customers fairly and offering of products and services that are fit for purpose and meet customer needs
- 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

The Governance Committee has evolved from the Corporate Responsibility Committee during the year and revised terms of reference were adopted in December 2013 to reflect its expanded remit. 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 independent NEDs only. 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]
Gay Huey Evans (Chairman)	6	100%
Michael Mire[2]	1	100%
Sir Adrian Montague[3]	4	100%
Scott Wheway	6	100%

1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 Michael Mire joined the committee on 12 September 2013.
3 Sir Adrian Montague joined the committee on 6 March 2013.

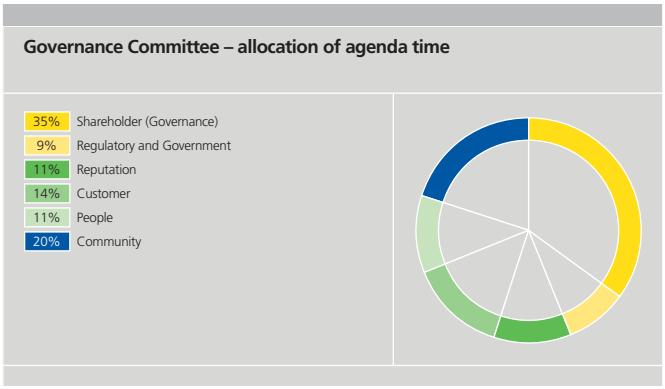
The committee met on six occasions in 2013. The Group Company Secretary or her nominee acts as the secretary to the committee.

The Chairman of the Board attended all meetings of the committee and the Group Corporate Responsibility Director, the Group HR Director, the Chief Marketing and Communications Officer and other members of senior management also attended meetings by invitation. 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 2013

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: Shareholder (Governance); Regulatory and Government; Reputation; Customer; People and Community.

The following chart shows how the committee allocated its time during 2013, with key activities set out below:



Shareholder (Governance)
A review was initiated to strengthen the Group's subsidiary board framework. The aim of the review was to ensure the implementation of best practice corporate governance throughout the Group, being mindful of local laws, regulation and customs. As part of the process, consideration was given to whether the Company's subsidiary boards were appropriately resourced in terms of skills and capabilities and were balanced in terms of diversity.

The committee also received copies of the board effectiveness reviews undertaken by its subsidiaries and the actions implemented as a result of these reviews.

In order to develop stronger ties between the subsidiary boards and the Board, a programme of visits by committee members to subsidiary board meetings was initiated. In addition, and as part of the extension of its remit, the committee is now responsible for overseeing the approval and appointment of non-executive directors to material company subsidiary boards.

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.

To ensure independence, the Board entrusted the task of overseeing the 2013 Board and committee effectiveness review to the committee. Independent Board Evaluation was selected as the external facilitator based on a shortlist of third party candidates prepared by the Group Company Secretary. Independent Board Evaluation have no other connection with the Company. Further details of the evaluation is on pages 69 and 70.

Regulatory and Government
The committee reviewed regulatory developments and conduct issues which had the potential to have a material impact on the Group and the management responses and actions in response to these. It also reviewed the relationships with the regulatory authorities in the UK and in other jurisdictions where the Group has a significant presence.

Reputation
The committee received regular reports concerning the reputational risks affecting the Group. The committee considered the potential reputational issues arising from the Group's conduct and franchise risks and discussed relevant developments in the media and in the area of public policy which could impact the Group.

Customer
Following the extension of its remit, the committee now has oversight of the Group's treatment of its customers and the impact of it products on its customer base. The committee received reports from the Group's UK Life and General Insurance businesses concerning customer and product issues and initiated a programme of work to develop a greater insight into product governance. The committee also received a report which considered whether Group businesses had adequately identified customer risks in their business plans and the suitability of those plans to monitor those risks.

The committee reviewed and contributed to the development of the Customer Thesis and received a regular report on the Group's key customer metrics relating to customer retention, complaints, conduct and values.

People
The committee contributed to the development of the People Thesis and to the work in relation to the Culture and Values Programme which led to a new set of values being implemented by management. Updates were provided to the committee on compliance with the Business Ethics Code. The committee also supported efforts to improve the percentage of women in senior management positions and across the general UK employee population and received a summary of the 2013 Employee Promise Survey results.

Community
The committee reviewed and approved the Group CR strategy for 2014-2016 and monitored progress made by the Group's businesses against each of the CR non-financial metrics. Updates were given on the Street to School programme and health and safety within the Group.

Assurance
In respect of the 2013 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 the subsequent report and management's 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 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. Further work will be undertaken in 2014 to develop the work of the committee in view of its expanded remit.

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 2013.

The Directors' Report required under the Companies Act 2006 comprises this Directors' and Corporate Governance Report, the Directors' Remuneration Report and the following disclosures in the 'Our wider impact' section of the Strategic report:

- Greenhouse gas emissions
- Health and safety practices
- Employment of disabled persons
- Employee involvement

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.

Results

The Group's results for the year are shown in the consolidated income statement on page 124.

Dividends

The directors are recommending a final dividend of 9.4 pence per ordinary share *(2012: 9.00 pence)*, which, together with the interim dividend of 5.6 pence per ordinary share paid on 15 November 2013 *(2012: 10.00 pence)*, produces a total dividend for the year of 15.0 pence per ordinary share *(2012: 19.00 pence)*. The total cost of ordinary dividends paid in 2013 was £429 million *(2012: £757 million)*. Subject to shareholder approval at the 2014 AGM, the final dividend for 2013 will be paid on 16 May 2014 to all holders of ordinary shares on the Register of Members at the close of business on 4 April 2014 (approximately five business days later for holders of the Company's American Depositary Receipts).

Share capital and control

The issued ordinary share capital of the Company was increased by 967,361 ordinary shares during the year which were allotted under the Group's employee share and incentive plans. At 31 December 2013 the issued ordinary share capital totalled 2,946,939,622 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 2013. 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 2013 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-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.

At the 2014 AGM, shareholders will be asked to renew the directors' authority to allot new securities. Details are contained in the 2014 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 2013 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 8$^{3}/_{8}$% preference shares. These authorities were not used during the year or up to the date of this Report. At the 2014 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 2013 and 4 March 2014.

Shareholding interest

	At 31 December 2013		At 4 March 2014	
Shareholder	**Notified holdings**	**Nature of holding**	**Notified holdings**	**Nature of holding**
BlackRock, Inc[1]	Above 5%	Indirect	Above 5%	Indirect
Legal & General Group plc[2]	3.06%	Direct	3.06%	Direct
AXA S.A.[1]	3.86%	Direct & indirect	3.86%	Direct & indirect
The Capital Group Companies Inc	3.06%	Indirect	3.06%	Indirect

1 Holding includes holdings of subsidiaries.
2 Interest held by Legal & General Assurance (Pensions Management) Ltd.

Directors

The directors as at the date of this Report are shown together with their biographical details in the Strategic report. During the year and up to the date of this Report, the following Board appointments, resignations and retirements occurred:
Mark Wilson – appointed Group CEO on 1 January 2013
Sir Adrian Montague – appointed 14 January 2013
Bob Stein – appointed 28 January 2013
Trevor Matthews – resigned with effect from 8 May 2013
Richard Goeltz – retired 8 May 2013
Russell Walls – retired 8 May 2013
Michael Mire – appointed 12 September 2013
Patricia Cross – appointed 1 December 2013
Patrick Regan – tendered his resignation on 22 January 2014 and will leave the Board and the Group before the AGM.

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 annual general meeting following their appointment and can only continue as a director if they are elected by shareholders at the 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 directors also have the benefit of the indemnity provision contained in the Company's articles of association. The Company has 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.

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.

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 indication of the exposure of the Group companies to such risks is contained in note 58.

Political donations

At the 2013 AGM, shareholders passed a resolution, on a precautionary basis, to authorise the Company 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 on 30 April 2014, 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 them. It is not the policy of the Company to make donations to EU political organisations or to incur any other political expenditure.

Aviva has not made any political donations during 2013.

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 auditor, PwC, is unaware and each director has taken all 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 2014 AGM of the Company will be held on Wednesday, 30 April 2014 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11am. The Notice of AGM convening the meeting describes the business to be conducted thereat.

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.

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.

Directors' responsibilities

The directors are responsible for preparing the Annual report and accounts, 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 IFRS as adopted by the European Union (EU) and issued by the 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 Group and the Company 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 IFRS as adopted by the EU 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 and the Group'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. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The directors are 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.

They are also responsible for the maintenance and integrity of the Company's website.

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 Company's and the Group's performance, business model and strategy.

Each of the directors listed in the Strategic Report confirms that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit/(loss) of the Group
- The Strategic Report and the Directors' and Corporate Governance 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 5 March 2014.

Mark Wilson
Group Chief Executive Officer

Patrick Regan
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 complies with the UK Corporate Governance Code (Code) 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. 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.	The Company is required to have a nomination committee but not a corporate governance committee.	The Company has a Nomination Committee and a Governance Committee. 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.
US companies are required to have a compensation committee.	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 Company has a Remuneration Committee 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 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 Company has an Audit Committee 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
5 March 2014

Directors' remuneration report

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 2013.

Responding to new requirements

Aviva's 2013 DRR reflects the new reporting requirements introduced by the Department for Business, Innovation & Skills (BIS) regulations. We have endeavoured to reflect the letter and the spirit of those new requirements in this report. We have drawn on the guidance produced, notably by the GC100 and Investor Group, in its preparation. In addition, we have consulted widely with shareholders on the contents of our new directors' remuneration policy and, following consideration of their comments, we have made a number of amendments in this final version.

We believe our DRR is a full disclosure of our policies and practices in line with the requirements of the new regulations. However, this is the first year in which companies are reporting in this form and we are aware that new best practice will emerge. We will review the results of this reporting round prior to our next DRR and will aim to meet what will be evolving good practice.

Paying for performance

We believe there is a clear link between the performance of the Group, the value we add for shareholders and the remuneration of our most senior executives. Our remuneration policy and practice reflects performance against the Group's main strategic priorities, which are:

- Improve financial performance – Total remuneration is heavily weighted towards pay dependent on outcomes against the key performance indicators (KPIs) of our business, notably cash flow, profit and return on equity (ROE)
- Build capital and financial strength – The expenditure on variable pay is very much aligned to the measurement of the financial strength of our business. The Remuneration Committee assures itself that any bonus proposed is justifiable based on the business being sustainable over the long term
- Focus on core businesses – Through the measurement of a number of key financial, operational and longer-term return measures, overall remuneration is closely aligned to the achievement of the Group's strategic objectives

Our reward approach in practice

The application of our policies and practices in the 2014 reward round has resulted in the following outcomes for the Group Chief Executive Officer (Group CEO), Mark Wilson:

- Basic pay – basic salary of £980,000 will remain unchanged.
- Annual bonus – a 2013 bonus of 112.5% of basic salary, equivalent to £1,102,500 was approved. The basis for this decision is set out in the remuneration report. The committee will continue to assure itself that there is strong alignment between bonus outcomes for our Group CEO and other senior staff and shareholder experience
- LTIP – an LTIP grant in 2014 with a face value of £2,940,000 which is 300% of basic salary.

In approving these outcomes the Committee also considered Aviva's performance against the "underpin" measures put in place for the 2012 and 2013 performance years.

Appointment of new CFO

The Board announced on 28 February 2014 the appointment of Tom Stoddard as CFO. He will join Aviva on 5 May 2014. Details of his remuneration arrangements were included in the announcement of his appointment and are set out in this report.

Continuing the shareholder dialogue

We have met our major institutional shareholders and the main proxy agencies regularly in the course of 2013. We believe this regular contact is proving beneficial for both parties in increasing mutual understanding, addressing and resolving issues of concern and helping informed decision making. We remain committed to continuing that dialogue.

Remuneration reward review

Our remuneration policy report reflects our reward framework as we will apply it for senior executive remuneration in 2014.

We regularly undertake strategic reviews of our executive remuneration to ensure our reward frameworks, policies and practices remain fit for purpose, aligned with the wider talent market and compliant with relevant regulation. We have made no major changes this year, but we will carry out such a review in 2014. If that review leads to proposed changes to our remuneration policy, we expect to consult with shareholders in the latter half of 2014. Subject to the outcomes of that consultation, we will aim to put proposals to shareholders at our 2015 Annual General Meeting (AGM) for approval.

Usual practice would be that our remuneration policy is put to a vote every three years.

Finally, the Remuneration Committee would ask shareholders to consider and approve the policy report and annual remuneration report set out in the following pages.

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). We have already implemented within our remuneration structures the policy approach set out in this section. We intend to apply this policy formally from the date of Aviva's 2014 AGM, subject to shareholders approving this policy report at that meeting.

Table 1 below provides an overview of our remuneration policy for executive directors (EDs). For an overview of the remuneration policy for non-executive directors (NEDs) see table 3 below.

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 the 25 FTSE listed companies either side of Aviva in terms of market capitalisation ■ Levels of increase for the broader UK employee population ■ Individual and business performance	Current basic salaries are disclosed on pages 95 and 96. 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 The committee is aware of shareholder concern on ED basic salary ratcheting and would consult on proposed increases if they were significantly to exceed the general level of increases for UK staff.	Any movement in basic salary takes account of performance.
Annual bonus	To incentivise EDs to achieve the annual business plan. 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. Unvested awards are subject to reduction for misconduct or materially adverse misstatement of accounts. Discretion remains with the committee to amend the bonus payout taking account of financial, market and other considerations. In particular the committee will review the alignment of bonus awards with the experience of shareholders.	Maximum bonus opportunity is 150% of basic salary with 75% 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 and customer targets and personal objectives as set by the committee. For example in 2013 the financial KPI's were: ■ Net capital returns ■ IFRS profit before tax ■ MCEV value of new business ■ Combined operating ratio ■ Total expenses Financial performance is the major factor in considering overall expenditure on bonuses.

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 (LTIP)	To motivate EDs to achieve the Company's longer-term objectives, to align ED's 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. Unvested awards are subject to reduction in the event of misconduct or materially adverse misstatement of accounts. The committee has discretion to amend vesting downwards depending on business or individual performance or conduct.	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 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.	The level of benefit takes account of the seniority of EDs and of the local market. Ordinarily, the employer contribution to pension benefits under UK contracts does not exceed 31% of basic salary, minus an employee contribution of 8% of the "Scheme Specific Earnings Cap" (£141,600 for 2013/14).	N/A
Benefits	To provide EDs with suitable core benefits as part of a competitive remuneration package, which 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 is appropriate against comparable roles in companies of a similar size and complexity to provide a reasonable level of benefit. Cost 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 reported 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 re-assigned either in country or internationally 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 200% of basic salary for the Group CEO and 150% of basic salary for other EDs.	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, employee and customer measures. Achievement against personal 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.

Discretions

In addition to the discretions referred to in the DRR, the discretions the committee has in relation to the operation of the Annual Bonus Plan (ABP) and LTIP include, but are not limited to, who participates, the timing and size of awards, setting additional conditions (and the discretion to change or waive those conditions), whether dividend equivalents will be awarded, the determination of vesting and adjustment in certain circumstances such as rights issues. In addition, in relation to the LTIP, in accordance with its terms, the committee has discretion 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 accounts and, where appropriate, be subject to consultation with Aviva's major shareholders.

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.

The use of discretion in Aviva's HMRC all employee share plans is set out in the rules and exercised in accordance with HMRC rules.

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.

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 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 they were granted (e.g. cash or shares) and the timeframe of awards. It would seek to structure buyout awards on a "like for like" basis when compared to awards 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 500% of basic salary (150% of basic salary annual bonus opportunity and 350% of basic salary as the face value of a LTIP grant).

On hiring a new non-executive director, the committee would align the remuneration package with the remuneration policy for NEDs, outlined below in table 3, including fees and travel benefits.

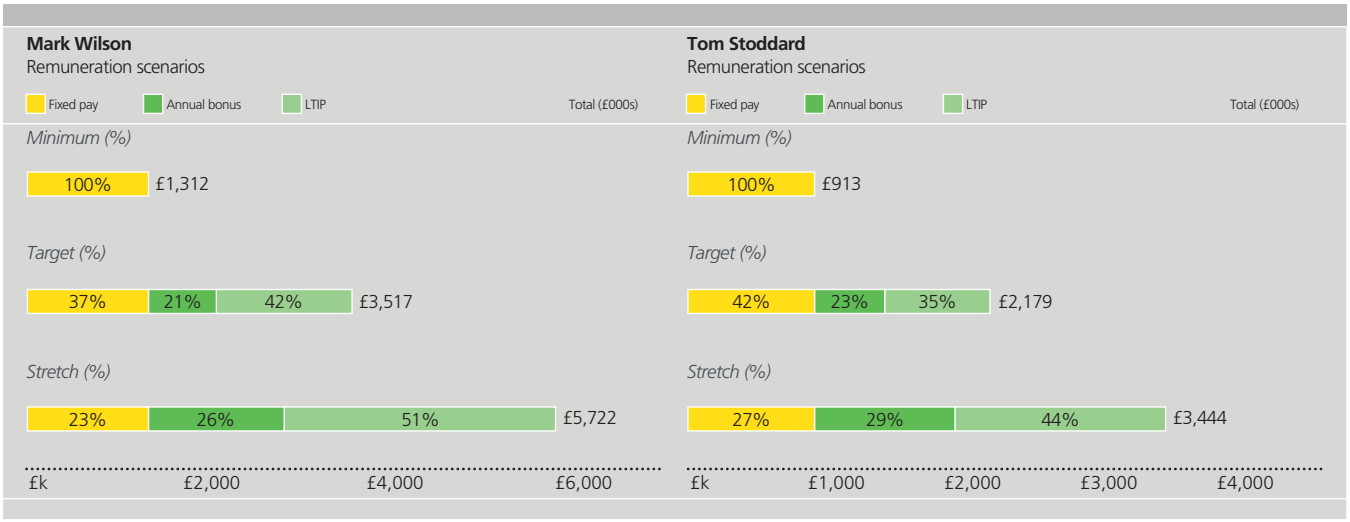
Illustration of the policy

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, bonus of 75% of basic salary and 50% vesting of the LTIP
- Stretch – basic salary, pension or cash in lieu of pension, benefits, stretch bonus of 150% of basic salary and 100% vesting of the LTIP

As stated Tom Stoddard will join Aviva on 5 May 2014 as CFO and the CFO data in the table below is based on his remuneration on joining.

Potential earnings by pay element



Notes

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 Mark Wilson, in connection with his relocation to the UK. Actual figures may vary in future years.

2 LTIP calculations are based on awards with a face value of 300% of basic salary for Mark Wilson and 225% of basic salary for Tom Stoddard.

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 2014 AGM from 10.45 am on 30 April 2014 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 2 below.

Table 2: 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 Mark Wilson, if his employment were to be terminated by the Company, other than for cause, within three years of his appointment 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.	
Other benefits	Other benefits include private medical insurance and participation in the Company's staff pension scheme. As disclosed in 2012, were the current Group CEO to incur additional reasonable relocation expenses above the £200,000 limit set out in the annual remuneration report section, then the committee would consider reimbursement of those expenses up to an agreed further limit.	
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.	
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 without the prior written consent of the Company.	
Contract dates	Director:	Date current contract commenced:
	Mark Wilson	1 January 2013
	Patrick Regan[1]	22 February 2010
	Trevor Matthews[2]	2 December 2011

Notes
1 Patrick Regan tendered his resignation as CFO on 22 January 2014 and will leave the Board and the Group before the AGM.
2 Trevor Matthews resigned from the Board with effect from 8 May 2013 and left the Company on 6 June 2013.

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 but any compensation would be based on what would be paid by way of basic salary, pension entitlement and other contractual benefits during the notice period depending on whether notice is worked or a payment made in lieu of notice.

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 contribution towards an EDs 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 a reduction prior to vesting in the event that inappropriate conduct of the ED whilst an employee is subsequently discovered post departure.

In the case of the long-term incentive plans, 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).

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 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. It has consulted broadly on the contents of this policy report.

Non-executive directors

Table 3 below, sets out details of our remuneration policy for NEDs.

Table 3: Remuneration policy for non-executive directors – overview

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Chairman and NED's 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 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. The current aggregate limit of £2 million was approved by shareholders at the Company's 2012 AGM.	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 4 below.

Table 4: 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 7.
Expenses	Reimbursement of travel and other expenses reasonably incurred in the performance of their duties. Also, in respect of the Chairman, the committee rolled forward to 2013 the entitlement previously agreed for him to be reimbursed against evidenced expenditure for reasonable and appropriate costs associated with his relocation to the UK, up to a maximum of £125,000, inclusive of any tax liability.
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	Date of last appointment on letter of appointment[3]	Appointment end date in accordance with letter of appointment
	Glyn Barker	3 May 2012	AGM 2014
	Patricia Cross	1 December 2013	AGM 2014
	Richard Karl Goeltz[1]	3 May 2012	AGM 2013
	Michael Hawker	3 May 2012	AGM 2014
	Gay Huey Evans	3 May 2012	AGM 2014
	John McFarlane	3 May 2012	AGM 2014
	Michael Mire	7 August 2013	AGM 2014
	Sir Adrian Montague	15 January 2013	AGM 2014
	Bob Stein	15 January 2013	AGM 2014
	Russell Walls[2]	3 May 2012	AGM 2013
	Scott Wheway	3 May 2012	AGM 2014

Notes
1 Richard Karl Goeltz retired from the Board with effect from 8 May 2013.
2 Russell Walls retired from the Board with effect from 8 May 2013.
3 The dates shown above reflect actual appointment dates where agreed following signature of the letter as all appointments are subject to regulatory approval.

Annual remuneration report

This section of the report sets out how Aviva has implemented its remuneration policies for directors in the course of 2013 and how the remuneration policy will be implemented for 2014. 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.

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 longer term strategic objectives of the Group. Significant levels of deferral and a 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 reduced potentially to zero if performance thresholds are not met.

Committee membership and attendance

The committee comprises independent NEDs only. Table 5 below shows the committee members during the year and their attendance at committee meetings.

Table 5: Committee membership and attendance

Committee member	Number of meetings attended	Percentage attendance[1]
Scott Wheway (Chairman)	10	100%
Michael Hawker[2]	4	100%
Gay Huey Evans[3]	9	90%
Bob Stein[4]	7	100%
Patricia Cross[5]	1	100%

Notes

1 This shows the percentage of meetings which the committee member attended during the year whilst a member of the committee.
2 Michael Hawker resigned from the committee with effect from 8 May 2013.
3 Gay Huey Evans was not able to attend one of the additional committee meetings.
4 Bob Stein joined the committee with effect from 6 March 2013.
5 Patricia Cross joined the committee with effect from 1 December 2013 and became Chairman of the committee on 19 February 2014.

The committee met ten times during 2013 of which eight were scheduled committee meetings and two were additional committee meetings called to deal with urgent matters and/or called at short notice.

The Group Chairman generally attended all meetings of the committee. The Group 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 persons listed in table 6 assisted the committee in considering executive remuneration and attended meetings by invitation during the year. No person was present during any discussion relating to their own remuneration.

Table 6: Attendees of the committee during 2013

Attendee	Position	Comments
John McFarlane	Chairman of the Company	Attended by invitation
Mark Wilson	Group Chief Executive Officer	Attended by invitation
Kirstine Cooper	Group General Counsel and Company Secretary	Attended as secretary to the committee
Christine Deputy	Group HR Director	Attended as an executive responsible for advising on remuneration policy
Carole Jones	Acting Group HR Director	Attended as an executive responsible for advising on remuneration policy
David Hope	HR Director, Europe and Reward	Attended as an executive responsible for advising on remuneration policy
Andrew Pooley	Executive Reward Director	Attended as an executive responsible for advising on remuneration policy
David Rogers	Chief Accounting Officer	Attended to advise on matters relating to the performance measures and targets for the Group's share incentive plans
Jason Windsor	Chief Strategy and Development Officer	Attended to advise on matters relating to the performance measures and targets for the Group's share incentive plans

In addition to the attendees listed above, Sir Adrian Montague and Michael Mire as NEDs, attended at least one committee meeting during the year as part of their induction following their appointment as a NED. They were not present when their own remuneration was being discussed.

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 and the Economic Capital Infrastructure Programme (ECIP)) from Deloitte LLP and from Linklaters LLP on remuneration matters during the year.

Deloitte LLP were paid fees totalling £196,980 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 2013

Whilst not mutually exclusive the categories shown on the pie chart below were areas of focus for the committee during the year. The chart also shows how the committee dedicated its time to these activities.

Implementation of remuneration policy in 2014

The implementation of the policy will be consistent with that outlined in the policy report and we are not proposing any significant changes compared with the policy that applied in 2013.

Basic salaries

The basic salary for the Group CEO will remain unchanged at £980,000 per annum.

Annual bonus

The maximum annual bonus opportunity will remain at 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 2013.

Whilst we are not disclosing 2014 bonus targets due to commercial sensitivity, we will provide an explanation of 2014 bonus payments together with performance against measures and targets in the 2014 report. This is in line with the approach we have taken this year.

LTIP

LTIP grants in 2014 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. No grant will be made to Patrick Regan, who tendered his resignation as CFO on 22 January 2014 and will leave the Board and the Group before the AGM.

Approach to non-executive directors' fees for 2014

NED fees were last reviewed in March 2014 and limited changes were made as set out below. Table 7 below sets out our approach to NEDs fees for 2014:

Table 7: Non-executive directors' fees

Role	Fee from 1 April 2014	Fee from 1 April 2013
Chairman of the Company[1]	£550,000	£550,000
Board membership fee	£70,000	£65,000
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	£20,000
– Remuneration	£35,000	£35,000
– Risk	£45,000	£45,000
Committee membership		
– Audit	£15,000	£15,000
– Governance	£12,500	£10,000
– 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.

Appointment of Chief Financial Officer

Aviva announced the appointment of Tom Stoddard as CFO on 28 February 2014. Mr Stoddard is currently expected to join the Company on 5 May 2014. Details of his remuneration were announced at the time, and are as follows:

- Basic salary – £675,000 per annum next subject to review in 2015
- Annual bonus – 75% of basic salary for plan performance and up to 150% of basic salary for stretch performance. Two thirds of any bonus awarded is currently required to be deferred into Aviva shares for three years
- 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 PMI cover for himself and his family

Single total figures of remuneration for 2013 – executive directors (audited information)

Table 8 below sets out in the required form the total 2013 remuneration for each of our EDs who served with the Company during 2013.

Table 8: Total 2013 remuneration – Executive Directors

	Basic salary		Benefits		Annual bonus[4]		LTIP[5]		Pension[7]		Total	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Executive Directors												
Mark Wilson[1]	**980**	—	**239**	—	**1,103**	—	**—**	—	**293**	—	**2,615**	—
Patrick Regan[2]	**720**	699	**37**	34	**—**	—	**—**	490[6]	**199**	193	**956**	1,416
Former executive director												
Trevor Matthews[3]	**311**	720	**16**	85	**—**	—	**450**	—	**92**	212	**869**	1,017
Total emoluments of executive directors	**2,011**	1,419	**292**	119	**1,103**	—	**450**	490	**584**	405	**4,440**	2,433

Notes

1 Mark Wilson joined the Board with effect from 1 December 2012, and became Group CEO on 1 January 2013. He received no emoluments in respect of 2012.
2 Patrick Regan tendered his resignation as CFO on 22 January 2014 and will leave the Board and the Group before the AGM, and so received no bonus award for 2013. His LTIP awards granted in 2011, 2012 and 2013 will lapse.
3 Trevor Matthews left Aviva on 6 June 2013 and so 2013 figures represent the period up to that date.
4 Bonus payable in respect of the financial year including any deferred element at face value at date of award.
5 Value of the LTIP for 2013 relates to the 2011 award, which had a three year performance period ending on 31 December 2013. 34.48% of the award will vest in March 2014. An assumed Aviva ordinary share price of 431.9 pence has been used to determine the value of the award based on the average share price over the final quarter of the 2013 financial year.
6 The LTIP value for Patrick Regan for 2012 has been updated to reflect the actual value at vesting of the award. The figure previously disclosed was £607,302.
7 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.

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 Patrick Regan this also includes benefits resulting from the Aviva Savings Related Share Option Scheme (SAYE Scheme), as described below, which has been valued based on the monthly savings amount (£250) and the discount provided (20%). All the numbers disclosed include the tax charged on the benefits, where applicable. As disclosed in the 2012 DRR, Mark Wilson was able 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 Hong Kong to the UK.

Annual bonus

Table 9 below sets out the Group's performance against its 2013 KPIs. It also shows how these outcomes have translated into bonus payments. Details of the actual targets have not been disclosed as they are deemed to be commercially sensitive.

Table 9: Group 2013 performance against its KPIs

	Weighting (% of total bonus opportunity)		
Business measures (70%)			
Key performance indicators	**Plan (%)**	**Stretch (%)**	**Actual outcome (%)**
Net capital returns	10	13.75	**12.47**
IFRS profit before tax	7.5	20	**20.00**
MCEV value of new business	3.5	7.75	**7.75**
Combined operating ratio	1.5	3.5	**0**
Total expenses	2.5	5	**5**
Customer	5	10	**2.32**
Employee	5	10	**0**
Total	**35**	**70**	**47.54**

The main driver of the Group CEO's bonus is the performance of the Group against key financial targets, with further consideration given to targets relating to employee engagement and customer satisfaction. Additionally, the individual performance of the CEO is taken into account.

In considering the Group CEO's 2013 bonus the committee took full account of the Group outcomes and noted in particular the performance against financial targets. The performance on net capital returns, IFRS profit before tax, the MCEV value of new business and total expenses were pleasing, with demanding targets having been achieved. The combined operating ratio performance reflected some significant weather related events, notably two large flood events in our Canadian business.

Against a background of significant change and restructuring, the business required reductions in job numbers in 2013. We are striving to minimise large scale restructuring going forward, but in 2013 these changes impacted our employees and our targeted engagement scores were missed. We have set targets for 2014 which we believe will require significant efforts to achieve. This element of the bonus did not produce any payment in 2013.

Aviva remains committed to providing a great service to our customers and it is disappointing that the progress we wanted to make in 2013 on this measure was not achieved in full. Again, we have set 2014 targets that continue to challenge the business to make progress in this area.

Mark Wilson's personal performance was rated highly by the Board who particularly recognised the increase in the value of new business, the major improvement in the capital and liquidity base, the substantive progress on building a first-class management team and the restructuring of the cost base.

Based on the outcomes against the KPIs, and an assessment of Mr Wilson's individual strategic performance, the Committee approved a bonus of 75% of the maximum, equivalent to 112.5% of basic salary with a total value of £1,102,500. This is set out in the annual bonus column of table 8.

Table 10: Individual strategic 2013 performance

	Weighting (% of total bonus opportunity)		
Executive director	Plan (%)	Stretch (%)	Actual outcome (%)
Mark Wilson (30%)	15	30	27.46
Patrick Regan (30%)[1]	15	30	0

Note
1 Patrick Regan tendered his resignation as CFO on 22 January 2014 and will leave the Board and the Group before the AGM. He will therefore receive no bonus in respect of 2013 performance.

One third of the bonus award for Mark Wilson will be delivered in cash, with two thirds being deferred into shares for three years.

As reported in the 2012 DRR, the Committee agreed with shareholders that it would consider additional "underpin" metrics in 2012 and 2013 once bonuses had been calculated to assure themselves of continuing alignment between bonuses paid and shareholder experience. Those metrics were measures of Economic Value Added, Economic Capital and TSR. The Committee considered Aviva's performance against those metrics for 2013 and was satisfied that the progress made did not require any adjustment to bonus outcomes.

LTIP award vesting in respect of 2013

The LTIP value shown in the single total figure for remuneration is for the award expected to vest in March 2014. The only current or former ED who will receive a vesting amount from this award is Trevor Matthews. The performance conditions for this award are set out in table 11 below.

Table 11: LTIP performance conditions

	Weighting	Threshold (20% vests)	Maximum (100% vests)	Outcome	Vesting (% of maximum)
Return on Equity (ROE) performance over 3 years	50%	33.0%	40.5%	37.6%	34.48%
Relative Total Shareholder Return (TSR) performance	50%	Median	Upper quintile and above	Below median	0%

Pension

EDs are eligible to participate in a defined contribution plan under which they can 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 (£141,600 in 2013/2014). For any contribution above the HMRC annual or life time allowance cap, a cash alternative in lieu of pension contribution is offered subject to the same limit of 31% of basic salary minus the personal contribution.

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 £125 per month, out of their gross salary in the Company's ordinary 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 the purchased shares are withdrawn from the AESOP within three years of purchase, as long as the participant remains employed by the Company. From May 2013 participants were also eligible to receive Dividend Shares through the AESOP. Shares awarded to, or investments made by, EDs through the AESOP are included in table 20 of this Report.

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, subject to a statutory savings limit, currently £250 per month. From 2012, only 3 and 5 year contracts have been offered. Details of options granted to EDs under these schemes are included in table 23.

Single total figure of remuneration for 2013 – non-executive directors (audited information)

Table 12 below sets out the total remuneration earned by each NED who served during 2013.

Table 12: Total 2013 remuneration – NEDs

	Fees		Benefits		Total	
	2013 £000	2012 £000	**2013 £000**	2012 £000	**2013 £000**	2012 £000
Chairman/executive chairman						
John McFarlane	**550**	413	**101**[1]	145	**651**	558
Current non-executive directors						
Glyn Barker	**122**	76	**—**	1	**122**	77
Patricia Cross	**8**	—	**1**	—	**9**	—
Michael Hawker	**137**	137	**1**	—	**138**	137
Gay Huey Evans	**105**	96	**1**	—	**106**	96
Michael Mire	**29**	—	**1**	—	**30**	—
Sir Adrian Montague	**113**	—	**2**	—	**115**	—
Bob Stein	**89**	—	**1**	—	**90**	—
Scott Wheway	**118**	112	**1**	—	**119**	112
Former non-executive directors						
Russell Walls[2]	**47**	129	**—**	2	**47**	131
Richard Karl Goeltz[2]	**44**	119	**—**	1	**44**	120
Total emoluments of NEDs	**1,362**	1,082	**109**	149	**1,471**	1,231

Notes

1 Benefits for John McFarlane include the entitlement previously agreed for him to be reimbursed against evidenced expenditure for reasonable and appropriate costs associated with his relocation to the UK, up to a maximum of £125,000, inclusive of any tax liability, which was rolled forward to 2013.

2 Richard Karl Goeltz and Russell Walls retired from the Board with effect from 8 May 2013. The remuneration figures shown in the table are for or relate to the period during which they were a director of the Company.

The total amount paid to NEDs in 2013 was £1,471,000 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)

LTIP awards are made in shares which vest conditionally upon performance targets being met. The number of conditional shares granted is based on a percentage of basic salary. The following table sets out details of LTIP awards of conditional shares made during the year.

Table 13: LTIP awards granted during the year

				Amount vesting		
	Date of award	**Face value (% of basic salary)**	**Face value (£)**	**Threshold performance (% of face value)**	**Maximum performance (% of face value)**	**End of performance period**
Mark Wilson	04.04.2013	300%	£2,940,000	20%	100%	31.12.2015
Patrick Regan	04.04.2013	225%	£1,620,000	20%	100%	31.12.2015

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 4 April 2013. Accordingly 983,277 and 541,806 shares were awarded to the Group CEO and CFO respectively based on a share price of 299 pence. Following his resignation from the Company Patrick Regan's 2013 LTIP award will lapse.

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.

Return on equity 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 2013 LTIP award ROE targets are set out in table 14 below.

Table 14: 2013 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.

Total shareholder return targets (audited information)

Relative TSR determines the vesting of the other 50% of the LTIP award. Performance of the 2013 grant will be assessed against the following companies: Aegon, Allianz, Axa, CNP Assurances, Direct Line Group, Generali, Legal & General, MetLife, Old Mutual, Prudential, Resolution Limited, RSA, Standard Life and Zurich.

TSR vesting operates as set out in table 15 below.

Table 15: TSR vesting schedule for the 2013 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)

Russell Walls retired from the Board with effect from 8 May 2013. Mr Walls was appointed as Chairman and Non-Executive Director of Aviva Insurance Limited on 1 May 2013, a subsidiary company of Aviva plc and the emoluments he received in respect of this directorship for the 2013 financial year were £72,328.

Richard Karl Goeltz retired from the Board with effect from 8 May 2013. Mr Goeltz was appointed as Chairman and Non-Executive Director 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 2013 financial year were £71,250. On 13 February 2014, Mr Goeltz was also appointed as a non-executive director 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)

Trevor Matthews resigned from the Board with effect from 8 May 2013 and left the Company on 6 June 2013. His notice period commenced on 7 February 2013.

Mr Matthews was paid only awards that were contractually required and no discretions were applied. This constituted full and final settlement of Mr Matthews' departure terms. Any new ED appointment would be in accordance with our remuneration policy set out above.

- Mr Matthews received pay in lieu of notice for the balance of his notice period (8 months) of £480,000, paid in 8 equal monthly instalments
- He received no bonus in respect of 2013, and no LTIP award was made for the year
- The deferred element of Mr Matthews' 2011 bonus vested on termination of his employment. The value realised was £34,196 (9,528 shares, inclusive of shares awarded in lieu of dividends accrued, vesting at a share price of 358.9 pence)
- His 2011 and 2012 LTIP awards will vest at the end of the relevant performance period (March 2014 and March 2015 respectively). These will be pro-rated to reflect his service during the performance period and the extent to which the performance conditions have been achieved at the end of the period. 104,278 phantom shares (not inclusive of shares awarded in lieu of dividends accrued) will therefore vest in March 2014 and a maximum of 230,073 shares (not inclusive of shares awarded in lieu of dividends accrued) will therefore vest in March 2015 depending on performance conditions on the same basis as vesting for other directors
- Mr Matthews received the final tranche of his recruitment award (the "conditional share award" disclosed in the 2011 DRR), which vested on his departure. The value realised was £877,360 (based on 244,458 shares, inclusive of shares awarded in lieu of dividends accrued, vesting at a share price of 358.9 pence)
- Legal fees of £10,000 were paid to Mr Matthews' solicitor in connection with advice on the terms of his departure

Patrick Regan tendered his resignation as CFO on 22 January 2014 and will leave the Board and the Group before the AGM.

- Mr Regan will continue to receive basic salary and benefits up to his agreed departure date. There will be no payment in lieu of any balance of his notice period that may be outstanding on departure
- He received no bonus in respect of 2013 and will receive no bonus in respect of 2014. No LTIP award will be made for 2014
- The deferred element of Mr Regan's 2010 and 2011 bonuses will lapse on termination of his employment
- His 2011, 2012 and 2013 LTIP awards will also lapse on termination of his employment

Historical TSR performance and CEO remuneration outcomes

Table 16 below compares the TSR performance of the Company over the past five 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 five-year TSR performance against the FTSE 100 return index and the median of the comparator group

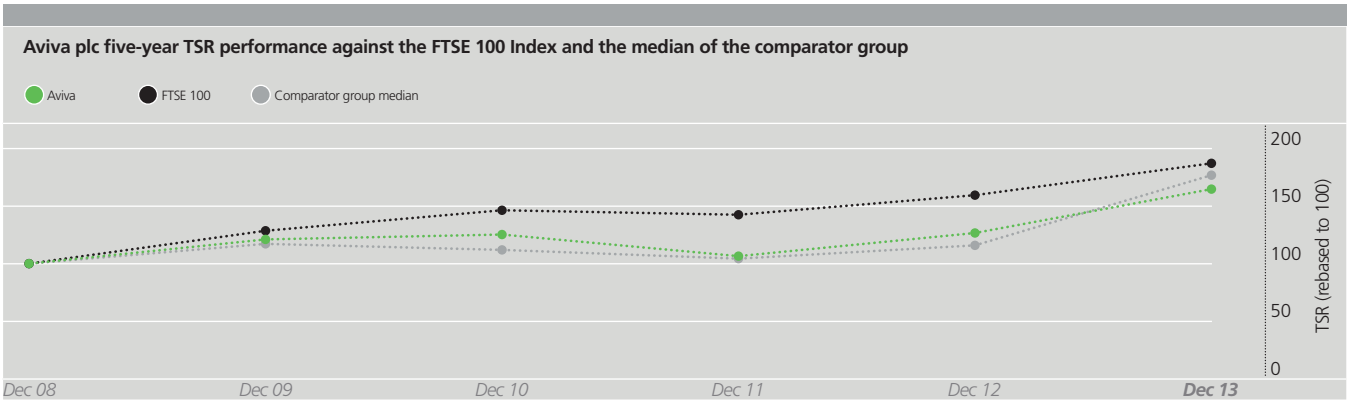


Table 17 summarises the Group CEO single figure for total remuneration, annual bonus pay-out and LTIP vesting as a percentage of maximum opportunity over this period.

Table 17: Historical CEO remuneration outcomes

	Group CEO	2009	2010	2011	2012	2013
Annual bonus payout (as a % of maximum opportunity)	Mark Wilson	—	—	—	—	75%
	Andrew Moss	74.2%	74.3%	81.0%	0%	—
LTIP vesting (as a % of maximum opportunity)	Mark Wilson	—	—	—	—	—
	Andrew Moss	50%	72.3%	81.7%	0%	—
CEO Single figure of remuneration (£m)	Mark Wilson[1]	—	—	—	—	2,615
	Andrew Moss[2]	2,591	2,748	3,477	554	—

Notes
1 Mark 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 Andrew 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. As the current Group CEO became CEO on 1 January 2013 but joined the Board with effect from 1 December 2012, no comparison is possible this year. The UK employee workforce was chosen as a suitable comparator group as 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 2012 – 2013	% change in bonus 2012 – 2013	% change in benefits 2012 – 2013
Group CEO	—	—	—
All UK-based employees	2.69%	75.57%[1]	3.65%

Notes
1 The increase in bonus awards for all UK based employees in 2013 reflects a significant improvement in the performance of the UK businesses against their targets compared with 2012, when overall Group performance impacted bonus budgets. Given this high level of performance in 2013, bonus awards for 2014 are not likely to continue 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 2012 £m	**Year end 31 December 2013 £m**	% change
Adjusted operating profit before tax[1]	1,577	1,686	7%
Dividends paid[2]	757	429	(43)%
Share buybacks[3]	—	—	—
Total staff costs[4]	1,966	1,671	(15)%

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 2012 or 2013.
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 33,589 (2012) and 29,970 (2013).

External Board appointments

The Company recognises that its EDs can benefit from serving in a personal capacity as a non-executive director of a non-Aviva Group company. At the same time, it is conscious of the corporate governance recommendations that EDs should take account of the time commitment required by a non-executive director position and ensure that any such role does not impact their ability to carry out fully their executive duties. The Company therefore has a policy of normally allowing EDs to serve as a non-executive director of one external company, subject to approval by the Board, and for the individual to retain any board fees.

Currently, Patrick Regan holds one external non-executive director appointment. He was, until the disposal of the Group's interests in Delta Lloyd N.V. in January 2013, a Company-nominated member on the supervisory board. He has continued to be a member of the supervisory board in a personal capacity since that date. He received €62,227 during 2013 in respect of this appointment.

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.

The EDs are required to retain 50% of the net shares released from deferred annual bonuses and LTIPs until the shareholding requirement is met.

Unvested share awards including shares held in connection with bonus deferrals are not taken into account in applying this test. Table 20 below shows the position of each ED against the shareholding requirement as at 31 December 2013, based on that day's closing middle-market price of an ordinary share of the Company of 449.7 pence.

Table 20: Executive Directors – share ownership requirements

	Shares held			Options held				
Executive Directors	**Owned outright[2]**	**Unvested and subject to performance conditions[3]**	**Unvested and subject to continued employment[4]**	**Unvested and subject to continued employment**	**Vested but not exercised[5]**	**Shareholding requirement (% of salary)**	**Current shareholding[1] (% of salary)**	**Requirement met**
Mark Wilson	150,000	983,277	—	—	—	200	69	No
Patrick Regan	413,469	1,278,088	254,441	—	2,903	150	258	Yes
Trevor Matthews[6]	218,241	482,142	226,835	—	—	—	—	—

Notes
1 Based on the closing middle-market price of an ordinary share of the Company on 31 December 2013 of 449.7 pence.
2 Shares 'Owned outright' are the directors' beneficial holdings in the ordinary shares of the Company including any shares held in trust under the AESOP, being shares purchased by them under the partnership element of the AESOP and any shares granted under the free share or matching share element of the AESOP. This information includes holdings of any connected persons.
3 Shares 'Unvested and subject to performance conditions' are awards granted under the Aviva LTIP which vest only if the performance conditions are achieved.
4 Shares 'Unvested and subject to continued employment' are awards arising through the Aviva Annual Bonus Plan 2011. Under these plans, 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.
5 'Options vested but not exercised' are options over shares granted under the Aviva SAYE Scheme. In respect of Patrick Regan, his Aviva SAYE Scheme option reached maturity on 1 December 2013 and he has six months from the maturity date to exercise his option.
6 Trevor Matthews ceased to be a director of the Company with effect from 8 May 2013 and the information is shown as at this date.

There were no changes to the current directors' interests in Aviva shares during the period 1 January 2014 to 4 March 2014.

Non-executive directors' shareholdings (audited information)

Table 21: Non-executive directors' shareholdings[4]

	1 January 2013[2]	31 December 2013[3]
Glyn Barker	—	11,700
Richard Karl Goeltz[1]	17,500	17,500
Patricia Cross	—	—
Michael Hawker	5,000	10,000
Gay Huey Evans	—	5,000
John McFarlane	10,000	10,000
Michael Mire	—	7,500
Sir Adrian Montague	5,144	21,503
Bob Stein	—	7,000
Russell Walls	8,000	8,000
Scott Wheway	13,579	13,579

Notes
1 In addition to his ordinary shareholding Richard Karl Goeltz held 14,000 8.25% Capital Securities on 1 January 2013 and 8 May 2013, the day he ceased to be a director of the Company.
2 The information given in this column is as at 1 January 2013 or the date of appointment of the director (Patricia Cross: 1 December 2013, Michael Mire: 12 September 2013, Sir Adrian Montague: 14 January 2013, Bob Stein: 28 January 2013). On appointment none of these directors held any shares except Sir Adrian Montague.
3 The information given in this column is as at 31 December 2013 or the date on which a director ceased to be a director of the Company (Russell Walls: 8 May 2013 and Richard Goeltz: 8 May 2013).
4 This information includes holdings of any connected persons.

Share awards (audited information)

Table 22 below sets out the EDs' outstanding share awards.

Table 22: LTIP, ABP, One Aviva twice the value bonus plan (OATTV), CFO Recruitment share awards plan and Conditional share award

	At 1 January 2013 Number	Awards granted during year[1] Number	Awards vesting during year[2] Number	Awards lapsing during year Number	At 31 December 2013[3] Number	Market price at date awards granted[4] Pence	Market price at date awards vested Pence	Normal Vesting Date
Patrick Regan								
Aviva long term incentive plan[5]								
2010[6,7]	233,160	—	162,815	70,345	—	387.70	301.00	Mar-13
2011[6]	311,059	—	—	—	311,059	435.60	—	Mar-14
2012[6]	425,223	—	—	—	425,223	331.50	—	Mar-15
2013[6,7]	—	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
CFO Recruitment share awards plan[8]								
2010 (RRSA)[9,10]	85,197	—	107,145[11]	—	—	394.20	314.80	Feb-13
2010 (BRDSA)[9]	43,231	—	53,808[11]	—	—	387.70	301.00	Mar-13
2010 (OATTV)[6,7]	55,051	—	—	55,051	—	387.70	—	Mar-13
Trevor Matthews								
Aviva long term incentive plan[5]								
2011[6]	373,271[12]	—	—	—	373,271[12,13]	300.80	—	Mar-14
2012[6]	482,142	—	—	—	482,142[13]	331.50	—	Mar-15
Aviva annual bonus plan								
2012	8,928	—	—	—	8,928 [14]	331.50	—	Mar-15
Conditional share award[15]								
2011	435,814	—	236,764[11]	—	217,907	320.80	314.80	Mar-13,14
Mark Wilson								
Aviva long term incentive plan[5]								
2013[6,7]	—	983,277	—	—	983,277	294.20	—	Apr-16

Notes
1 The aggregate net value of share awards granted to the directors in the period was £4.5 million *(2012: £8.9 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 The award date for the LTIP and Bonus Replacement Deferred Share Award (BRDSA) awards granted in 2010 which vested in 2013 was 30 March 2010, the award date for the Replacement Restricted Share Award (RRSA) award was 11 March 2010 and the award date for the award granted in 2011 which vested in 2013 was 2 December 2011. The awards which vested in 2013 were released with the net amount being settled in shares and the balance settled in cash and used to pay the resulting tax liability. The monetary value of awards was calculated by multiplying the relevant number of shares by the closing middle-market price of an ordinary share of the Company at the date of vesting.
3 The information given in this column is at 31 December 2013 or the date on which a director ceased to be a director of the Company (Trevor Matthews: 8 May 2013).
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. These were in 2010: 386 pence, 2011: 434 pence, 2012: 336 pence and 2013; 299 pence. The three day average closing middle-market price of an ordinary share of the Company used to grant the 2010 One Aviva Twice the Value Bonus Plan (OATTV) award was 386 pence. The five day average closing middle-market price of an ordinary share of the Company used to grant the RRSA in 2010 was 380.22 pence. The three day average closing middle-market price of an ordinary share of the Company used to grant the BRDSA in 2010 was 386 pence. The three day average closing middle-market price of an ordinary share of the Company used to grant the Conditional Share Award (CSA) in 2011 was 309 pence.
5 For the 2013 LTIP grant, the TSR comparator group consisted of the following companies: Aegon, Allianz, Axa, CNP Assurances, Direct Line Group, Generali, Legal & General, Met Life, Old Mutual, Prudential, Resolution Limited, RSA, Standard Life and Zurich. For the 2011 and 2012 LTIP grants the TSR comparator group consisted of the following companies: Aegon, Ageas, Allianz, Axa, Generali, ING, Legal & General, Lloyds Banking Group, Prudential, Resolution Limited, RSA, Royal Bank of Scotland Group, Standard Life and Zurich.
6 The performance periods for these awards begin at the commencement of the financial year in which the award is granted.
7 The performance conditions for awards which were granted or which vested during 2013 are explained elsewhere in this Report.
8 The awards under the CFO Recruitment Share Awards Plan were granted to Patrick Regan following his recruitment in 2010. As disclosed in the 2010 DRR, the RRSA vested in tranches subject to Mr Regan meeting his personal performance targets, the OATTV was subject to the same performance conditions as the OATTV Plan awards granted to other EDs in 2010 and the BRDSA was not subject to performance conditions and vested on the third anniversary of the date of grant.
9 The shares comprising these awards were restricted shares which were beneficially owned by Patrick Regan and held in trust on his behalf under the terms of a restricted share award agreement. As outlined in the 2010 DRR, income tax and national insurance contributions liabilities were paid on the RRSA on 11 March 2010 and on the BRDSA on 30 March 2010.
10 The performance target attached to the third tranche of the RRSA was met and this tranche vested on 7 March 2013 being the first dealing day following the normal vesting date where no dealing restrictions were in place.
11 The shares comprised in these vested awards include shares issued in lieu of dividends accrued during the deferral period.
12 These shares were awarded as phantom units which will be cash settled on vesting and no shares were transferred or allotted.
13 Subsequently pro-rated on 8 July 2013 following Trevor Matthews leaving the Company on 6 June 2013. 70,840 phantom units lapsed for the award granted in 2011 and 252,069 shares for the award granted in 2012.
14 Subsequently released, together with 600 shares in lieu of dividends on 8 July 2013 following Trevor Matthews leaving the Company on 6 June 2013.
15 The CSA was granted to Trevor Matthews following his recruitment in 2011. As disclosed in the 2011 DRR, this award was not subject to performance conditions and would have vested in tranches subject to Trevor Matthews remaining in employment with the Company but was subsequently released, together with 26,551 shares in lieu of dividends on 8 July 2013 following Trevor Matthews leaving the Company on 6 June 2013.

Share options (audited information)

Details of the EDs who were in office for any part of the 2013 financial year and hold or held options over ordinary shares of the Company pursuant to the Company's share based incentive plans are set out in table 23 below.

Savings-related share options refer to options granted under the HMRC approved Aviva 2007 SAYE Scheme. Options are normally exercisable during the six-month period following the end of the relevant (3, 5 or 7 year) savings contract.

Executive share options (approved) refer to options granted under the HMRC approved schedule to the Aviva Executive Share Option Plan 2005. Options were exercisable on 30 March 2013 to the extent that the LTIP awards granted in 2010 had vested. No options were exercised and have now lapsed.

Table 23: EDs' options over Aviva shares

	At 1 January 2013 Number	Options granted during year Number	Options exercised during year Number	Options lapsing during year Number	At 31 December 2013 Number	Exercise Price Pence	Exercise Period[1]
Patrick Regan							
Savings-related options 2010	2,903	—	—	—	2,903	310.0	Dec 13 – May 14
Executive share options (approved) 2010	7,772	—	—	7,772	—	386.0	Mar 13

Notes
1 Any unexercised options will lapse at the end of the exercise period.

The closing middle-market price of an ordinary share of the Company on 31 December 2013 was 449.7 pence, and the closing middle-market price of an ordinary share of the Company during the year ranged from 294.1 pence to 449.7 pence. During the year, no share options were exercised by directors *(2012: nil options exercised)*.

EDs did not pay for the award of any share options and options are not subject to performance conditions (the savings related options being granted under an all-employee share scheme and the executive share options being linked to awards under the LTIP which are subject to performance conditions).

Dilution

Awards granted under the Aviva all employee share plans are met by the funding of two employee trusts administered by external trustees that acquire shares in the market. The current practice is that new issue shares will generally only be issued where it is not practicable to use the trust. However, the funding policy is kept under review by the committee and the Board. Details of the shares currently held in the employee trusts are set out in note 33.

During 2013, loans totalling £31.9 million were made to the external trustees to ensure sufficient shares were available to meet the Company's on-going liabilities.

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 Association of British Insurers 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 1.45% and 0.82% respectively on 31 December 2013.

Governance

Regulatory remuneration code

The Financial Conduct Authority's (FCA) remuneration code applies to Aviva Investors and two small 'firms' (as defined by the FCA) within the UK & Ireland Life business. These businesses for 2013 were subject to the remuneration code under the Capital Requirements Directive III. From 1 January 2014 a number of these firms are now subject to Capital Requirements Directive IV and the subsequent revised remuneration code. Remuneration code requirements include an annual disclosure. For Aviva Investors this can be found at www.avivainvestors.co.uk/about_us/our_corporate_governance/index.htm and for the UK & Ireland Life firms at www.aviva.com/media/news/item/fsa-remuneration-code-disclosure-17178.

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.

Consideration by the directors of matters relating to directors' remuneration

The committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of the Group (the remuneration policy) and for reviewing compliance with the remuneration policy. At the 2014 AGM the remuneration policy will be presented to shareholders for approval 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 committee is further responsible for monitoring the level and structure of remuneration for the senior management of the Group.

Within the remuneration policy, the key responsibilities of the committee are to:

- make recommendations to the Board regarding the Group's remuneration policy in respect of the Board Chairman, EDs, members of the Group Executive 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 properly considered in setting the remuneration policy for the Group
- review and determine the remuneration of the Chairman of the Board and the terms of employment and remuneration of individual EDs and Group Executive 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 and note the total bonus pool; receive remuneration details of Aviva Investors' 'material' employees; and approve any new share and incentive plans or any changes to existing share and incentive plans
- 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 all employee share ownership plan
- select, appoint and determine terms of reference for independent remuneration consultants to advise the committee on remuneration policy and levels of remuneration
- 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
- ensure the effectiveness of the process for assessing the senior management group for talent and succession planning purposes, ensuring appropriate reward for performance and a consistent approach to the development of talent throughout the Group, working with the Governance and Nomination committees as necessary
- annually 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
- approve the Group remuneration business standard
- agree a policy for authorising expense claims for the CEO and Chairman.

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 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 an annual programme of activities in 2013, the committee identified a number of areas for increased focus in 2014. These included undertaking a Strategic Reward Review to re-assess the reward structure of the Group.

Statement of voting at AGM

The result of the shareholder vote at the Company's 2013 AGM in respect of the 2012 directors' remuneration report is set out in table 24 below.

Table 24: Result of the vote on the directors' remuneration report at 2013 AGM

	Votes Cast	For	Against	Votes withheld
2013 vote	1,605,225,273	88.29%	11.71%	19,812,203

The Remuneration Committee consulted extensively with institutional shareholders in the course of 2012/13 following the loss of the directors' remuneration vote in 2012 and implemented a number of changes to approach and policy as set out in our 2012 DRR. Following the result of the 2013 vote, the committee has continued its active engagement to understand and address any remaining concerns. In particular, the committee has discussed with shareholders terms for the departure arrangements of Mr Trevor Matthews and discussed our policies to gain comment and insight when reviewing and drafting our policy report. That active engagement will continue.

Approval by the Board

This directors' remuneration report was reviewed and approved by the Board on 5 March 2014.

Patricia Cross
Chairman, Remuneration Committee

IFRS financial statements

In this section

Independent auditors' report 106
Accounting policies 110
Consolidated income statement 124
Consolidated statement of comprehensive income 125
Reconciliation of Group operating profit to profit/(loss) for the year 126
Consolidated statement of changes in equity 128
Consolidated statement of financial position 129
Consolidated statement of cash flows 130

Notes to the consolidated financial statements

1 Analysis of the impact of new standards and amendments to published standards that have been adopted by the Group 131
2 Exchange rates 132
3 Presentation changes 133
4 Subsidiaries 133
5 Segmental information 138
6 Details of income 146
7 Details of expenses 147
8 Finance costs 148
9 Long-term business economic volatility 148
10 Longer-term investment return and economic assumption changes for non-long-term business 149
11 Employee information 151
12 Directors 151
13 Auditors' remuneration 152
14 Tax 152
15 Earnings per share 155
16 Dividends and appropriations 156
17 Goodwill 157
18 Acquired value of in-force business (AVIF) and intangible assets 159
19 Interests in, and loans to, joint ventures 160
20 Interests in, and loans to, associates 161
21 Property and equipment 163
22 Investment property 164
23 Fair value methodology 164
24 Loans 169
25 Securitised mortgages and related assets 170
26 Interest in structured entities 171
27 Financial investments 173
28 Receivables 177
29 Deferred acquisition costs, other assets, prepayments and accrued income 177
30 Assets held to cover linked liabilities 178
31 Ordinary share capital 179
32 Group's share plans 179
33 Shares held by employee trusts 182
34 Preference share capital 182
35 Direct capital instruments and fixed rate tier 1 notes 183
36 Merger reserve 183
37 Other reserves 184
38 Retained earnings 184
39 Non-controlling interests 185
40 Contract liabilities and associated reinsurance 185
41 Insurance liabilities 186
42 Liability for investment contracts 196
43 Financial guarantees and options 197
44 Reinsurance assets 199
45 Effect of changes in assumptions and estimates during the year 201
46 Unallocated divisible surplus 201
47 Tax assets and liabilities 202
48 Provisions 203
49 Pension obligations 203
50 Borrowings 208
51 Payables and other financial liabilities 211
52 Other liabilities 212
53 Contingent liabilities and other risk factors 212
54 Commitments 213
55 Group capital structure 213
56 Statement of cash flows 215
57 Capital statement 217
58 Risk management 219
59 Derivative financial instruments and hedging 231
60 Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements 233
61 Related party transactions 235
62 Organisational structure 236
Financial statements of the Company 238
Income statement 238
Statement of comprehensive income 238
Statement of changes in equity 239
Statement of financial position 240
Statement of cash flows 241
Notes to the Company's financial statements 242

Independent auditors' report to the members of Aviva plc

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's and 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 Consolidated financial statements, Article 4 of the IAS Regulation.

This opinion is to be read in the context of what we say in the remainder of this report.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the Accounting policies to the Consolidated 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 Consolidated financial statements comply with IFRSs as issued by the IASB.

What we have audited

The Consolidated financial statements and the Company financial statements (the "financial statements"), which are prepared by Aviva plc, comprise:

- the Consolidated and the Company statements of financial position as at 31 December 2013;
- the Consolidated and the Company income statements and statements of comprehensive income for the year then ended;
- the Reconciliation of Group operating profit to profit/(loss) 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 the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and IFRSs as adopted by the European Union and as issued by the IASB.

Certain disclosures required by the financial reporting framework 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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").
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 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.

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.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine 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 set materiality for the Consolidated financial statements as a whole at £81 million. Our view on overall materiality was communicated to the Audit Committee.

In determining our materiality, we have considered financial metrics which we believe to be relevant, and concluded that Operating Profit before tax attributable to shareholders' profits after integration and restructuring costs was the relevant benchmark because it reflects the underlying profit of the business.

We agreed with the Audit Committee that we would report to them all uncorrected misstatements greater than £4 million, as well as differences below that amount that, in our view, warranted reporting on qualitative grounds.

Overview of the scope of our audit

The Group is structured along market reporting lines being 'United Kingdom & Ireland' (Life and General Insurance), France, Poland, 'Italy, Spain and Other', Canada, Asia, Aviva Investors, 'Other group activities' and Discontinued operations.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed at each of the market reporting lines by us, as the group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instructions. Where the work was performed by component auditors, we determined the level of involvement we needed as the group engagement 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 Consolidated financial statements as a whole.

Certain components within the market reporting lines required an audit of their complete financial information, either due to their size or their risk characteristics. Specific audit procedures on certain balances and transactions were also performed in relation

to other components to ensure we obtained appropriate coverage across all account balances and performed audit work to cover the areas of focus we identified and which are set out below.
The work performed on the components, together with additional procedures performed at the Group level gave us the evidence we needed for our opinion on the Consolidated financial statements as a whole.

Areas of particular audit focus
In preparing the financial statements, the directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. For the Consolidated financial statements we discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on pages 75 and 76.

Area of focus	How the scope of our audit addressed the area of focus
Valuation of insurance contract liabilities We focused on this area because 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. (Refer to note 41 to the Consolidated financial statements.)	We tested the key methodologies and challenged the assumptions used by the directors in the valuation of the insurance contract liabilities consisting of the long-term and general insurance businesses. For the long-term business liabilities, those assumptions to which the liability is most sensitive are as follows: ■ the United Kingdom business has substantial holdings in asset classes with significant credit risk, particularly corporate bonds and commercial mortgages which are used to back annuitant liabilities. We therefore focused on the allowance for credit default in setting the applicable liability discount rate; and ■ the United Kingdom business annuitant mortality assumptions as these require a high degree of judgement due to the number of factors that result in uncertainty over future life expectancy. We assessed the directors' calculation of these liabilities by testing the underlying company data, the approach and assumptions used against recognised actuarial practices and by applying our industry knowledge and experience. For the general insurance liabilities we performed re-projections on selected classes of general insurance business in the United Kingdom and Canada. We also assessed the directors' calculation of the general insurance liabilities by testing the underlying company data, the approach and assumptions used against recognised actuarial practices and by applying our industry knowledge and experience.
Valuation of goodwill Our audit of the directors' goodwill impairment assessment focused in particular on Aviva Spain. This is because the continued volatility in the Spanish economy means that there is an increased potential for impairment in the goodwill relating to Aviva Spain. (Refer to note 17 to the Consolidated financial statements.)	We evaluated the results of the directors' impairment assessment, including an analysis of the methodology and the assumptions adopted. We performed testing of the appropriateness of the key assumptions used by the directors including performing a sensitivity analysis on the key assumptions used and by considering publicly available data, such as interest rate and economic growth projections.
Valuation of certain investments in the Consolidated and the Company financial statements We focussed on financial investments based on models at United Kingdom Life and General Insurance, France and Italy in the Consolidated financial statements because of the subjective nature of their valuation and we focussed on investments in subsidiaries in the Company financial statements because of the judgments involved in applying the applicable valuation models. (Refer to note 23 to the Consolidated financial statements and note A to the Company financial statements.)	For a sample of financial investments valued based on models, such as unquoted equity or debt securities, commercial mortgages and over the counter derivatives, we compared the assumptions used by the directors to external industry data, and in certain instances independently modelled certain valuations, to assess and challenge the appropriateness of the directors' models and key assumptions used. For investments in subsidiaries, we assessed the directors' process for identifying indicators of impairment. We also tested the directors' determination of the value of these investments, including the methodology and assumptions adopted.
Valuation of the provision for client compensation arising from breaches in the dealing policy relating to the improper allocation of trades in fixed income securities in Aviva Investors We focused on this area given the subjective nature of the valuation of the provision in the context of the Consolidated financial statements. (Refer also to note 41 and 53 to the Consolidated financial statements.)	We assessed the reasonableness of the methodology used by the directors and challenged the assumptions applied in valuing the provision. We tested input data in the calculation of the provision to underlying books and records and/or third party evidence.

Area of focus	How the scope of our audit addressed the area of focus
Risk of fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on the timing and accuracy of the recognition of gross earned premium, fees receivable under investment contracts, reinsurance and acquisition costs associated with written premium, and their presentation in the Consolidated income statement. (Refer also to note 6 to the Consolidated financial statements.)	As the foundation of the evidence we obtained regarding the revenue recognised during the year, we evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements. We also tested journal entries posted to revenue accounts to identify unusual or irregular items.
Risk of management override of internal controls ISAs (UK & Ireland) require that we consider this.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that may represent a risk of material misstatement due to fraud. We also tested journal entries made to identify unusual or irregular items.

Going Concern

Under the Listing Rules we are required to review the directors' statement, set out on pages 83 and 84, 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 Consolidated and the Company's 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 the Parent Company's ability to continue as a going concern.

Opinions on other matters prescribed by the Companies Act 2006

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; and
- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

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 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

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law have not been made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Parent Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 84 of the Annual Report, as required by the Code Provision C.1.1, the directors state 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 performance, business model and strategy. On pages 75 and 76 as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report 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.

Other information in the Annual Report

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
- is otherwise misleading.

We have no exceptions to report arising from this responsibility.

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 pages 83 and 84, the directors are responsible for the preparation of the Consolidated and the Company 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 Consolidated and the Company 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 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.

David Law (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
5 March 2014

1. 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.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Accounting policies

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, associates and branches in the UK, Ireland, continental Europe, Canada, Asia and other countries throughout the world, and until October 2013, the United States (US).

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 2013. 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.

See note 3 for presentation changes to the consolidated financial statements.

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 2013.

i) IFRS 10, Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addressed the accounting for consolidated financial statements. It also supersedes SIC-12 *Consolidation – Special Purpose Entities* and establishes a single control model that applies to all entities. IFRS 10 sets out the requirements for the preparation and presentation of consolidated financial statements, requiring an entity to consolidate entities it controls. The standard changes the definition of control and the new criteria for control is outlined in accounting policy D. In line with the transitional provisions the requirements have been retrospectively applied at the beginning of the immediate preceding period. The application of IFRS 10 has resulted in the consolidation of investment vehicles that were not previously consolidated, and deconsolidation of investment vehicles that were previously consolidated. There is no impact on the profit or loss for the current or prior year or on equity reported. There is no material impact on the total assets or liabilities in the comparative period. The effect on amounts previously reported at 31 December 2012 is set out in note 1.

ii) IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 defines and establishes accounting principles for joint arrangements. The standard distinguishes between two types of joint arrangements – joint ventures and joint operations – based on how rights and obligations are shared by parties to the arrangements. The adoption of IFRS 11 has no impact on the consolidated financial statements in the current or prior period.

iii) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, and structured entities. The adoption of IFRS 12 has resulted in significant additional disclosures in respect of these interests. The standard has been applied retrospectively, with disclosure for the comparative period (except for disclosure on interests in unconsolidated structured entities) in line with the transitional provision of the standard. There is no impact on the Group's profit or loss for the current or prior period or on the equity reported. The additional disclosures are included in notes 4, 19, 20, 26, 39 and 62.

iv) IFRS 13, Fair Value Measurement

IFRS 13 establishes a single standard for all fair value measurements. The standard does not change the scope of fair value measurement, but provides further guidance on how fair value should be determined. The changes have no significant impact on the Group's application of fair value measurements and have no impact on the profit or loss for the current or prior period or on equity reported. IFRS 13 also requires enhanced disclosures about fair value measurement, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures* and are set out in note 23. IFRS 13 has been adopted and applied prospectively in accordance with the standard.

v) IAS 1, Presentation of Financial Statements (Amended)

The amendments to IAS 1 require the grouping of items presented in other comprehensive income according to whether they will subsequently be reclassified (or recycled) to income statement in the future. The criteria when items are required to be reclassified from other comprehensive income to income statement are set out in the accounting policies below. The adoption of the amendments to IAS 1 results in a revised presentation of the statement of comprehensive income and is applied retrospectively. It has no impact on the profit or loss for the current or prior period or on equity reported.

vi) IAS 19, Employee Benefits (Revised)

The amendment revises requirements for pensions and other post-retirement benefits, termination benefits and other employee benefits. The key changes include the revision of the calculation of the finance cost, enhanced disclosures surrounding the characteristics and risk profile of defined benefit plans, and a requirement to include all actuarial gains and losses immediately in other comprehensive income which is already in line with the Group's current policy. The key impact of the revised standard on the Group's consolidated financial statements

is the replacement of the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest income (or expense). This is based on the net defined benefit asset (or liability) at the start of the year multiplied by the discount rate used at that point to measure the pension obligation. There is no change in the method to determine the discount rate. Net interest income is credited to investment income, whereas net interest expense is charged to finance costs. The revised standard has introduced a new term "remeasurements" comprised of actuarial gains and losses and the difference between actual investment returns less investment expenses and the return implied by the net interest cost. These are recognised in other comprehensive income with no subsequent recycling to the income statement. Amounts recorded in the income statement are therefore limited to service costs, and the net interest income/expense. The revised standard has been applied retrospectively in accordance with the transitional provision of the standard. This has resulted in an increase in profit before tax of £150 million for the year ended 31 December 2012 with a corresponding decrease in other comprehensive income as the discount rate applied to assets is higher than the previously applied expected return on assets. There is no impact on reported equity in the current or prior period. The effect on amounts previously reported is set out in note 1.

(vii) Amendments to IFRS 7, Financial Instruments – Disclosures

The amendments include enhanced disclosures to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements in the statement of financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The standard has been applied retrospectively but has no impact on the Group's profit for the current or prior period or on the equity reported. The new disclosures are presented in note 60.

(viii) IAS 27, Separate Financial Statements (2011) and IAS 28, Investments in Associates and Joint Ventures (2011)

IAS 27 *Consolidated and Separate Financial Statements* was superseded by IFRS 10 which addresses the requirements for consolidated financial statements and by revised IAS 27 *Separate Financial Statements (2011)* which addresses the amended requirements for separate financial statements. IAS 28 has been revised to include the application of the equity method for joint ventures as well as associates. Joint ventures are required to be equity accounted following the issuance of IFRS 11. There are no implications for the Group's consolidated financial statements.

(ix) Improvements to IFRSs 2009-2011

These improvements to IFRSs consist of amendments to five IFRSs, including IAS 1 *Presentation of Financial Statements*, IAS 32 *Financial Instruments – Presentation*, and IAS 34 *Interim Financial Reporting*. The amendments clarify existing guidance and do not give rise to a change in existing accounting practice. There is no impact on the Group's consolidated financial statements.

Standards, interpretations and amendments to published standards that are not yet effective and have been adopted early by the Group

The following amendments to existing standards have been issued, are effective for accounting periods beginning on or after 1 January 2014 and have been adopted early by the Group:

(i) Amendments to IAS 36, Impairment of Assets

The amendments clarify disclosure requirements in respect of the recoverable amount of impaired non-financial assets if the amount is based on fair value less costs to sell. These amendments have been early adopted by the Group, with no significant impact on the Group's consolidated financial statements. The amendments have been endorsed by the EU.

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 effective for accounting periods beginning on or after the following date and have not been adopted early by the Group:

Effective for annual periods beginning on or after 1 January 2014

(i) Amendments to IAS 32, Financial Instruments – Presentation

The amendments to IAS 32 clarify the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The adoption of these amendments is not expected to have a significant impact on the Group's profit for the year or equity. The amendments have been endorsed by the EU.

(ii) Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)

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. Instead, such entities would measure their investment in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*. There are no implications for the Group's consolidated financial statements, because the Group does not meet the definition of an investment entity. The amendments have been endorsed by the EU.

(iii) Amendments to IAS 39, Financial Instruments – Recognition and Measurement

The amendments provide an exception to the requirement to discontinue hedge accounting in certain circumstances of novations in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument. The impact of the adoption of the amendment is not expected to have a significant impact on the Group's consolidated financial statements. The amendments have been endorsed by the EU.

(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 impact of the adoption of the amendment has yet to be fully assessed but is not expected to be significant for the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

(v) Amendments to IAS 19, Employee Benefits

These narrow scope amendments simplify accounting for contributions from employees or third parties to defined benefit plans. They are not expected to have significant implications for the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

(vi) Improvements to IFRSs 2010-2012 and 2011-2013

These improvements to IFRSs consist of amendments to nine IFRSs. The amendments clarify existing guidance and do not give rise to significant changes in existing accounting practice. The improvements have yet to be fully assessed but are not expected to have significant implications for the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

(vii) IFRS 9, Financial Instruments

IFRS 9 will *replace IAS 39 Financial Instruments: Recognition and Measurement*. Under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 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 asset. All equity instruments will be measured at fair value. A debt instrument is measured at amortised cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit or loss (FVTPL). For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability's credit risk is recognised in other comprehensive income unless it gives rise to an accounting mismatch in profit or loss.

The IASB has issued new hedge accounting requirements, aligning these more closely with an entity's risk management activities. In addition, the IASB published amendments to IFRS 9, removing the mandatory effective date of 1 January 2015 and allowing an entity to early adopt the requirements to recognise changes in fair value from an entity's own credit risk in OCI without having to adopt the whole standard.

We have not yet completed our assessment of the impact of the adoption of IFRS 9 on the Group which, to a large extent, will need to take into account the finalisation of the standard and the interaction of the requirements of IFRS 9 with the IASB's ongoing insurance contracts accounting project. IFRS 9 has not yet 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
Operations held for sale	AH

(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 inter-company 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.

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 (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 greater 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 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 have 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 FV 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.

In the United States, shadow adjustments were made to the liabilities or related deferred acquisition costs and were recognised directly in other comprehensive income. This means that the measurement of these items was adjusted for unrealised gains or losses on the backing assets such as AFS financial investments (see accounting policy T), that were recognised directly in other comprehensive income, in the same way as if those gains or losses had been realised.

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 the UK. 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 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 legally enforceable right to set off the recognised amounts and there is an 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.

Investments carried at fair value are measured using the methodology outlined in note 23, with values based on the quoted price within the bid-ask spread that is most representative of fair value or based on cash flow models using market observable inputs or unobservable inputs.

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 below 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.

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. 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, 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 banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are 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 of 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.

Other post-employment obligations

Some Group companies provide post-employment healthcare or other benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. Unlike the pension schemes, no assets are set aside in separate funds to provide for the future liability but none of these schemes is material to the Group. The costs of the Canadian scheme are included within those for the defined benefit pension schemes in that country. For such schemes in other countries, provisions are calculated in line with local regulations, with movements being charged to the income statement within 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 goodwill for which amortisation is not deductible for tax purposes, 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 (losses) 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 2013

	Note	2013 £m Continuing operations	2013 £m Discontinued operations[1]	Restated[2,3] 2012 £m Continuing operations	Restated[2,3] 2012 £m Discontinued operations[1]
Income	6				
Gross written premiums		**22,035**	**1,589**	22,744	3,796
Premiums ceded to reinsurers		**(1,546)**	**(100)**	(1,571)	(207)
Premiums written net of reinsurance		**20,489**	**1,489**	21,173	3,589
Net change in provision for unearned premiums		**134**	**—**	(16)	—
Net earned premiums	H	**20,623**	**1,489**	21,157	3,589
Fee and commission income	I & J	**1,279**	**28**	1,273	23
Net investment income	K	**12,509**	**2,340**	21,135	2,241
Share of profit/(loss) after tax of joint ventures and associates		**120**	**—**	(255)	—
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	4b	**115**	**808**	(164)	(2,359)
		34,646	**4,665**	43,146	3,494
Expenses	7				
Claims and benefits paid, net of recoveries from reinsurers		**(22,093)**	**(2,037)**	(23,601)	(2,721)
Change in insurance liabilities, net of reinsurance	41 a(ii)	**2,493**	**(312)**	(430)	(1,566)
Change in investment contract provisions		**(7,050)**	**(31)**	(4,450)	(77)
Change in unallocated divisible surplus	46	**280**	**—**	(6,316)	—
Fee and commission expense		**(3,975)**	**(438)**	(4,457)	(498)
Other expenses		**(2,220)**	**(293)**	(2,843)	(1,307)
Finance costs	8	**(609)**	**(16)**	(653)	(21)
		(33,174)	**(3,127)**	(42,750)	(6,190)
Profit/(loss) before tax		**1,472**	**1,538**	396	(2,696)
Tax attributable to policyholders' returns	14d	**(191)**	**—**	(221)	—
Profit/(loss) before tax attributable to shareholders' profits		**1,281**	**1,538**	175	(2,696)
Tax expense	AC & 14	**(594)**	**(265)**	(482)	(152)
Less: tax attributable to policyholders' returns	14	**191**	**—**	221	—
Tax attributable to shareholders' profits		**(403)**	**(265)**	(261)	(152)
Profit/(loss) after tax		**878**	**1,273**	(86)	(2,848)
Profit/(loss) from discontinued operations		**1,273**		(2,848)	
Profit/(loss) for the year		**2,151**		(2,934)	
Attributable to:					
Equity shareholders of Aviva plc		**2,008**		(3,102)	
Non-controlling interests	39	**143**		168	
Profit/(loss) for the year		**2,151**		(2,934)	
Earnings/(loss) per share	AG & 15				
Basic (pence per share)		**65.3p**		(109.1)p	
Diluted (pence per share)		**64.5p**		(109.1)p	
Continuing operations – Basic (pence per share)		**22.0p**		(11.2)p	
Continuing operations – Diluted (pence per share)		**21.8p**		(11.2)p	

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). For further details see note 4.
2 Following the adoption of the revised IAS 19 'Employee benefits' the Group has retrospectively applied the changes to the comparative period in these financial statements. This has led to an increase in profit before tax for continuing operations of £150 million for 2012 with a corresponding decrease in other comprehensive income. For further detail of the impact of the restatement please see note 1.
3 Following the adoption of IFRS 10 'Consolidated financial statements' the Group has retrospectively applied the change to the comparative period in these financial statements. For further details of the impact of the restatement please see note 1.

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 £m	Restated[2] 2012 £m
Profit/(loss) for the year from continuing operations		**878**	(86)
Profit/(loss) for the year from discontinued operations[1]		**1,273**	(2,848)
Total profit/(loss) for the year		**2,151**	(2,934)
Other comprehensive income from continuing operations:			
Items that may be reclassified subsequently to income statement			
Investments classified as available for sale			
Fair value gains		**19**	27
Fair value gains transferred to profit on disposals		**1**	1
Share of other comprehensive income of joint ventures and associates		**(37)**	14
Foreign exchange rate movements		**(35)**	(200)
Aggregate tax effect – shareholder tax on items that may be reclassified subsequently to the income statement		**(14)**	8
Items that will not be reclassified to income statement			
Owner occupied properties – fair value losses		**(2)**	(3)
Remeasurements of pension schemes	49b(i)	**(674)**	(980)
Aggregate tax effect – shareholder tax on items that will not be reclassified subsequently to the income statement		**125**	189
Other comprehensive income, net of tax from continuing operations		**(617)**	(944)
Other comprehensive income, net of tax from discontinued operations[1]	4b(vii)	**(319)**	68
Total other comprehensive income, net of tax		**(936)**	(876)
Total comprehensive income for the year from continuing operations		**261**	(1,030)
Total comprehensive income for the year from discontinued operations[1]		**954**	(2,780)
Total comprehensive income for the year		**1,215**	(3,810)
Attributable to:			
Equity shareholders of Aviva plc		**1,038**	(3,942)
Non-controlling interests		**177**	132
		1,215	(3,810)

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). For further details see note 4.
2 Following the adoption of the revised IAS 19 'Employee benefits' the Group has retrospectively applied the changes to the comparative period in these financial statements. This has led to an increase in profit before tax of £150 million for 2012 with a corresponding decrease in other comprehensive income. For further details of the impact of the restatement please see note 1.

The accounting policies (identified alphabetically) on pages 110 to 123 and notes (identified numerically) on pages 131 to 237 are an integral part of the financial statements.

Reconciliation of Group operating profit to profit/(loss) for the year

For the year ended 31 December 2013

	Note	2013 £m			Restated[2] 2012 £m		
		Continuing operations	**Discontinued operations[1]**	**Total**	Continuing operations	Discontinued operations[1]	Total
Operating profit before tax attributable to shareholders' profits							
Life business		**1,901**	**272**	**2,173**	1,831	200	2,031
General insurance and health		**797**	**—**	**797**	894	—	894
Fund management		**93**	**31**	**124**	51	55	106
Other:							
Other operations		**(90)**	**(4)**	**(94)**	(177)	(4)	(181)
Corporate centre		**(150)**	**—**	**(150)**	(136)	—	(136)
Group debt costs and other interest		**(502)**	**(9)**	**(511)**	(537)	(12)	(549)
Operating profit before tax attributable to shareholders' profits (excluding Delta Lloyd as an associate)		**2,049**	**290**	**2,339**	1,926	239	2,165
Share of operating profit (before tax) of Delta Lloyd as an associate		**—**	**—**	**—**	112	—	112
Operating profit before tax attributable to shareholders' profits		**2,049**	**290**	**2,339**	2,038	239	2,277
Integration and restructuring costs	7	**(363)**	**(3)**	**(366)**	(461)	(7)	(468)
Operating profit before tax attributable to shareholders' profits after integration and restructuring costs		**1,686**	**287**	**1,973**	1,577	232	1,809
Adjusted for the following:							
Investment return variances and economic assumption changes on life business	9	**(49)**	**452**	**403**	(620)	342	(278)
Short-term fluctuation in return on investments on non-life business	10a	**(336)**	**—**	**(336)**	7	—	7
Economic assumption changes on general insurance and health business	10a	**33**	**—**	**33**	(21)	—	(21)
Impairment of goodwill, associates and joint ventures and other amounts expensed	17a, 19, 20	**(77)**	**—**	**(77)**	(60)	(782)	(842)
Amortisation and impairment of intangibles		**(91)**	**(9)**	**(100)**	(128)	(129)	(257)
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	4b	**115**	**808**	**923**	(164)	(2,359)	(2,523)
Non-operating items before tax (excluding Delta Lloyd as an associate)		**(405)**	**1,251**	**846**	(986)	(2,928)	(3,914)
Share of Delta Lloyd's non-operating items (before tax) as an associate		**—**	**—**	**—**	(523)	—	(523)
Non-operating items before tax		**(405)**	**1,251**	**846**	(1,509)	(2,928)	(4,437)
Share of Delta Lloyd's tax expense, as an associate		**—**	**—**	**—**	107	—	107
Profit/(loss) before tax attributable to shareholders' profits		**1,281**	**1,538**	**2,819**	175	(2,696)	(2,521)
Tax on operating profit	15a(i)	**(534)**	**(83)**	**(617)**	(499)	(78)	(577)
Tax on other activities	15a(i)	**131**	**(182)**	**(51)**	238	(74)	164
		(403)	**(265)**	**(668)**	(261)	(152)	(413)
Profit/(loss) for the year		**878**	**1,273**	**2,151**	(86)	(2,848)	(2,934)

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). For further details see note 4.

2 Following the adoption of the revised IAS 19 'Employee benefits' the Group has retrospectively applied the changes to the comparative period in these financial statements. This has led to an increase in profit before tax of £150 million for 2012 with a corresponding decrease in other comprehensive income. For further details of the impact of the restatement please see note 1.

Reconciliation of Group operating profit to profit/(loss) 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 2013	Life 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)**
Share of operating profit (before tax) of Delta Lloyd as an associate					**—**
Total – continuing operations					**2,049**
Total – discontinued operations					**290**
					2,339

Year ended 31 December 2012 Restated[1,2]	Life business £m	General insurance and health £m	Fund management £m	Other operations £m	Total £m
United Kingdom & Ireland	890	502	11	(20)	1,383
France	335	95	—	(8)	422
Poland	153	9	—	5	167
Italy, Spain and Other	381	(6)	—	(10)	365
Canada	—	277	—	—	277
Asia	69	(5)	1	(12)	53
Aviva Investors	3	—	39	—	42
Other Group activities	—	22	—	(132)	(110)
	1,831	894	51	(177)	2,599
Corporate centre					(136)
Group debt costs and other interest					(537)
Share of operating profit (before tax) of Delta Lloyd as an associate					112
Total – continuing operations					2,038
Total – discontinued operations					239
					2,277

1 Following the adoption of the revised IAS 19 'Employee benefits' the Group has retrospectively applied the changes to the comparative period in these financial statements. This has led to an increase in profit before tax of £150 million for 2012 with a corresponding decrease in other comprehensive income. For further details of the impact of the restatement please see note 1.

2 Following the announcement in Q1 2013 relating to modifications to its management structure, the Group's operating segments were changed to align them with the revised organisational reporting structure. See note 5 for more information.

The accounting policies (identified alphabetically) on pages 110 to 123 and notes (identified numerically) on pages 131 to 237 are an integral part of the financial statements.

Consolidated statement of changes in equity

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**

For the year ended 31 December 2012 (restated[2])

	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	726	200	1,173	3,271	(43)	1,562	5,954	12,843	990	1,530	15,363
Loss/(Profit) for the year	—	—	—	—	—	—	(3,102)	(3,102)	—	168	(2,934)
Other comprehensive income	—	—	—	—	—	(48)	(792)	(840)	—	(36)	(876)
Total comprehensive income for the year	—	—	—	—	—	(48)	(3,894)	(3,942)	—	132	(3,810)
Dividends and appropriations	—	—	—	—	—	—	(847)	(847)	—	—	(847)
Shares issued in lieu of dividends	9	—	(9)	—	—	—	127	127	—	—	127
Capital contributions from non-controlling interests	—	—	—	—	—	—	—	—	—	20	20
Non-controlling interests share of dividends declared in the year	—	—	—	—	—	—	—	—	—	(102)	(102)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	—	—	—	—	—	187	—	187	—	—	187
Changes in non-controlling interests in subsidiaries	—	—	—	—	—	—	—	—	—	(6)	(6)
Shares acquired by employee trusts	—	—	—	—	(33)	—	—	(33)	—	—	(33)
Shares distributed by employee trusts	—	—	—	—	44	—	(36)	8	—	—	8
Reserves credit for equity compensation plans	—	—	—	—	—	42	—	42	—	—	42
Shares issued under equity compensation plans	1	—	1	—	—	(68)	67	1	—	—	1
Aggregate tax effect – shareholder tax	—	—	—	—	—	—	18	18	—	—	18
Issue of fixed rate tier 1 notes	—	—	—	—	—	—	—	—	392	—	392
Balance at 31 December	736	200	1,165	3,271	(32)	1,675	1,389	8,404	1,382	1,574	11,360

1 Refer to note 37 for further details of balances included in Other reserves.
2 Following the adoption of the revised IAS 19 'Employee benefits' the Group has retrospectively applied the changes to the comparative period in these financial statements. This has led to an increase in profit before tax of £150 million for 2012 with a corresponding decrease in other comprehensive income. For further details of the impact of the restatement please see note 1.

The accounting policies (identified alphabetically) on pages 110 to 123 and notes (identified numerically) on pages 131 to 237 are an integral part of the financial statements.

Consolidated statement of financial position

As at 31 December 2013

	Note	2013 £m	Restated[1] 2012 £m
Assets			
Goodwill	O & 17	**1,476**	1,520
Acquired value of in-force business and intangible assets	O & 18	**1,068**	1,084
Interests in, and loans to, joint ventures	D & 19	**1,200**	1,390
Interests in, and loans to, associates	D & 20	**267**	265
Property and equipment	P & 21	**313**	391
Investment property	Q & 22	**9,451**	9,939
Loans	V & 24	**23,879**	24,537
Financial investments	S, T, U & 27	**192,961**	188,743
Reinsurance assets	N & 44	**7,220**	6,684
Deferred tax assets	AC	**244**	188
Current tax assets		**76**	67
Receivables	28	**7,060**	7,476
Deferred acquisition costs and other assets	X & 29	**3,051**	3,778
Prepayments and accrued income		**2,498**	2,700
Cash and cash equivalents	Y & 56d	**24,999**	23,102
Assets of operations classified as held for sale	AH & 4c	**3,113**	42,603
Total assets		**278,876**	314,467
Equity			
Capital	AE		
Ordinary share capital	31	**736**	736
Preference share capital	34	**200**	200
		936	936
Capital reserves			
Share premium	31b	**1,165**	1,165
Merger reserve	D & 36	**3,271**	3,271
		4,436	4,436
Shares held by employee trusts	33	**(31)**	(32)
Other reserves	37	**475**	1,675
Retained earnings	38	**2,348**	1,389
Equity attributable to shareholders of Aviva plc		**8,164**	8,404
Direct capital instruments and fixed rate tier 1 notes	35	**1,382**	1,382
Non-controlling interests	39	**1,471**	1,574
Total equity		**11,017**	11,360
Liabilities			
Gross insurance liabilities	L & 41	**110,555**	113,091
Gross liabilities for investment contracts	M & 42	**116,058**	110,494
Unallocated divisible surplus	L & 46	**6,713**	6,931
Net asset value attributable to unitholders	D	**10,362**	9,983
Provisions	AA, AB & 48	**984**	1,119
Deferred tax liabilities	AC	**563**	547
Current tax liabilities		**116**	112
Borrowings	AD & 50	**7,819**	8,179
Payables and other financial liabilities	S & 51	**9,194**	9,398
Other liabilities	52	**2,472**	1,842
Liabilities of operations classified as held for sale	AH & 4c	**3,023**	41,411
Total liabilities		**267,859**	303,107
Total equity and liabilities		**278,876**	314,467

1 The statement of financial position has been restated following the adoption of IFRS 10 'Consolidated Financial Statements' – see note 1 for details. There is no impact on the result for any year presented as a result of this restatement.

Approved by the Board on 5 March 2014.

Patrick Regan
Chief financial officer

Company number: 2468686

The accounting policies (identified alphabetically) on pages 110 to 123 and notes (identified numerically) on pages 131 to 237 are an integral part of the financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2013

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	2013 £m	Restated[1] 2012 £m
Cash flows from operating activities			
Cash generated from continuing operations	56a	**2,541**	2,881
Tax paid		**(463)**	(428)
Net cash from operating activities – continuing operations		**2,078**	2,453
Net cash from operating activities – discontinued operations[2]		**1,919**	46
Total net cash from operating activities		**3,997**	2,499
Cash flows from investing activities			
Acquisitions of, and additions to, subsidiaries, joint ventures and associates, net of cash acquired	56b	—	(129)
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	56c	**377**	421
New loans to joint ventures and associates	19a(i)	**(6)**	(4)
Repayment of loans to joint ventures		**25**	12
Net new loans to joint ventures and associates		**19**	8
Purchases of property and equipment		**(30)**	(220)
Proceeds on sale of property and equipment		**56**	43
Purchases of intangible assets		**(59)**	(128)
Net cash from/(used in) investing activities – continuing operations		**363**	(5)
Net cash used in investing activities – discontinued operations[2]		**(1,588)**	(10)
Total net cash used in investing activities		**(1,225)**	(15)
Cash flows from financing activities			
Proceeds from issue of ordinary shares and fixed rate tier 1 notes, net of transaction costs		**—**	392
Treasury shares purchased for employee trusts		**(32)**	(33)
New borrowings drawn down, net of expenses		**2,201**	2,529
Repayment of borrowings		**(2,441)**	(2,513)
Net (repayment)/ drawdown of borrowings		**(240)**	16
Interest paid on borrowings		**(605)**	(665)
Preference dividends paid	16	**(17)**	(17)
Ordinary dividends paid		**(429)**	(630)
Coupon payments on direct capital instruments and fixed rate tier 1 notes	16	**(92)**	(73)
Capital contributions from non-controlling interests of subsidiaries	39	**1**	20
Dividends paid to non-controlling interests of subsidiaries		**(134)**	(102)
Net cash used in financing activities – continuing operations		**(1,548)**	(1,092)
Net cash from/(used in) financing activities – discontinued operations[2]		**19**	(27)
Total net cash used in financing activities		**(1,529)**	(1,119)
Total net increase in cash and cash equivalents		**1,243**	1,365
Cash and cash equivalents at 1 January		**23,453**	22,401
Effect of exchange rate changes on cash and cash equivalents		**161**	(313)
Cash and cash equivalents at 31 December	56d	**24,857**	23,453

1 The statement of cash flows has been restated following the adoption of IFRS 10 'Consolidated Financial Statements' – see note 1 for details.
2 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.

The accounting policies (identified alphabetically) on pages 110 to 123 and notes (identified numerically) on pages 131 to 237 are an integral part of the financial statements.

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

(a) Impact of changes in accounting policies/standards on the consolidated income statement

	2012			
	As previously reported continuing operations £m	Effect of change in policy (IFRS 10) £m	Effect of change in policy (IAS 19) £m	Restated continuing operations £m
Total income	43,095	(34)	85	43,146
Effect of change in policy analysed as:				
Net investment income	21,106	(56)	85	21,135
Share of loss after tax of joint ventures and associates	(277)	22	—	(255)
Total expenses	(42,849)	34	65	(42,750)
Effect of change in policy analysed as:				
Fee and commission expense	(4,472)	15	—	(4,457)
Other expenses	(2,845)	2	—	(2,843)
Finance costs	(735)	17	65	(653)
Profit before tax	246	—	150	396
Tax attributable to policyholders' returns	(221)	—	—	(221)
Tax attributable to shareholders' profits	(227)	—	(34)	(261)
Loss after tax	(202)	—	116	(86)
Loss after tax from discontinued operations	(2,848)	—	—	(2,848)
Loss for the year	(3,050)	—	116	(2,934)
Loss for the year attributable to:				
Equity shareholders of Aviva plc	(3,218)	—	116	(3,102)
Non-controlling interests	168	—	—	168
Earnings per share[1]				
Basic earnings per share	(113.1)p	—	4.0p	(109.1)p
Diluted earnings per share	(113.1)p	—	4.0p	(109.1)p

1 From continuing and discontinued operations.

(b) Impact of changes in accounting policies/standards on the consolidated statement of comprehensive income

	2012			
	As previously reported £m	Effect of change in policy (IFRS 10) £m	Effect of change in policy (IAS 19) £m	Restated £m
Total comprehensive income for the year	(3,810)	—	—	(3,810)
Comprises:				
Total loss for the year	(3,050)	—	116	(2,934)
Total other comprehensive income, net of tax	(760)	—	(116)	(876)
Total other comprehensive income, net of tax analysed as:				
From continuing operations	(828)	—	(116)	(944)
From discontinued operations	68	—	—	68
Effect of change in policy analysed as:				
Remeasurement of pension schemes[2]	(830)	—	(150)	(980)
Aggregate tax effect – shareholder tax	163	—	34	197

2 Including actuarial gains/(losses) on pension schemes.

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

(c) Impact of changes in accounting policies on the consolidated statement of financial position

	2012			
	As previously reported £m	Effect of change in policy (IFRS 10) £m	Effect of change in policy (IAS 19) £m	Restated £m
Total assets	315,689	(1,222)	—	314,467
Effect of change in policy analysed as:				
Interests in, and loans to, joint ventures and associates	1,708	(53)	—	1,655
Investment property	10,815	(876)	—	9,939
Financial investments	189,078	(335)	—	188,743
Receivables	7,617	(141)	—	7,476
Deferred acquisition costs and other assets	3,799	(21)	—	3,778
Prepayments and accrued income	2,701	(1)	—	2,700
Cash and cash equivalents	22,897	205	—	23,102
Total equity and liabilities	315,689	(1,222)	—	314,467
Total equity	11,360	—	—	11,360
Total liabilities	304,329	(1,222)	—	303,107
Effect of change in policy analysed as:				
Net asset value attributable to unit holders	11,146	(1,163)	—	9,983
Borrowings	8,194	(15)	—	8,179
Payables and other financial liabilities	9,441	(43)	—	9,398
Other liabilities	1,843	(1)	—	1,842

There is no overall impact from the adoption of these standards on the consolidated statement of changes in equity reported at 31 December 2012. As shown in the impact of changes in accounting policies / standards on the consolidated statement of comprehensive income table in 1(b) above, the favourable impact of the adoption of IAS19R on the profit / (loss) for the year ended 31 December 2012 is offset by an equal and opposite amount in other comprehensive income.

(d) Impact of changes in accounting policies on the consolidated statement of cash flows

	2012			
	As previously reported £m	Effect of change in policy (IFRS 10) £m	Effect of change in policy (IAS 19) £m	Restated £m
Total cash flows from operating activities	2,294	205	—	2,499
Effect of change in policy analysed as:				
Profit before tax from continuing operations	246	—	150	396
Adjustment for share of loss of joint ventures and associates	277	(22)	—	255
Adjustment for fair value gains	(11,867)	(33)	—	(11,900)
Adjustment for interest expense on borrowings	653	(19)	—	634
Adjustment for net finance charge on pension schemes	82	—	(150)	(68)
Changes in working capital	5,867	279	—	6,146
Total net cash flow used in investing activities	(15)	—	—	(15)
Total net cash flows used in financing activities	(1,119)	—	—	(1,119)
Cash and cash equivalents at 31 December[1]	23,248	205	—	23,453

1. Cash and cash equivalents include bank overdrafts amounting £566 million and cash that has been classified as Held For Sale of £917 million.

2 – Exchange rates

The Group's principal overseas operations during the year were located within the Eurozone, Canada, Poland and the United States. 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:

	2013	2012
Eurozone		
Average rate (€1 equals)	**£0.85**	£0.81
Period end rate (€1 equals)	**£0.83**	£0.81
Canada		
Average rate ($CAD1 equals)	**£0.62**	£0.63
Period end rate ($CAD1 equals)	**£0.57**	£0.62
Poland		
Average rate (PLN1 equals)	**£0.20**	£0.19
Period end rate (PLN1 equals)	**£0.20**	£0.20
United States		
Average rate ($US1 equals)	**£0.64**	£0.63
Period end rate ($US1 equals)	**£0.60**	£0.62

3 – Presentation changes

(a) Discontinued operations

As described in note 4, the Group's US life and annuity business and associated investment management operations (together 'US Life'), were classified as held for sale in 2012 and sold on 2 October 2013. As the Group exited from a major geographical area of operation and consistent with the presentation in the 2012 Annual Report and Accounts, the results of US Life up to the completion date of the disposal, as well as those for preceding years, have been classified as discontinued operations.

(b) Change to operating segments

Following announcements in the first quarter of 2013 relating to modifications to the Group's management structure, the Group's operating segments were changed to align them with the revised organisational reporting structure. The Group has determined its operating segments along market reporting lines, reflecting the management structure whereby a member of the Executive Management team is accountable to the group chief executive for the operating segment for which he is responsible. Further details of the reportable segments are given in note 5.

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.

(b) Disposal and remeasurement of subsidiaries, joint ventures and associates

The profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates comprises:

	2013 £m	2012 £m
Ireland – long-term business (see (i) below)	**87**	—
Spain – long-term business (see (ii) below)	**197**	—
Malaysia (see (iii) below)	**39**	—
Russia (see (iv) below)	**1**	—
Czech Republic, Hungary and Romania (see (v) below)	**1**	7
Italy – long-term business (see (c) below)	**(178)**	—
Korea (see (c) below)	**(20)**	—
Turkey – general insurance (see (c) below)	**(9)**	—
United Kingdom – RAC Limited	**—**	(21)
Delta Lloyd Associate	**—**	(129)
Poland (see (vi) below)	**(4)**	—
Sri Lanka	**—**	12
Other small operations	**1**	(33)
Profit/(loss) on disposal and remeasurement from continuing operations	**115**	(164)
Profit/(loss) on disposal and remeasurement from discontinued operations (see (vii) below)	**808**	(2,359)
Total profit/(loss) on disposal and remeasurement	**923**	(2,523)

The figures above include £(104) million *(2012: £nil)* attributable to non-controlling interests, refer to section (c) below.

(i) Irish long-term business

On 17 January 2012 the Group's Irish long-term business subsidiary Ark Life Assurance Company Limited (Ark Life) was classified as held for sale as a result of Allied Irish Bank ("AIB") exercising an option to purchase this entity. In addition AIB exercised its option to put its non-controlling interest in Aviva Life Holdings Ireland Limited (ALHI), another Irish Group subsidiary, to the Group. As a result this non-controlling interest was reclassified from equity to liabilities. At 31 December 2012 the net assets of Ark Life and the liability to purchase the ALHI non-controlling interest were recorded in the Group financial statements at management's best estimates of settlement value.

On 8 March 2013 the disposal of Ark Life and the acquisition of the non-controlling interest in ALHI were completed, for cash consideration of £117 million, consistent with the estimated expected net settlement reflected at 31 December 2012, together with settlement of the non-controlling interest purchase liability of £166 million. This transaction resulted in a profit on disposal of £87 million, calculated as follows:

4 – Subsidiaries continued

	2013 £m
Assets	
Intangible assets	**77**
Investment property	**13**
Financial Investments	**2,955**
Reinsurance assets	**249**
Prepayments and accrued income	**9**
Other assets	**77**
Cash and cash equivalents	**362**
Total assets	**3,742**
Liabilities	
Insurance liabilities	**1,338**
Liability for investment contracts	**1,955**
Other liabilities	**166**
Total liabilities	**3,459**
Net assets disposed of	**283**
ALHI non-controlling interest purchase liability settled	**166**
Cash consideration	**117**
Less: Transaction costs	**(6)**
Net consideration	**277**
Currency translation reserve recycled to the income statement	**93**
Profit on disposal	**87**

(ii) Spanish long-term business – Aseval

On 18 December 2012 Aviva reached a settlement with Bankia S.A. ("Bankia") to transfer the Group's 50% interest in its subsidiary Aseval Aseguradora Valenciana, Sociedad Anónima de Seguros y Reaseguros ("Aseval"), a Spanish life assurance company, to Bankia. Aseval was classified as held for sale at this date.

On 24 April 2013 the Group disposed of its entire holding in Aseval to Bankia for cash consideration of £502 million resulting in a profit on disposal of £197 million, calculated as follows:

	2013 £m
Assets	
Goodwill	**189**
Intangible assets	**11**
Financial Investments	**2,378**
Reinsurance assets	**6**
Receivables and other financial assets	**12**
Prepayments and accrued income	**35**
Other assets	**10**
Cash and cash equivalents	**75**
Total assets	**2,716**
Liabilities	
Insurance liabilities	**2,008**
Payables and other financial liabilities	**76**
Other liabilities	**120**
Total liabilities	**2,204**
Net assets	**512**
Non-controlling interests before disposal	**(158)**
Group's Share of net assets disposed of	**354**
Cash consideration[1]	**502**
Less: transaction costs	**(5)**
Net consideration	**497**
Currency translation reserve recycled to the income statement	**54**
Profit on disposal	**197**

1 Cash consideration of £502 million above includes a loss of £16 million related to hedging the currency exposure on expected proceeds of the sale.

4 – Subsidiaries continued

(iii) Malaysia

On 12 April 2013 the Group disposed of its 49% interest in its Malaysia long-term business joint ventures, CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad, to Sun Life Assurance Company of Canada, a subsidiary of Sun Life Financial Inc. for cash consideration of £153 million resulting in a profit on disposal of £39 million, calculated as follows:

	2013 £m
Interest in joint ventures disposed of	**120**
Cash consideration	**153**
Less: Transaction costs	**(3)**
Net consideration	**150**
Currency translation reserve recycled to the income statement	**9**
Profit on disposal	**39**

(iv) Russia

On 8 April 2013 the Group disposed of its subsidiary in Russia, Closed Joint Stock Insurance Company Aviva (Zao) ("Aviva Russia"), to Blagosostoyanie, a non-state pension fund in Russia, for consideration of £30 million, after transaction costs. Net assets disposed of were £29 million, comprising gross assets of £155 million and gross liabilities of £126 million resulting in a profit on disposal of £1 million.

(v) Romania Pensions

On 7 May 2013 the Group sold its Romania Pensions business to MetLife, Inc. for consideration of £5 million. Net assets disposed of were £4 million, comprising gross assets of £11 million and gross liabilities of £7 million resulting in a profit on disposal of £1 million.

(vi) Poland

In 2013 the Group sold 16% of the total shares in its Polish life and general insurance joint ventures BZ-WBK Aviva Towarzystwo Ubezpiecze Ogólnych SA and BZ-WBK Aviva Towarzystwo Ubezpiecze na ycie SA, to its joint partner BZ-WBK. Aviva's remaining interest in both entities is a 34% share. Due to the change in control, the Group's investments were reclassified from joint ventures to associates and the transfer of shares resulted in a £4 million loss.

4 – Subsidiaries continued

(vii) Discontinued operations – US long term business

The profit/loss on disposal and remeasurement on discontinued operations is as follows:

	2013 £m	2012 £m
Profit/(Loss) on disposal and remeasurement from discontinued operations	**808**	(2,359)

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 is subject to customary completion adjustments. The process to agree completion adjustments is on-going and is expected to complete by mid-2014. Until the outcome of this process is known there remains uncertainty on the final determination of the completion adjustment.

The transaction resulted in a profit on disposal of £808 million in 2013, reflecting management's best estimate of the completion adjustment. The profit on disposal, calculated as follows, includes £644 million of currency translation and investment valuation reserves recycled to the income statement on completion of the sale.

	2013 £m
Assets	
Acquired value of in-force business and intangible assets	**445**
Investment property	**6**
Loans	**3,615**
Financial Investments	**28,185**
Reinsurance assets	**648**
Receivables and other financial assets	**329**
Prepayments and accrued income	**340**
Other assets	**293**
Cash and cash equivalents	**2,467**
Total assets	**36,328**
Liabilities	
Insurance liabilities	**31,219**
Liability for investment contracts	**1,826**
Provisions	**172**
Reinsurance deposits and collateral payable	**654**
Current and deferred tax liabilities	**704**
External borrowings	**179**
Intra-group liabilities	**553**
Other liabilities	**308**
Total liabilities	**35,615**
Net assets	**713**
Cash consideration received[1]	**1,434**
Less: Settlement of intercompany loan	**(553)**
Less: transaction costs	**(4)**
Net cash consideration	**877**
Currency translation and investment valuation reserves recycled to the income statement	**644**
Profit on disposal	**808**

1 Cash consideration received of £1,434 million above includes a recognised loss of £4 million related to hedging the currency exposure on the expected proceeds of the sale. As noted above, the process to agree completion adjustments is on-going. Until the outcome of this process is known there remains uncertainty on the final determination of the consideration.

Other comprehensive income, net of tax from discontinued operations of £(319) million includes £(215) million in fair value gains on available for sale financial instruments, £(281) million in fair value gains on available for sale financial instruments transferred to the income statement on disposal, £12 million of impairment losses transferred to the income statement, £(4) million recycled out of other comprehensive income and £169 million aggregate shareholder tax effect.

4 – Subsidiaries continued

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

The assets and liabilities of operations classified as held for sale as at 31 December 2013 are as follows:

	2013			2012
	Total £m	US Life £m	Other £m	Total £m
Assets				
Goodwill	**4**	—	183	183
Acquired value of in-force business and intangible assets	**—**	408	83	491
Interests in, and loans to, joint ventures and associates	**29**	—	126	126
Property and equipment	**—**	—	2	2
Investment property	**—**	6	12	18
Loans	**—**	3,397	—	3,397
Financial investments	**2,675**	31,212	5,203	36,415
Reinsurance assets	**37**	644	239	883
Deferred acquisition costs	**6**	1,468	70	1,538
Other assets	**196**	769	97	866
Cash and cash equivalents	**351**	544	373	917
	3,298	38,448	6,388	44,836
Additional impairment to write down the disposal group to fair value less costs to sell	**(185)**	(2,233)	—	(2,233)
Total assets	**3,113**	36,215	6,388	42,603
Liabilities				
Insurance liabilities	**(238)**	(31,153)	(3,294)	(34,447)
Liability for investment contracts	**(2,710)**	(2,197)	(1,857)	(4,054)
Unallocated divisible surplus	**4**	—	(55)	(55)
Provisions	**(3)**	(184)	(3)	(187)
Deferred tax liabilities	**(1)**	(672)	(8)	(680)
Current tax liabilities	**—**	—	—	—
External borrowings	**(29)**	(145)	—	(145)
Other liabilities	**(46)**	(1,497)	(346)	(1,843)
Total liabilities	**(3,023)**	(35,848)	(5,563)	(41,411)
Net assets	**90**	367	825	1,192

(i) 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 this business will principally be recovered through sale. Finoa Srl ("Finoa"), an Italian holding company in which Aviva owns a 50% share, owns a 77.55% share of Eurovita. During November 2013, the sale of Finoa's stake in Eurovita was announced subject to regulatory approval.

Following classification as held for sale, Eurovita was re-measured at fair value based on the expected sales price less costs to sell of £39 million. As a result, a remeasurement loss of £178 million has been recognised within "Profit on the disposal and re-measurement of subsidiaries, joint ventures and associates" in the income statement. Aviva's share of this loss is £74 million, and its share of the investment is £10 million.

Eurovita's results continue to be consolidated. On completion of the disposal the currency translation reserves relating to Eurovita, currently recognised in equity, will be recycled to the income statement.

(ii) Other businesses

Also classified as held for sale at 31 December 2013 are operations in Indonesia, South Korea, the general insurance business in Turkey, Taiwan and other small operations.

- In Indonesia management decided to restructure existing operations and establish a new joint venture. As Aviva's holding will change from a 60% controlling interest to a 50% joint venture the investment is classified as held for sale at 31 December 2013. Net assets are £17 million at 31 December 2013. On 17 January 2014, Aviva and PT Astra International Tbk signed an agreement to form Astra Aviva Life, a 50-50 joint venture to sell and distribute life insurance products in Indonesia.
- Management determined that the value of our long-term business joint venture in South Korea, in which the group has a 47% share, will be principally recovered through sale. The sale is expected to complete in 2014 with an expected sales price of £41 million. As a result, the business has been classified as held for sale and remeasured at fair value of £19 million based on Aviva's share of the expected sales price less costs to sell. As a result, a re-measurement loss of £20 million was recognised at 31 December 2013.
- Management committed to sell the Turkey general insurance business with completion of the sale expected in 2014. As a result, the business was classified as held for sale as of 31 December 2013 and remeasured at fair value based on the expected sales price less costs to sell of £2 million resulting in a remeasurement loss of £9 million.
- Refer to note 19 for details on the joint venture in Taiwan.

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. We do not believe that these requirements constitute a material limitation on the ability of the subsidiaries to transfer funds to the Group. 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.

Following announcements in the first quarter of 2013 relating to modifications to its management structure, the Group's operating segments were changed to align them with the revised organisational reporting structure. These segments are set out below. Results for prior periods have been restated to facilitate comparison.

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, whilst 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.

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 and Spain (including Aseval up until the date of its disposal in April 2013). 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. As set out in note 4c, the operations of Eurovita have been classified as held for sale during 2013. 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 and our Turkish general insurance business (which is held for sale as at 31 December 2013). This segment also includes the results of our Russian, Czech, Hungarian and Romanian businesses until the date of their disposals.

Canada

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

Asia

Our activities in Asia principally comprise our long-term business operations in China, India, Singapore, Hong Kong and Vietnam as well as our life operations in Taiwan, Indonesia and South Korea which are held for sale as at the balance sheet date. This segment also includes the results of Sri Lanka and Malaysia until the date of their disposals (in December 2012 and April 2013, respectively). Asia also includes general insurance operations in Singapore and health operations in Indonesia (which is held for sale at 31 December 2013).

Aviva Investors

Aviva Investors operates in most of the markets in which the Group operates, in particular the UK, France and Canada 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. The internal asset management operations of Aviva Investors North America were sold with the Group's US life operations and are classified as a discontinued operation in these financial statements.

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 in the income statement, statement of comprehensive income and statement of cash flows.

5 – Segmental information continued

(a) (i) 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	134	60	115	40	14	294	—	1,279	28	1,307
	4,643	4,583	5,674	533	3,339	2,236	554	294	46	21,902	1,517	23,419
Net investment income/(expense)	6,898	293	3,388	180	1,628	17	40	92	(27)	12,509	2,340	14,849
Inter-segment revenue	—	—	—	—	—	—	—	143	—	143	49	192
Share of profit of joint ventures and associates	88	—	8	3	6	—	15	—	—	120	—	120
Profit/(loss) 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 life business	414	—	(70)	1	(267)	—	(29)	—	—	49	(452)	(403)
Short-term fluctuation in return on investments backing non-life 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	—	—	—	—	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 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 businesses (US Life) until the date of disposal (2 October 2013). For further details see note 4.

5 – Segmental information continued

(a) (ii) Segmental income statement for the year ended 31 December 2012 – (Restated)[4]

	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[5] £m	Total £m
Gross written premiums	6,363	4,951	4,763	441	3,195	2,248	740	—	43	22,744	3,796	26,540
Premiums ceded to reinsurers	(740)	(450)	(55)	(6)	(150)	(63)	(101)	—	(6)	(1,571)	(207)	(1,778)
Internal reinsurance revenue	—	(11)	(6)	(2)	(9)	(9)	(3)	—	40	—	—	—
Premiums written net of reinsurance	5,623	4,490	4,702	433	3,036	2,176	636	—	77	21,173	3,589	24,762
Net change in provision for unearned premiums	(15)	63	(28)	(3)	3	(31)	(5)	—	—	(16)	—	(16)
Net earned premiums	5,608	4,553	4,674	430	3,039	2,145	631	—	77	21,157	3,589	24,746
Fee and commission income	448	180	121	57	131	42	10	279	5	1,273	23	1,296
	6,056	4,733	4,795	487	3,170	2,187	641	279	82	22,430	3,612	26,042
Net investment income/(expense)	8,561	514	8,047	401	3,136	140	283	(8)	61	21,135	2,241	23,376
Inter-segment revenue	—	—	—	—	—	—	—	134	—	134	75	209
Share of (loss)/profit of joint ventures and associates	(15)	—	8	2	2	—	(3)	7	(256)	(255)	—	(255)
(Loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates	(2)	(21)	—	—	7	—	12	—	(160)	(164)	(2,359)	(2,523)
Segmental income[1]	14,600	5,226	12,850	890	6,315	2,327	933	412	(273)	43,280	3,569	46,849
Claims and benefits paid, net of recoveries from reinsurers	(9,224)	(2,915)	(5,272)	(341)	(3,934)	(1,268)	(589)	—	(58)	(23,601)	(2,721)	(26,322)
Change in insurance liabilities, net of reinsurance	404	(30)	(880)	(241)	359	(40)	(17)	—	15	(430)	(1,566)	(1,996)
Change in investment contract provisions	(3,151)	—	(983)	19	(296)	—	—	(39)	—	(4,450)	(77)	(4,527)
Change in unallocated divisible surplus	(347)	—	(4,359)	(30)	(1,491)	—	(89)	—	—	(6,316)	—	(6,316)
Fee and commission expense	(854)	(1,544)	(604)	(60)	(362)	(611)	(86)	(24)	(312)	(4,457)	(498)	(4,955)
Other expenses	(749)	(465)	(268)	(56)	(316)	(151)	(67)	(342)	(429)	(2,843)	(1,307)	(4,150)
Inter-segment expenses	(122)	(3)	—	(5)	—	(4)	—	—	—	(134)	(75)	(209)
Finance costs	(252)	(21)	(2)	—	(2)	(8)	—	(5)	(363)	(653)	(21)	(674)
Segmental expenses	(14,295)	(4,978)	(12,368)	(714)	(6,042)	(2,082)	(848)	(410)	(1,147)	(42,884)	(6,265)	(49,149)
Profit/(loss) before tax	305	248	482	176	273	245	85	2	(1,420)	396	(2,696)	(2,300)
Tax attributable to policyholders' returns	(198)	—	—	—	—	—	(23)	—	—	(221)	—	(221)
Profit/(loss) before tax attributable to shareholders' profits	107	248	482	176	273	245	62	2	(1,420)	175	(2,696)	(2,521)
Adjusted for non-operating items:												
Reclassification of corporate costs and unallocated interest	7	32	25	—	6	—	—	1	(71)	—	—	—
Investment return variances and economic assumption changes on life business	663	—	(28)	(13)	—	—	(2)	—	—	620	(342)	278
Short-term fluctuation in return on investments backing non-life business	—	(17)	(68)	(1)	(43)	10	—	—	112	(7)	—	(7)
Economic assumption changes on general insurance and health business	—	20	—	—	—	—	—	—	1	21	—	21
Impairment of goodwill, joint ventures and associates[6]	(1)	—	—	—	108	—	—	—	(47)	60	782	842
Amortisation and impairment of intangibles	54	6	—	—	16	11	1	6	34	128	129	257
(Profit)/loss on the disposal and remeasurement of subsidiaries, joint ventures and associates	2	21	—	—	(7)	—	(12)	—	160	164	2,359	2,523
Integration and restructuring costs	71	170	11	5	12	11	4	33	144	461	7	468
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	—	—	—	—	—	523	523	—	523
Share of Delta Lloyd's tax expense, as an associate	—	—	—	—	—	—	—	—	(107)	(107)	—	(107)
Operating profit/(loss) before tax attributable to shareholders	903	480	422	167	365	277	53	42	(671)	2,038	239	2,277

1 Total reported income, excluding inter-segment revenue, includes £18,582 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 £3 million profit relating to Aviva Investors Pooled Pensions business.
3 Other Group activities include Group Reinsurance.
4 Restated for the adoption of revised IAS19 and IFRS 10. See note 1 for further details. Also restated for the revised segmentation per note 3.
5 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.
6 Other Group activities included a reversal of an impairment in respect of our investment in Delta Lloyd of £205 million.

5 – Segmental information continued

(a) (iii) Segmental statement of financial position as at 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 £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	89,680	4,638	65,601	3,045	20,469	3,435	2,681	687	2,725	192,961
Deferred acquisition costs	1,316	456	229	23	100	268	4	—	1	2,397
Other assets	19,084	4,150	9,919	220	1,967	1,081	343	532	5,455	42,751
Assets of operations classified as held for sale	—	—	—	—	3,042	—	62	—	9	3,113
Total assets	140,244	10,582	78,650	3,316	26,642	4,979	3,384	2,277	8,802	278,876
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	6,987	(3,412)	2,650	114	963	444	279	272	5,032	13,329
Liabilities of operations classified as held for sale	—	—	—	—	3,003	—	20	—	—	3,023
Total liabilities	134,162	4,423	76,469	2,883	24,328	3,996	2,641	2,031	16,926	267,859
Total equity										11,017
Total equity and liabilities										278,876

5 – Segmental information continued

(a) (iv) Segmental statement of financial position as at 31 December 2012 – (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	United States £m	Other Group activities £m	Total £m
Goodwill	—	1,037	—	9	342	50	55	27	—	—	1,520
Acquired value of in-force business and intangible assets	140	3	133	10	633	49	5	56	—	55	1,084
Interests in, and loans to, joint ventures and associates	1,132	—	148	10	116	—	245	4	—	—	1,655
Property and equipment	91	13	220	2	8	21	6	5	—	25	391
Investment property	6,774	8	1,342	—	2	—	—	1,093	—	720	9,939
Loans	23,193	369	848	—	14	83	30	—	—	—	24,537
Financial investments	90,182	3,946	59,853	2,920	21,917	3,766	2,808	759	—	2,592	188,743
Deferred acquisition costs	1,357	519	211	19	117	275	5	—	—	—	2,503
Other assets	16,756	5,074	11,421	201	2,561	1,053	335	436	—	3,655	41,492
Assets of operations classified as held for sale	3,490	—	—	—	2,762	—	126	28	36,187	10	42,603
Total assets	143,115	10,969	74,176	3,171	28,472	5,297	3,615	2,408	36,187	7,057	314,467
Insurance liabilities											
Long-term business and outstanding claims provisions	71,282	5,846	14,194	2,517	9,733	2,494	2,285	—	—	51	108,402
Unearned premiums	238	2,274	369	41	335	1,127	55	—	—	2	4,441
Other insurance liabilities	—	86	61	—	1	98	—	—	—	2	248
Liability for investment contracts	49,719	—	46,952	47	11,893	—	—	1,883	—	—	110,494
Unallocated divisible surplus	2,055	—	4,591	86	38	—	161	—	—	—	6,931
Net asset value attributable to unitholders	320	—	3,351	—	278	—	—	—	—	6,034	9,983
External borrowings	2,934	—	—	—	101	—	—	—	—	5,144	8,179
Other liabilities, including inter-segment liabilities	7,439	(4,696)	2,563	99	936	467	236	255	—	5,719	13,018
Liabilities of operations classified as held for sale	3,257	—	—	—	2,304	—	—	13	35,835	2	41,411
Total liabilities	137,244	3,510	72,081	2,790	25,619	4,186	2,737	2,151	35,835	16,954	303,107
Total equity											11,360
Total equity and liabilities											314,467

1 The statement of financial position has been restated following the adoption of IFRS 10 'Consolidated Financial Statements'- see note 1 for details. There is no impact on the result for the year ended 31 December 2012 as a result of this restatement.

(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 and 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, provides investment management services for institutional pension fund mandates and 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 and Delta Lloyd

In the products and services analysis, the results of US Life (including the related internal asset management business) for all periods are presented as discontinued operations up to the date of disposal in October 2013. The Group's share of the results of its interest in Delta Lloyd are shown as an associate until 5 July 2012 and, from 6 July 2012 until disposed in January 2013, as a financial investment, and are shown only within other activities within continuing operations.

5 – Segmental information continued

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

	Life 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	600	80	348	251	1,279
	12,369	8,934	348	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
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	125	(10)	—	—	115
Segmental income	24,795	9,276	494	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	(163)	(11)	(60)	(375)	(609)
Segmental expenses	(22,723)	(8,793)	(463)	(1,338)	(33,317)
Profit before tax from continuing operations	2,072	483	31	(1,114)	1,472
Tax attributable to policyholder returns	(191)	—	—	—	(191)
Profit before tax attributable to shareholders' profits	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) (ii) Segmental income statement – products and services for the year ended 31 December 2012 – (Restated)[3]

	Life business £m	General insurance and health[2] £m	Fund management £m	Other £m	Total £m
Gross written premiums[1]	13,209	9,535	—	—	22,744
Premiums ceded to reinsurers	(930)	(641)	—	—	(1,571)
Premiums written net of reinsurance	12,279	8,894	—	—	21,173
Net change in provision for unearned premiums	—	(16)	—	—	(16)
Net earned premiums	12,279	8,878	—	—	21,157
Fee and commission income	632	65	331	245	1,273
	12,911	8,943	331	245	22,430
Net investment income	20,236	823	6	70	21,135
Inter-segment revenue	—	—	127	—	127
Share of (loss)/profit of joint ventures and associates	(5)	1	3	(254)	(255)
Loss on the disposal and remeasurement of subsidiaries, joint ventures and associates	(6)	(21)	—	(137)	(164)
Segmental income	33,136	9,746	467	(76)	43,273
Claims and benefits paid, net of recoveries from reinsurers	(17,839)	(5,762)	—	—	(23,601)
Change in insurance liabilities, net of reinsurance	(359)	(71)	—	—	(430)
Change in investment contract provisions	(4,450)	—	—	—	(4,450)
Change in unallocated divisible surplus	(6,316)	—	—	—	(6,316)
Fee and commission expense	(1,522)	(2,523)	(32)	(380)	(4,457)
Other expenses	(1,251)	(715)	(368)	(509)	(2,843)
Inter-segment expenses	(116)	(11)	—	—	(127)
Finance costs	(198)	(28)	(56)	(371)	(653)
Segmental expenses	(32,051)	(9,110)	(456)	(1,260)	(42,877)
Profit/(loss) before tax from continuing operations	1,085	636	11	(1,336)	396
Tax attributable to policyholder returns	(221)	—	—	—	(221)
Profit/(loss) before tax attributable to shareholders' profits	864	636	11	(1,336)	175
Adjusted for:					
Non-operating items from continuing operations (excluding Delta Lloyd as an associate)	967	258	40	182	1,447
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	523	523
Share of Delta Lloyd's tax expense, as an associate	—	—	—	(107)	(107)
Operating profit/(loss) before tax attributable to shareholders' profits from continuing operations	1,831	894	51	(738)	2,038
Operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations[4]	200	—	55	(16)	239
Operating profit/(loss) before tax attributable to shareholders' profits	2,031	894	106	(754)	2,277

1 Gross written premiums include inward reinsurance premiums assumed from other companies amounting to £370 million, of which £130 million relates to property and liability insurance and £240 million relates to long-term business.
2 General insurance and health business segment includes gross written premiums of £1,164 million relating to health business. The remaining business relates to property and liability insurance.
3 Restated for the adoption of revised IAS19 and IFRS10. See note 1 for further details.
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

(b) (iii) Segmental statement of financial position as at 31 December 2013

	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	**179,653**	**10,717**	**35**	**2,556**	**192,961**
Deferred acquisition costs	**1,525**	**862**	**10**	**—**	**2,397**
Other assets	**29,673**	**4,815**	**459**	**7,804**	**42,751**
Assets of operations classified as held for sale	**2,949**	**164**	**—**	**—**	**3,113**
Total assets	**248,851**	**18,348**	**580**	**11,097**	**278,876**
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	**9,323**	**(2,629)**	**346**	**6,289**	**13,329**
Liabilities of operations classified as held for sale	**2,881**	**142**	**—**	**—**	**3,023**
Total liabilities	**237,449**	**11,915**	**346**	**18,149**	**267,859**
Total equity					**11,017**
Total equity and liabilities					**278,876**

(b) (iv) Segmental statement of financial position as at 31 December 2012 – (Restated)[1]

	Long-term business £m	General insurance and health £m	Fund management £m	Other £m	Total £m
Goodwill	361	1,060	27	72	1,520
Acquired value of in-force business and intangible assets	799	146	56	83	1,084
Interests in, and loans to, joint ventures and associates	1,646	5	4	—	1,655
Property and equipment	253	94	5	39	391
Investment property	9,080	139	—	720	9,939
Loans	24,085	433	—	19	24,537
Financial investments	175,889	9,266	39	3,549	188,743
Deferred acquisition costs	1,550	939	14	—	2,503
Other assets	29,185	7,237	453	4,617	41,492
Assets of operations classified as held for sale	42,564	11	28	—	42,603
Total assets	285,412	19,330	626	9,099	314,467
Gross insurance liabilities	98,086	15,005	—	—	113,091
Gross liabilities for investment contracts	110,494	—	—	—	110,494
Unallocated divisible surplus	6,931	—	—	—	6,931
Net asset value attributable to unitholders	3,949	—	—	6,034	9,983
External borrowings	3,019	—	—	5,160	8,179
Other liabilities, including inter-segment liabilities	8,734	(2,661)	334	6,611	13,018
Liabilities of operations classified as held for sale	41,237	2	13	159	41,411
Total liabilities	272,450	12,346	347	17,964	303,107
Total equity					11,360
Total equity and liabilities					314,467

1 The statement of financial position has been restated following the adoption of IFRS 10 'Consolidated Financial Statements'- see note 1 for details. There is no impact on the result for the year ended 31 December 2012 as a result of this restatement.

6 – Details of income

This note gives further detail on the items appearing in the income section of the consolidated income statement.

Continuing operations	2013 £m	Restated[1] 2012 £m
Gross written premiums (notes 5a and 5b)		
Long-term:		
Insurance contracts	**8,749**	9,683
Participating investment contracts	**3,925**	3,526
General insurance and health	**9,361**	9,535
	22,035	22,744
Less: premiums ceded to reinsurers (notes 5a and 5b)	**(1,546)**	(1,571)
Gross change in provision for unearned premiums (note 41e)	**136**	(21)
Reinsurers' share of change in provision for unearned premiums (note 44ciii)	**(2)**	5
Net change in provision for unearned premiums	**134**	(16)
Net earned premiums	**20,623**	21,157
Fee and commission income		
Fee income from investment contract business	**465**	461
Fund management fee income	**347**	330
Other fee income	**294**	304
Reinsurance commissions receivable	**90**	92
Other commission income	**45**	41
Net change in deferred revenue	**38**	45
	1,279	1,273
Total revenue	**21,902**	22,430
Net investment income		
Interest and similar income		
From financial instruments designated as trading and other than trading	**5,488**	5,735
From AFS investments and financial instruments at amortised cost	**75**	83
	5,563	5,818
Dividend income	**1,527**	1,652
Other income from investments designated as trading		
Realised losses on disposals	**(202)**	(667)
Unrealised gains and losses (policy K)		
Losses arising in the year	**(67)**	(686)
Losses recognised in prior periods and now realised	**202**	667
	135	(19)
	(67)	(686)
Other income from investments designated as other than trading		
Realised gains on disposals	**3,250**	1,844
Unrealised gains and losses (policy K)		
Gains arising in the year	**4,639**	14,244
Gains recognised in prior periods and now realised	**(3,250)**	(1,844)
	1,389	12,400
	4,639	14,244
Realised gains and losses on AFS investments		
Gains recognised in prior periods as unrealised in equity	**(1)**	(1)
Net income from investment properties		
Rent	**647**	551
Expenses relating to these properties	**(42)**	(47)
Realised (losses)/gains on disposal	**(2)**	7
Fair value gains/(losses) on investment properties (note 22)	**184**	(475)
	787	36
Realised losses on loans	**—**	(9)
Foreign exchange gains and losses on investments other than trading	**109**	132
Other investment expenses	**(48)**	(51)
Net investment income	**12,509**	21,135
Share of profit/(loss) after tax of joint ventures (note 19)	**140**	(15)
Share of loss after tax of associates (note 20)	**(20)**	(240)
Share of profits/(losses) after tax of joint ventures and associates	**120**	(255)
Profit/(loss) on disposal and remeasurement of subsidiaries, joint ventures and associates (note 4b)	**115**	(164)
Income from continuing operations	**34,646**	43,146
Income from discontinued operations	**4,665**	3,494
Total income	**39,311**	46,640

1 Restated for the adoption of revised IAS19 and IFRS10. See note 1 for further details.

7 – Details of expenses

This note gives further detail on the items appearing in the expenses section of the consolidated income statement.

Continuing operations	2013 £m	Restated[1] 2012 £m
Claims and benefits paid		
Claims and benefits paid to policyholders on long-term business		
Insurance contracts	**11,899**	12,382
Participating investment contracts	**5,089**	6,500
Non-participating investment contracts	**61**	33
Claims and benefits paid to policyholders on general insurance and health business	**6,082**	6,050
	23,131	24,965
Less: Claim recoveries from reinsurers		
Insurance contracts	**(975)**	(1,197)
Participating investment contracts	**(63)**	(167)
Claims and benefits paid, net of recoveries from reinsurers	**22,093**	23,601
Change in insurance liabilities		
Change in insurance liabilities (note 41)	**(2,396)**	688
Change in reinsurance asset for insurance provisions (note 41)	**(97)**	(258)
Change in insurance liabilities, net of reinsurance	**(2,493)**	430
Change in investment contract provisions		
Investment income allocated to investment contracts	**4,406**	3,178
Other changes in provisions		
Participating investment contracts (note 42)	**2,244**	759
Non-participating investment contracts	**409**	525
Change in reinsurance asset for investment contract provisions	**(9)**	(12)
Change in investment contract provisions	**7,050**	4,450
Change in unallocated divisible surplus (note 46)	**(280)**	6,316
Fee and commission expense		
Acquisition costs		
Commission expenses for insurance and participating investment contracts	**2,264**	2,393
Change in deferred acquisition costs for insurance and participating investment contracts	**184**	131
Deferrable costs for non-participating investment contracts	**82**	126
Other acquisition costs	**872**	970
Change in deferred acquisition costs for non-participating investment contracts	**(93)**	85
Investment income attributable to unitholders	**347**	441
Reinsurance commissions and other fee and commission expense	**319**	311
	3,975	4,457
Other expenses		
Other operating expenses		
Staff costs (note 11b)	**841**	1,122
Central costs and sharesave schemes	**150**	136
Depreciation	**31**	42
Impairment of goodwill on subsidiaries (note 17)	**48**	109
Amortisation of acquired value of in-force business on insurance contracts	**37**	43
Amortisation of intangible assets	**81**	96
Impairment of acquired value of in-force business	**—**	73
Impairment of intangible assets	**14**	49
Integration and restructuring costs (see below)	**363**	461
Other expenses	**701**	662
	2,266	2,793
Impairments		
Net impairment on loans	**30**	43
Net impairment on financial investments	**2**	—
Net impairment on receivables and other financial assets	**—**	3
	32	46
Other net foreign exchange (gains)/losses	**(78)**	4
Finance costs (note 8)	**609**	653
Expenses from continuing operations	**33,174**	42,750
Expenses from discontinued operations	**3,127**	6,190
Total expenses	**36,301**	48,940

1 Restated for the adoption of revised IAS19 and IFRS10. See note 1 for further details.

Integration and restructuring costs

Integration and restructuring costs from continuing operations were £363 million *(2012: £461 million)* and mainly include expenses associated with the Group's transformation programme. Compared with the prior year, integration and restructuring costs reduced by 21% as the level of transformation activity in UK and Ireland general insurance in 2012 was not repeated and Solvency II implementation costs reduced to £79 million *(2012: £117 million)*.

8 – Finance costs

This note analyses the interest costs on our borrowings (which are described in note 50) and similar charges.

Continuing operations	2013 £m	Restated[1] 2012 £m
Interest expense on core structural borrowings		
Subordinated debt	**305**	294
Long term senior debt	**21**	19
Commercial paper	**2**	4
	328	317
Interest expense on operational borrowings		
Amounts owed to financial institutions	**70**	94
Securitised mortgage loan notes at fair value	**89**	90
	159	184
Interest on collateral received	**20**	27
Net finance charge on pension schemes	**20**	19
Unwind of discount on GI reserves	**5**	21
Other similar charges	**77**	85
Total finance costs from continuing operations	**609**	653
Total finance costs from discontinued operations	**16**	21
Total finance costs	**625**	674

1 Restated for the adoption of revised IAS19 and IFRS10. See note 1 for further details.

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	2013 £m	2012 £m
Investment variances and economic assumptions – continuing operations	**(49)**	(620)
Investment variances and economic assumptions – discontinued operations	**452**	342
Investment variances and economic assumptions	**403**	(278)

For continuing operations, investment variances were £49 million negative *(2012: £620 million negative)*. Negative variances in the UK resulting from increasing the allowance for credit defaults on commercial mortgages were partially offset by the positive effect of narrowing spreads on government and corporate bonds in Italy and Spain together with reduction in cost of guarantees in France. In 2012, for continuing operations, negative investment variances of £620 million mainly related to the UK. The total for the UK included increasing the allowance for credit risk defaults on UK commercial mortgages together with some adverse experience on the portfolio and the cost of de-risking activities. Positive variances in Spain and France were offset by a negative variance in Italy.

The positive variance of £452 million (*2012: £342 million*) for discontinued operations relates to the US business disposed of in 2013, driven by the impact of favourable equity market performance on embedded derivatives.

(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	
	2013 %	2012 %	**2013 %**	2012 %
United Kingdom	**5.4**	5.8	**3.9**	4.3
Eurozone	**5.1**	5.9	**3.6**	4.4

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 (AFS), 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	**2013 £m**	2012 £m
Short-term fluctuations in investment return (see (b) below) – continuing operations	**(336)**	7
Economic assumption changes – continuing operations (see (g) below)	**33**	(21)
	(303)	(14)
Short-term fluctuation in investment return – discontinued operations	**—**	—
	(303)	(14)

(b) The longer-term investment return and short-term fluctuation for continuing operations are as follows:

Non-long-term business – Continuing operations	**2013 £m**	2012 £m
Analysis of investment income:		
Net investment income	**266**	827
Foreign exchange on unrealised gains/losses and other charges	**(35)**	(97)
	231	730
Analysed between:		
Longer-term investment return, reported within operating profit	**567**	723
Short-term fluctuation in investment return, reported outside operating profit		
General insurance and health	**(243)**	18
Other operations[1]	**(93)**	(11)
	(336)	7
	231	730

1 For 2013 represents short term fluctuations on assets backing non-life business in the France holding company and Group centre investments, including the centre hedging programme. For 2012 represents short term fluctuations on assets backing non-life business in the France holding company.

(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.

10 – Longer-term investment return and economic assumption changes for non-long-term business continued

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 the France holding company and Group centre investments, including the centre hedging programme.

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 adverse movement in short term fluctuations during 2013 compared with 2012 is mainly due to an increase in risk free rates reducing 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:

	2013 £m	2012 £m
Debt securities	**10,105**	9,297
Equity securities	**339**	774
Properties	**140**	139
Cash and cash equivalents	**1,969**	2,535
Other	**5,410**	5,997
Assets supporting general insurance and health business	**17,963**	18,742
Assets supporting other non-long-term business[1]	**695**	206
Total assets supporting non-long-term business	**18,658**	18,948

1 For 2013 represents assets backing non-life business in the France holding company and Group centre investments, including the centre hedging programme. For 2012 represents assets in France holding company backing non-long-term business.

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**	
	2013 %	2012 %	**2013 %**	2012 %
United Kingdom	**5.4**	5.8	**3.9**	4.3
Eurozone	**5.1**	5.9	**3.6**	4.4
Canada	**5.8**	5.8	**4.3**	4.3

To calculate the longer-term investment return for its non-long-term business in 2012 and 2013, 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	**2009-2013 £m**	2008-2012 £m
Actual return attributable to shareholders	**2,902**	3,095
Longer-term return credited to operating results	**(3,578)**	(3,902)
Excess of longer-term returns over actual returns	**(676)**	(807)

(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**	**2013 £m**	2012 £m
Equities	1% higher/lower	Group operating profit before tax	**8**	6
Properties	1% higher/lower	Group operating profit before tax	**1**	2

(g) The economic assumption changes mainly arise from movements in the rate used to discount latent claims.

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 41c.

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	
Continuing operations	**2013 Number**	2012 Number	**2013 Number**	2012 Number
United Kingdom & Ireland	**14,886**	17,580	**16,751**	18,695
France	**4,134**	4,272	**4,177**	4,261
Poland	**1,260**	1,162	**1,230**	1,207
Italy, Spain and Other	**1,239**	1,624	**1,392**	1,817
Canada	**3,582**	3,758	**3,685**	3,729
Asia	**1,081**	1,118	**1,128**	1,913
Aviva Investors	**923**	1,056	**979**	1,134
Other Group Activities	**613**	641	**628**	833
Employees in continuing operations	**27,718**	31,211	**29,970**	33,589
Employees in discontinued operations	**—**	1,911	**1,552**	1,941
Total employee numbers	**27,718**	33,122	**31,522**	35,530

(b) Staff costs

Continuing operations	**2013 £m**	Restated[2] 2012 £m
Wages and salaries	**1,230**	1,421
Social security costs	**200**	214
Post-retirement obligations		
Defined benefit schemes (note 49d)[1]	**(128)**	19
Defined contribution schemes (note 49d)	**107**	102
Profit sharing and incentive plans	**117**	112
Equity compensation plans (note 32d)	**39**	47
Termination benefits	**106**	51
Staff costs from continuing operations	**1,671**	1,966
Staff costs from discontinued operations	**109**	145
Total staff costs	**1,780**	2,111

1 Credit for the defined benefit schemes arises from the £145 million gain from the plan amendments to the Irish scheme as described in note 49a.
2 Following a review of the staff costs disclosure we have identified additional costs within our expense base that should have been included in this analysis for 2012. We have also identified some costs that required reclassification within this note in respect of 2012. The net impact on total 2012 staff costs disclosed in this note has been an increase of £116 million.

Staff costs are charged within:

Continuing operations	**2013 £m**	Restated[1] 2012 £m
Acquisition costs	**474**	561
Claims handling expenses	**156**	158
Central costs and sharesave schemes	**85**	78
Other operating expenses	**841**	1,122
Integration and restructuring costs	**115**	47
Staff costs from continuing operations	**1,671**	1,966
Staff costs from discontinued operations	**109**	145
Total staff costs	**1,780**	2,111

1 Following a review of the staff costs disclosure we have identified additional costs within our expense base that should have been included in this analysis for 2012. We have also identified some costs that required reclassification within this note in respect of 2012. The net impact on total 2012 staff costs disclosed in this note has been an increase of £116 million.

12 – Directors

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' Remuneration 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 2013 was £5.9 million *(2012: £6.3 million)*. Employer contributions to pensions for executive directors for qualifying periods were £86,923 *(2012: £179,200)*. The aggregate net value of share awards granted to the directors in the period was £4.5 million *(2012: £8.9 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, no share options were exercised by directors *(2012: 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	2013 £m	2012 £m
Fees payable to PwC LLP and its associates for the statutory audit of the Aviva Group and Company financial statements	**2.4**	2.2
Fees payable to PwC LLP and its associates for other services		
Audit of Group subsidiaries	**10.1**	9.6
Additional fees related to the prior year audit of group subsidiaries	**0.7**	—
Total audit fees	**13.2**	11.8
Audit related assurance	**2.2**	2.3
Other assurance services	**6.1**	7.2
Total audit and assurance fees	**21.5**	21.3
Tax compliance services	**0.1**	0.4
Tax advisory services	**0.1**	0.1
Services relating to corporate finance transactions	**0.1**	0.3
Other non audit services not covered above	**1.1**	7.7
Fees payable to PwC LLP and its associates for services to Group companies classified as continuing operations	**22.9**	29.8
Discontinued operations		
Fees payable to PwC LLP and its associates for audit of Group subsidiaries	**1.2**	1.7
Fees payable to PwC LLP and its associates for other non-audit services to Group subsidiaries	**0.1**	0.3
Total fees payable to PwC LLP and its associates for services to Group companies	**24.2**	31.8

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 2013 the Group paid PwC £0.2 million *(2012: £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.

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 2013 includes fees relating to the audit of the Group's MCEV reporting of £1.1 million, £2.4 million for examination of the Group Individual Capital Assessment and Economic Capital, and £1.5 million associated with assurance services to prepare the businesses for Solvency II implementation.

The 2013 fees for other non audit services for continuing operations of £1.1 million includes £0.2 million relating to a regulatory advice engagement and £0.9 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/(credited) to the income statement

(i) The total tax charge comprises:

	2013 £m	Restated[1] 2012 £m
Current tax		
For this year	**517**	531
Prior year adjustments	**13**	(47)
Total current tax from continuing operations	**530**	484
Deferred tax		
Origination and reversal of temporary differences	**63**	(33)
Changes in tax rates or tax laws	**(13)**	(12)
Write-down of deferred tax assets	**14**	43
Total deferred tax from continuing operations	**64**	(2)
Total tax charged to income statement from continuing operations	**594**	482
Total tax charged to income statement from discontinued operations	**265**	152
Total tax charged to income statement	**859**	634

1 Restated for the adoption of revised IAS19. See note 1 for further details.

(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 policyholders' returns included in the charge above is £191 million *(2012: £221 million)*.

14 – Tax continued

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

	2013 £m	Restated[1] 2012 £m
UK tax	**76**	(1)
Overseas tax	**783**	635
	859	634

1 Restated for the adoption of revised IAS19. See note 1 for further details.

(iv) Unrecognised tax losses and temporary differences of previous years were used to reduce the current tax expense and deferred tax expense by £3 million and £57 million *(2012: £7 million and £11 million),* respectively.

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

	2013 £m	Restated[1] 2012 £m
Long-term business technical provisions and other insurance items	**(24)**	(1,868)
Deferred acquisition costs	**(90)**	254
Unrealised gains on investments	**145**	2,312
Pensions and other post-retirement obligations	**6**	12
Unused losses and tax credits	**112**	(30)
Subsidiaries, associates and joint ventures	**(2)**	—
Intangibles and additional value of in-force long-term business	**(6)**	(12)
Provisions and other temporary differences	**(77)**	(670)
Deferred tax charged/(credited) to income statement from continuing operations	**64**	(2)
Deferred tax charged to income statement from discontinued operations	**187**	143
Total deferred tax charged to income statement	**251**	141

1 Restated for the adoption of revised IAS19. See note 1 for further details.

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

(i) The total tax credit comprises:

	2013 £m	Restated[1] 2012 £m
Current tax from continuing operations		
In respect of pensions and other post-retirement obligations	**(15)**	(28)
In respect of foreign exchange movements	**6**	(17)
	(9)	(45)
Deferred tax from continuing operations		
In respect of pensions and other post-retirement obligations	**(110)**	(160)
In respect of fair value gains on owner-occupied properties	**—**	(1)
In respect of unrealised gains on investments	**8**	9
	(102)	(152)
Tax credited to other comprehensive income arising from continuing operations	**(111)**	(197)
Tax (credited)/charged to other comprehensive income arising from discontinued operations	**(169)**	107
Total tax credited to other comprehensive income	**(280)**	(90)

1 Restated for the adoption of revised IAS19. See note 1 for further details.

(ii) The tax charge attributable to policyholders' returns included above is £nil *(2012: £nil).*

14 – Tax continued

(c) Tax credited to equity

Tax credited directly to equity in the year amounted to £52 million *(2012: £18 million)*. This comprises £22 million in respect of coupon payments on the direct capital instruments and fixed rate tier 1 notes and £30 million in respect of 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/(loss) 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**	**2013 Total £m**	Shareholder £m	Policyholder £m	Restated[1] 2012 Total £m
Total profit/(loss) before tax	**2,819**	**191**	**3,010**	(2,521)	221	(2,300)
Tax calculated at standard UK corporation tax rate of 23.25% *(2012: 24.5%)*	**656**	**44**	**700**	(618)	54	(564)
Reconciling items						
Different basis of tax – policyholders	**—**	**147**	**147**	—	170	170
Adjustment to tax charge in respect of prior years	**(18)**	**—**	**(18)**	(20)	—	(20)
Non-assessable income and items not taxed at the full statutory rate	**(54)**	**—**	**(54)**	(86)	—	(86)
Non-taxable (profit)/loss on sale of subsidiaries and associates	**(154)**	**—**	**(154)**	872	—	872
Disallowable expenses	**98**	**—**	**98**	418	—	418
Different local basis of tax on overseas profits	**184**	**—**	**184**	(142)	(3)	(145)
Change in future local statutory tax rates	**(9)**	**—**	**(9)**	(13)	—	(13)
Movement in deferred tax not recognised	**(21)**	**—**	**(21)**	(69)	—	(69)
Tax effect of (profit)/loss from associates and joint ventures	**(10)**	**—**	**(10)**	75	—	75
Other	**(4)**	**—**	**(4)**	(4)	—	(4)
Total tax charged to income statement	**668**	**191**	**859**	413	221	634

1 Restated for the adoption of revised IAS19. See note 1 for further details.

The tax charge attributable to policyholders' returns is removed from the Group's total profit/(loss) before tax in arriving at the Group's profit/(loss) 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:

	2013 £m	2012 £m
Tax attributable to policyholder returns	**191**	221
UK corporation tax at a rate of 23.25% *(2012: 24.5%)* in respect of the policyholder tax deduction	**(44)**	(54)
Different local basis of tax of overseas profits	**—**	3
Different basis of tax – policyholders per tax reconciliation	**147**	170

The UK corporation tax rate reduced to 23% from 1 April 2013. Legislation was substantively enacted in July 2013 to reduce the main rate of UK corporation tax to 21% from 1 April 2014, with a further reduction to 20% 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 2013.

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/(loss) attributable to ordinary shareholders is:

	2013			Restated[1] 2012		
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	**2,049**	**(768)**	**1,281**	2,038	(1,970)	68
Share of Delta Lloyd's tax expense as an associate	**—**	**—**	**—**	(28)	135	107
Profit/(loss) before tax	**2,049**	**(768)**	**1,281**	2,010	(1,835)	175
Tax attributable to shareholders' profit/(loss)	**(534)**	**131**	**(403)**	(499)	238	(261)
Profit/(loss) for the year	**1,515**	**(637)**	**878**	1,511	(1,597)	(86)
Amount attributable to non-controlling interests	**(174)**	**31**	**(143)**	(184)	16	(168)
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)	**(70)**	**—**	**(70)**	(55)	—	(55)
Profit/(loss) attributable to ordinary shareholders from continuing operations	**1,254**	**(606)**	**648**	1,255	(1,581)	(326)
Profit/(loss) attributable to ordinary shareholders from discontinued operations	**207**	**1,066**	**1,273**	161	(3,009)	(2,848)
Profit/(loss) attributable to ordinary shareholders	**1,461**	**460**	**1,921**	1,416	(4,590)	(3,174)

1 Restated for the adoption of revised IAS19. See note 1 for further details.

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

	2013			Restated[2] 2012		
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	**2,049**	**1,254**	**42.6**	2,038	1,255	43.1
Non-operating items:						
Investment return variances and economic assumption changes on life business	**(49)**	**(142)**	**(4.8)**	(620)	(499)	(17.1)
Short-term fluctuation in return on investments backing non life business	**(336)**	**(254)**	**(8.6)**	7	9	0.3
Economic assumption changes on general insurance and health business	**33**	**27**	**0.9**	(21)	(16)	(0.6)
Impairment of goodwill, associates and joint ventures	**(77)**	**(77)**	**(2.6)**	(60)	(60)	(2.1)
Amortisation and impairment of intangibles	**(91)**	**(65)**	**(2.2)**	(128)	(84)	(2.9)
Profit/(loss) on disposal and remeasurement of subsidiaries, joint ventures and associates	**115**	**220**	**7.4**	(164)	(164)	(5.6)
Integration and restructuring costs and exceptional items	**(363)**	**(315)**	**(10.7)**	(461)	(379)	(13.0)
Share of Delta Lloyd's non-operating items (before tax) as an associate	**—**	**—**	**—**	(523)	(388)	(13.3)
Share of Delta Lloyd's tax expense, as an associate	**—**	**—**	**—**	107	—	—
Profit/(loss) attributable to ordinary shareholders from continuing operations	**1,281**	**648**	**22.0**	175	(326)	(11.2)
Profit/(loss) attributable to ordinary shareholders from discontinued operations	**1,538**	**1,273**	**43.3**	(2,696)	(2,848)	(97.9)
Profit/(loss) attributable to ordinary shareholders	**2,819**	**1,921**	**65.3**	(2,521)	(3,174)	(109.1)

1 DCI includes direct capital instruments and fixed rate tier 1 notes.
2 Restated for the adoption of revised IAS19. See note 1 for further details.

(iii) The calculation of basic earnings per share uses a weighted average of 2,940 million *(2012: 2,910 million)* ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 31 December 2013 was 2,947 million *(2012: 2,946 million)* and 2,938 million *(2012: 2,936 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:

	2013			Restated[2] 2012		
	Total £m	**Weighted average number of shares million**	**Per share p**	Total £m	Weighted average number of shares million	Per share p
Profit/(loss) attributable to ordinary shareholders	**648**	**2,940**	**22.0**	(326)	2,910	(11.2)
Dilutive effect of share awards and options	**—**	**39**	**(0.2)**	—	44	—
Diluted earnings/(loss) per share from continuing operations[1]	**648**	**2,979**	**21.8**	(326)	2,954	(11.2)
Profit/(loss) attributable to ordinary shareholders	**1,273**	**2,940**	**43.3**	(2,848)	2,910	(97.9)
Dilutive effect of share awards and options	**—**	**39**	**(0.6)**	—	44	—
Diluted earnings/(loss) per share from discontinued operations[1]	**1,273**	**2,979**	**42.7**	(2,848)	2,954	(97.9)
Diluted earnings/(loss) per share	**1,921**	**2,979**	**64.5**	(3,174)	2,954	(109.1)

1 Losses have an anti-dilutive effect. Therefore the basic and diluted earnings for 2012 have remained the same.
2 Restated for the adoption of revised IAS19. See note 1 for further details.

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

	2013			Restated[1] 2012		
	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	**1,254**	**2,940**	**42.6**	1,255	2,910	43.1
Dilutive effect of share awards and options	**—**	**39**	**(0.5)**	—	44	(0.6)
Diluted operating profit per share from continuing operations	**1,254**	**2,979**	**42.1**	1,255	2,954	42.5
Operating profit attributable to ordinary shareholders	**207**	**2,940**	**7.0**	161	2,910	5.5
Dilutive effect of share awards and options	**—**	**39**	**(0.1)**	—	44	(0.1)
Diluted operating profit per share from discontinued operations	**207**	**2,979**	**6.9**	161	2,954	5.4
Diluted operating profit per share	**1,461**	**2,979**	**49.0**	1,416	2,954	47.9

1 Restated for the adoption of revised IAS19. See note 1 for further details.

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 after the year end because it is not accrued in these financial statements. The impact of shares issued in lieu of dividends is shown separately in note 38.

	2013 £m	2012 £m
Ordinary dividends declared and charged to equity in the year		
Final 2012 – 9.00 pence per share, paid on 17 May 2013	**264**	—
Final 2011 – 16.00 pence per share, paid on 17 May 2012	**—**	465
Interim 2013 – 5.6 pence, paid on 15 November 2013	**165**	—
Interim 2012 – 10.00 pence per share, paid on 16 November 2012	**—**	292
	429	757
Preference dividends declared and charged to equity in the year	**17**	17
Coupon payments on direct capital instruments and fixed rate tier 1 notes	**92**	73
	538	847

Subsequent to 31 December 2013, the directors proposed a final dividend for 2013 of 9.4 pence per ordinary share *(2012: 9.0 pence)*, amounting to £277 million *(2012: £264 million)* in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 16 May 2014 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2014.

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 23.25% *(2012: 24.5%)*.

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

	2013 £m	2012 £m
Gross amount		
At 1 January	**2,774**	2,850
Acquisitions and additions	**6**	1
Disposals[1]	**(1,034)**	(13)
Foreign exchange rate movements	**24**	(64)
At 31 December	**1,770**	2,774
Accumulated impairment		
At 1 January	**(1,071)**	(210)
Impairment losses charged to expenses	**(48)**	(891)
Disposals[1]	**842**	10
Foreign exchange rate movements	**(13)**	20
At 31 December	**(290)**	(1,071)
Carrying amount at 1 January	**1,703**	2,640
Carrying amount at 31 December	**1,480**	1,703
Less: Assets classified as held for sale	**(4)**	(183)
Carrying amount at 31 December	**1,476**	1,520

1 Disposals include the disposal of the US business in 2013. Goodwill relating to US Life was fully impaired in 2012. Following the completion of the disposal, the gross amounts are removed from the above table in 2013 with no impact on the statement of financial position.

Goodwill on acquisitions and additions arose on the acquisition of a small general insurance business in Canada and a small wealth management business in Singapore.

Goodwill impairment charges of £48 million have been recognised in income statement (see (b) below). Together with impairment charges of £29 million recognised in respect of goodwill within interests in associates (note 20), the total charge for impairment of goodwill, joint ventures and associates for the year was £77 million.

Goodwill disposed of during the year relates to the Group's US Life business, Aseval, a Spanish long-term business, and the Russian long-term business (see note 4(b)). Goodwill classified as held for sale of £4 million relates to the Group's Indonesian business (see note 4(c)).

(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	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
United Kingdom – general insurance and health	**924**	924	**—**	—	**924**	924
Ireland – general insurance and health	**115**	112	**—**	—	**115**	112
France – long-term business	**—**	—	**52**	51	**52**	51
Poland – long-term business	**9**	9	**—**	—	**9**	9
Italy						
Long-term business	**15**	35	**—**	—	**15**	35
General insurance and health	**30**	37	**—**	—	**30**	37
Spain – long-term business	**259**	450	**—**	—	**259**	450
Other Europe	**—**	3	**—**	—	**—**	3
Aviva Investors	**27**	27	**—**	—	**27**	27
Canada	**49**	50	**—**	—	**49**	50
Asia	**52**	56	**—**	—	**52**	56
	1,480	1,703	**52**	51	**1,532**	1,754

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.

17 – Goodwill continued

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.

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.

The recoverable amounts of businesses classified as held for sale was assessed based on the fair value less costs of disposal of the business, based on the expected net disposal proceeds of the businesses.

Key Assumptions

	Embedded value basis		Future new business profits growth rate		Future new business profits discount rate	
	2013	2012	**2013 %**	2012 %	**2013 %**	2012 %
Italy long-term business	**MCEV**	MCEV	**2.0**	2.0	**10.5**	10.6
Spain long-term business	**MCEV**	MCEV	**1.5**	0.0	**10.0**	7.9

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	
	2013 %	2012 %	**2013 %**	2012 %
United Kingdom general insurance and health	**1.3**	1.3	**7.7**	8.0
Ireland general insurance and health	**1.3**	2.0	**8.4**	10.6
Italy general insurance and health	**2.0**	2.0 – 3.0	**8.7 – 10.2**	9.0 – 11.4
Aviva Investors	**3.0**	3.0	**17.0**	17.0

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 goodwill associated with the Spanish long-term cash generating unit was reviewed in the first half of the year due to the continued volatility in the Spanish economy, in accordance with accounting policy O. As a result, management concluded that the goodwill was no longer fully recoverable. An impairment of £18 million was recognised in the first half of the year reducing the carrying value of this cash generating unit to its recoverable amount reflecting a reduction to management's estimates due to prevailing economic circumstances. Subsequently, management reviewed the goodwill at 31 December 2013 and concluded that no further impairment was required as the recoverable amount exceeded the carrying amount.

Similarly, as a result testing of the Italian long-term and general insurance cash generating unit, impairments of £21 million and £9 million respectively have been recognised.

Other than the CGUs noted above, 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 and amortisation of the in-force business and intangible assets acquired when the Group has purchased subsidiaries.

	AVIF on insurance contracts[1,3] £m	AVIF on investment contracts[2,3] £m	Other intangible assets with finite useful lives[3] £m	Intangible assets with indefinite useful lives (a) £m	Total £m
Gross amount					
At 1 January 2012	2,464	299	1,765	117	4,645
Additions	—	—	143	—	143
Acquisition of subsidiaries	—	—	2	—	2
Disposals	(160)	(5)	(134)	—	(299)
Movement in shadow adjustment	45	—	—	—	45
Transfers from property and equipment	—	—	3	—	3
Foreign exchange rate movements	(88)	(6)	(42)	(3)	(139)
At 31 December 2012	2,261	288	1,737	114	4,400
Additions	—	—	110	—	110
Disposals[3]	(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**
Accumulated amortisation					
At 1 January 2012	(1,535)	(155)	(650)	—	(2,340)
Amortisation for the year	(226)	(20)	(107)	—	(353)
Disposals	154	5	59	—	218
Foreign exchange rate movements	60	5	16	—	81
At 31 December 2012	(1,547)	(165)	(682)	—	(2,394)
Amortisation for the year	(133)	(8)	(73)	—	(214)
Disposals[3]	1,308	102	314	—	1,724
Foreign exchange rate movements	(11)	(7)	8	—	(10)
At 31 December 2013	**(383)**	**(78)**	**(433)**	**—**	**(894)**
Accumulated Impairment					
At 1 January 2012	(114)	—	(105)	(65)	(284)
Impairment losses charged to expenses	(34)	(39)	(152)	—	(225)
Disposals	3	—	70	—	73
Foreign exchange rate movements	1	—	2	2	5
At 31 December 2012	(144)	(39)	(185)	(63)	(431)
Impairment losses charged to expenses	—	—	(24)	—	(24)
Disposals[3]	61	15	151	—	227
Foreign exchange rate movements	(2)	—	(3)	(3)	(8)
At 31 December 2013	**(85)**	**(24)**	**(61)**	**(66)**	**(236)**
Carrying amount					
At 1 January 2012	815	144	1,010	52	2,021
At 31 December 2012	570	84	870	51	1,575
At 31 December 2013	**94**	**38**	**884**	**52**	**1,068**
Less: Assets classified as held for sale	—	—	—	—	—
	94	**38**	**884**	**52**	**1,068**

1 On insurance and participating investment contracts.
2 On non-participating investment contracts.
3 Disposals include the disposal of the US business in 2013.

(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. Acquisitions of intangible assets with finite lives relate to Canadian broker businesses.

Disposals comprise the AVIF and intangible assets with finite useful lives of the US Life business and also include the derecognition of exhausted assets which are fully amortised or impaired with nil carrying value.

Impairment losses on intangible assets with finite lives of £24 million arise from impairments of capitalised software in the US long-term operations, Aviva Investors and Canada general insurance operations of £10 million, £11 million and £3 million respectively. 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 £132 million (£94 million on insurance contracts, £38 million on investment contracts), £93 million *(2012: £131 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:

	2013				Restated[2] 2012			
	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	**132**	**1,341**	**43**	**1,516**	147	1,465	100	1,712
Share of results before tax	**—**	**161**	**—**	**161**	—	4	—	4
Share of tax	**—**	**(16)**	**—**	**(16)**	—	(4)	—	(4)
Share of results after tax	**—**	**145**	**—**	**145**	—	—	—	—
Impairment of goodwill	**—**	**—**	**—**	**—**	(9)	—	—	(9)
Amortisation of intangibles[1]	**(5)**	**—**	**—**	**(5)**	(6)	—	—	(6)
Share of (loss)/profit after tax	**(5)**	**145**	**—**	**140**	(15)	—	—	(15)
Impact of the adoption of IFRS 10[2]	**—**	**—**	**—**	**—**	—	(77)	(49)	(126)
Additions	**—**	**149**	**6**	**155**	—	89	4	93
Reclassification to subsidiary	**—**	**—**	**—**	**—**	—	(107)	—	(107)
Reduction in Group interest	**—**	**(37)**	**—**	**(37)**	—	—	—	—
Disposals	**(54)**	**(378)**	**—**	**(432)**	—	(41)	—	(41)
Share of (losses)/gains taken to other comprehensive income	**—**	**(37)**	**—**	**(37)**	—	21	—	21
Loans repaid	**—**	**—**	**(21)**	**(21)**	—	—	(12)	(12)
Dividend received	**—**	**(37)**	**—**	**(37)**	—	(5)	—	(5)
Foreign exchange rate movements	**(13)**	**(1)**	**(4)**	**(18)**	—	(4)	—	(4)
At 31 December	**60**	**1,145**	**24**	**1,229**	132	1,341	43	1,516
Less: Amounts classified as held for sale	**—**	**(29)**	**—**	**(29)**	(54)	(72)	—	(126)
	60	**1,116**	**24**	**1,200**	78	1,269	43	1,390

1 Comprises amortisation of AVIF on insurance contracts of £3 million *(2012: £3 million)* and other intangibles of £2 million *(2012: £3 million)*.

2 Comprises the impact of the adoption of IFRS 10 on prior year comparatives and the resulting consolidation and deconsolidation of entities based on the revised definition and criteria of control outlined in accounting Policy (D). The impact of the adoption of IFRS 10 on the Group's share of results has been reflected in the appropriate lines in the table above. See note 1 for further details.

Additions relate to additional investments in property management undertakings. Disposals relate to property management undertakings and the sale of the Malaysian joint ventures. Further details of the Malaysian entities sold are provided in note 4.

The reduction in Group interest in the year relates primarily to the reclassification of two Polish joint ventures to associates and the write-down of the South Korean joint venture, Woori Aviva Life Insurance Co. Ltd, to fair value less costs to sell following its classification as held for sale. See note 4 for further details.

The Group's Taiwan joint venture, First-Aviva Life Insurance Co. Ltd, was classified as held for sale in 2010 following the decision of management to seek to dispose of the business. Management have reviewed the held for sale classification and determined that classification remains appropriate. The disposal is expected to be completed within 12 months of the balance sheet date.

(ii) The carrying amount at 31 December comprised:

	2013				Restated[1] 2012			
	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	**—**	**893**	**24**	**917**	—	996	43	1,039
Long-term business undertakings	**60**	**252**	**—**	**312**	132	339	—	471
General insurance undertakings	**—**	**—**	**—**	**—**	—	6	—	6
Total	**60**	**1,145**	**24**	**1,229**	132	1,341	43	1,516

1 Restated for the adoption of IFRS10. Refer to note 1 for further details

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 and 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 £177 million *(2012: £141 million)*, which has a fair value of £177 million *(2012: £141 million)*.

19 – Interests in, and loans to, joint ventures continued

(iii) No joint ventures are considered to be material from a Group perspective *(2012: none)*. The Group's principal joint ventures are as follows:

Name	Nature of activities	Principal place of business	Proportion of ownership interest 2013	2012
The Southgate Limited Partnership	Property management	UK	**50.00%**	50.00%
Queensgate Limited Partnership	Property management	UK	**50.00%**	50.00%
Airport Property Partnership	Property management	UK	**50.00%**	50.00%
2-10 Mortimer Street Limited Partnership	Property management	UK	**38.10%**	27.30%
The Mall Limited Partnership	Property management	UK	**50.52%**	50.52%
Aviva-COFCO Life Insurance Co. Ltd	Life insurance	China	**50.00%**	50.00%
First-Aviva Life Insurance Co. Ltd	Life insurance	Taiwan	**49.00%**	49.00%
AvivaSA Emeklilik ve Hayat A.S	Life insurance	Turkey	**49.83%**	49.83%
Woori Aviva Life Insurance Co. Ltd	Life insurance	Korea	**47.31%**	47.31%

(iv) The aggregate carrying amount of the Group's interests in all individually immaterial joint ventures, and related financial information representing the Group's share, is as follows:

	2013 £m	Restated[1] 2012 £m
Carrying amount of the Group's interest	**1,229**	1,516
Post-tax profit/(loss)	**140**	(15)
Other comprehensive income	**(37)**	21
Total comprehensive income	**103**	6

1 Restated for the adoption of IFRS10. See note 1 for further details.

(v) 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 £140 million *(2012: £41 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. We do not believe that these requirements constitute a material limitation on the ability of the joint ventures to transfer funds to the Group.

b) Impairment testing

Joint ventures are 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 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 for joint ventures in Korea and Taiwan classified as operations held for sale (Woori Aviva Life Insurance Co. Ltd and First-Aviva Life Insurance Co., Ltd.) is the fair value less costs to sell for each entity, based on the expected net disposal proceeds. 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 (accounting policy Q).

Following impairment testing for the remaining joint ventures, the goodwill amounts within the joint ventures are fully recoverable.

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:

	2013 Goodwill and intangibles £m	Equity interests £m	Loans	Total £m	Restated[1] 2012 Goodwill and intangibles £m	Equity interests £m	Loans	Total £m
At 1 January	**—**	**256**	**9**	**265**	115	1,003	—	1,118
Share of results before tax	**—**	**10**	**—**	**10**	—	(296)	—	(296)
Share of tax	**—**	**(1)**	**—**	**(1)**	—	(2)	—	(2)
Share of results after tax	**—**	**9**	**—**	**9**	—	(298)	—	(298)
Impairment	**(29)**	**—**	**—**	**(29)**	(147)	205	—	58
Share of (loss)/profit after tax	**(29)**	**9**	**—**	**(20)**	(147)	(93)	—	(240)
Impact of the adoption of IFRS 10[1]	**—**	**—**	**—**	**—**	—	42	9	51
Additions	**29**	**14**	**—**	**43**	32	—	—	32
Loans repaid	**—**	**—**	**(4)**	**(4)**	—	—	—	—
Reduction in Group interest	**—**	**(8)**	**—**	**(8)**	—	(601)	—	(601)
Share of losses taken to other comprehensive income	**—**	**—**	**—**	**—**	—	(7)	—	(7)
Dividends received	**—**	**(10)**	**—**	**(10)**	—	(43)	—	(43)
Foreign exchange rate movements	**—**	**1**	**—**	**1**	—	(45)	—	(45)
Movements in carrying amount	**—**	**6**	**(4)**	**2**	(115)	(747)	9	(853)
At 31 December	**—**	**262**	**5**	**267**	—	256	9	265

1 Comprises the impact of the adoption of IFRS 10 on prior year comparatives and the resulting consolidation and deconsolidation of entities based on the revised definition and criteria of control outlined in accounting Policy (D). The impact of the adoption of IFRS 10 on the Group's share of results has been reflected in the appropriate lines in the table above. See note 1 for further details.

20 – Interests in, and loans to, associates continued

Impairment testing

Management has determined that the goodwill in Aviva Life Insurance Company India Limited is fully impaired. An impairment of £29 million *(2012: £147 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).

Loans to associates

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.

(ii) No associates are considered to be material from a Group perspective *(2012: 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**	**2013**	2012
Aviva Life Insurance Company India Limited	Life insurance	India	**26.00%**	26.00%
SCPI Logipierre 1	Property Management	France	**44.46%**	44.46%
SCPI Selectipierre 2	Property Management	France	**22.16%**	22.16%
SCPI Ufifrance Immobilier	Property Management	France	**20.40%**	20.40%
SCPI Croissance Immo	Property Management	France	**46.84%**	46.84%
Encore +[1]	Property Management	UK	**12.32%**	12.49%

1 The Group has significant influence over Encore + and it is therefore accounted for as an associate.

(iii) The aggregate carrying amount of the Group's interests in all individually immaterial associates, and related financial information representing the Group's share, is as follows:

	2013 £m	Restated[1] 2012 £m
Carrying amount of the Group's interest	**267**	265
Post-tax loss	**(20)**	(240)
Other comprehensive income	**—**	(7)
Total comprehensive income	**(20)**	(247)

1 Restated for the adoption of IFRS10. See note 1 for further details.

(iv) 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. We do not believe that these requirements constitute a material limitation on the ability of the associates to transfer funds to the Group.

21 – Property and equipment

This note analyses our property and equipment, which are primarily properties occupied by Group companies and computer equipment.

	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 2012	175	215	7	630	247	1,274
Additions	16	171	—	27	20	234
Disposals	—	(13)	(4)	(46)	(41)	(104)
Transfers to investment property (note 22)	(111)	(32)	—	—	—	(143)
Fair value losses	(6)	(3)	—	—	—	(9)
Transfer to intangible assets (note 18)	—	—	—	(3)	—	(3)
Foreign exchange rate movements	—	(1)	—	—	(7)	(8)
At 31 December 2012	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 gains/(losses)	**3**	**(2)**	**—**	**—**	**—**	**1**
Foreign exchange rate movements	**—**	**6**	**—**	**(2)**	**(1)**	**3**
At 31 December 2013	**8**	**258**	**3**	**596**	**166**	**1,031**
Depreciation and impairment						
At 1 January 2012	—	—	(5)	(567)	(192)	(764)
Charge for the year	—	—	1	(28)	(19)	(46)
Disposals	—	—	2	38	20	60
Impairment charge (see below)	—	(91)	—	(5)	(10)	(106)
Foreign exchange rate movements	—	(1)	—	3	6	8
At 31 December 2012	—	(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)**
Carrying amount						
At 31 December 2012	74	245	1	49	24	393
At 31 December 2013	**8**	**257**	**1**	**27**	**20**	**313**
Less: Assets classified as held for sale	**—**	**—**	**—**	**—**	**—**	**—**
	8	**257**	**1**	**27**	**20**	**313**

1 Disposals include property and equipment sold as part of the disposal of the US Life business in 2013.

Fair value losses on owner-occupied properties of £2 million *(2012: £3 million losses)* have been taken to other comprehensive income.

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 RICS 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, prudently 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 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.

In 2012, the £106 million impairment loss charged to the income statement mainly related to Aviva USA's property and equipment, the carrying value of which was reduced to nil.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £255 million *(2012: £275 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.

	2013			Restated[1] 2012		
	Freehold £m	**Leasehold £m**	**Total £m**	Freehold £m	Leasehold £m	Total £m
Carrying value						
At 1 January	**8,552**	**1,405**	**9,957**	9,848	1,790	11,638
Impact of the adoption of IFRS 10[1]	**—**	**—**	**—**	(543)	(350)	(893)
Additions	**332**	**10**	**342**	536	194	730
Capitalised expenditure on existing properties	**26**	**2**	**28**	103	8	111
Fair value gains/(losses)[1]	**111**	**73**	**184**	(396)	(79)	(475)
Disposals[2]	**(888)**	**(248)**	**(1,136)**	(940)	(207)	(1,147)
Transfers from property and equipment (note 21)	**24**	**—**	**24**	89	54	143
Foreign exchange rate movements	**50**	**2**	**52**	(145)	(5)	(150)
At 31 December	**8,207**	**1,244**	**9,451**	8,552	1,405	9,957
Less: Assets classified as held for sale	**—**	**—**	**—**	(18)	—	(18)
	8,207	**1,244**	**9,451**	8,534	1,405	9,939

1 Comprises the impact of adoption of IFRS 10 and the resulting consolidation and deconsolidation of entities based on the revised definition and criteria of control outlined in accounting policy D see note 1 for further details.
2 Disposals include investment property sold as part of the disposal of the US Life business in 2013.

The majority of investment property in the UK is valued at least annually by external chartered surveyors in accordance with the guidance issued by The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. For other investment property, valuations are produced by local qualified staff of the Group or external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, adjustments are made to reflect any material changes in fair value. Values are calculated using a discounted cash flow approach and are 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 properties where available.

The fair value of investment properties leased to third parties under operating leases at 31 December 2013 was £9,447 million *(2012: £10,822 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. 16.6% of assets and 0.9% 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 2012 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 instruments, excluding assets 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.

	2013		Restated[1] 2012	
	Fair value £m	**Carrying amount £m**	Fair value £m	Carrying amount £m
Financial Assets				
Loans (note 24)	**23,811**	**23,879**	24,311	24,537
Financial Investments (note 27)				
Fixed maturity securities	**124,385**	**124,385**	128,160	128,160
Equity securities	**37,326**	**37,326**	33,065	33,065
Other investments (including derivatives)	**31,250**	**31,250**	27,518	27,518
Financial liabilities				
Non-participating investment contracts (note 42(a))	**48,140**	**48,140**	43,741	43,741
Net asset value attributable to unitholders	**10,362**	**10,362**	9,983	9,983
Borrowings (note 50)	**8,222**	**7,819**	8,324	8,179
Derivative liabilities (note 51)	**1,188**	**1,188**	1,643	1,643

1 Restated for the impact of the adoption of IFRS 10. Refer to note 1 for further details.

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:

	Fair value hierarchy					
2013	**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)	**24,077**	**4,283**	**2,890**	**31,250**	**—**	**31,250**
Financial assets of operations classified as held for sale	**2,245**	**282**	**148**	**2,675**	**—**	**2,675**
Total	**138,009**	**48,384**	**37,171**	**223,564**	**5,402**	**228,966**
Financial liabilities measured at fair value						
Non-participating investment contracts[1] (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)	**218**	**907**	**63**	**1,188**	**—**	**1,188**
Financial liabilities of operations classified as held for sale	**—**	**—**	**—**	**—**	**29**	**29**
Total	**58,290**	**2,168**	**545**	**61,003**	**6,535**	**67,538**

1 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.

	Fair value hierarchy			
2013	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total fair value £m**
Non-recurring fair value measurements[1]				
Properties occupied by group companies (note 21)	**—**	**—**	**257**	**257**
Properties occupied by group companies classified as held for sale	**—**	**—**	**—**	**—**
Total	**—**	**—**	**257**	**257**

1 Non-recurring fair value measurements are those that are required or permitted by other IFRS to be measured at fair value in the statement of financial position in particular circumstances. Owner occupied property is revalued in accordance with IAS 16.

23 – Fair value methodology continued

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers in line with the Group's policy. The fair values stated in the table above are as at 31 December 2013. Further details on the valuation of these properties can be found in note 21.

	Fair value hierarchy						
2012 (Restated)[1,2]	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total fair value £m	Amortised cost £m	Less: Assets of operations classified as held for sale £m	Statement of financial position Total £m
Financial investments and loans measured at fair value (notes 24 & 27)							
Loans	—	18,973	—	18,973	8,961	(3,397)	24,537
Fixed maturity securities	108,107	43,588	10,082	161,777	—	(33,617)	128,160
Equity securities	33,610	230	473	34,313	—	(1,248)	33,065
Other investments (including derivatives)	20,533	5,650	2,885	29,068	—	(1,550)	27,518
Total	162,250	68,441	13,440	244,131	8,961	(39,812)	213,280
Financial Liabilities							
Non-participating investment contracts (note 42 (a))[3]	45,032	825	442	46,299	1,400	(3,958)	43,741
Borrowings (note 50)	—	1,332	—	1,332	6,992	(145)	8,179
Derivative liabilities (note 51)	122	1,570	59	1,751	—	(108)	1,643
Total	45,154	3,727	501	49,382	8,392	(4,211)	53,563

1 Restated for the impact of the adoption of IFRS 10. Refer to note 1 for further details.
2 This table was prepared in accordance with IFRS 7.
3 In addition to the balances in this table, included within Reinsurance Assets in the Statement of Financial Position and note 44 are £1,581 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.

Assets and liabilities 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 but for which fair value is disclosed in the notes. These exclude any assets or liabilities held for sale.

	Fair value hierarchy			Total fair value
2013	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**£m**
Assets and liabilities not carried at fair value				
Loans	**—**	**1,021**	**4,313**	**5,334**
Borrowings	**5,499**	**383**	**1,027**	**6,909**

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 recurring fair value measurements, the Group determines whether transfers have occurred between the 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 year.

Level 1 to 2

For the year to 31 December 2013, transfers of financial assets from fair value hierarchy Level 1 to Level 2 amounted to £29.4 billion *(2012: £1.3 billion)*. The transfers from Level 1 to Level 2 arose primarily in the UK and Ireland (£26.9 billion) as a result of the enhanced understanding of pricing vendor methodologies for the fair value hierarchy level classification of certain debt securities. Other transfers from level 1 to 2 arose mainly from changes in the level of market activity for specific assets in Asia (£1.2 billion) and Europe (£1.3 billion).

Level 2 to 1

Transfers from Level 2 to Level 1 of £1.1 billion *(2012: £0.3 billion)* arose in France (£0.5 billion), Ireland (£0.4 billion), and Spain (£0.2 billion) and were due to improvements in pricing sourcing or increasing liquidity of underlying investments.

23 – Fair value methodology continued

Transfer to/from Level 3

Transfers out of Level 3 mainly relate to improvements in the market liquidity of certain debt securities held by our business in France (£1.9 billion), which were transferred to Level 2, as observable prices became available.

The transfers into Level 3 (shown below) primarily relate to UK mortgage loans (£14.6 billion) and investment property (£9.5 billion) as follows:

- £9.9 billion of UK commercial mortgage loans. Following a reassessment of inputs management has deemed the illiquidity premium used to value these mortgage loans to be a significant, unobservable input.
- £2.6 billion of UK equity release mortgage loans. During 2013, the discounted cash flow model used to value certain equity release mortgage loans has been revised, incorporating a greater number of inputs relevant to calculating a fair value of these mortgages. Within this model, credit risk assumptions are derived from market data with adjustments applied to ensure they are relevant to the mortgage portfolio, but these are not fully market observable. As a result, these assets have been classified as Level 3 and transferred from Level 2.
- £2.1 billion of UK securitised mortgage loans and certain non-securitised equity release mortgage loans. Market transactions used in the valuation of these loans are infrequent and, as a result, prices are no longer classified as market observable. In the absence of any additional market transactions the mortgage loans have been reclassified from Level 2 to Level 3.
- £9.5 billion investment property. Following the adoption of IFRS 13, investment property is now included within the fair value hierarchy. Due to the irregularity of similar transactions, management has concluded that significant inputs into the valuation methodology are non-market observable, and classified investment property within Level 3. We have also transferred £0.5 billion of property funds into Level 3 to reflect the valuation of underlying property assets.

Also included within transfers into Level 3 loans are £0.8 billion of non-recourse loans held by the UK business that were reclassified from Level 2 to Level 3. This was due to the enhancement of the valuation model to include an illiquidity premium which is deemed to be an unobservable input.

For the year to 31 December 2013, transfers of financial liabilities between fair value hierarchies included the reclassification of £0.5 billion *(2012: £nil)* of securitised mortgage loan notes from Level 2 to Level 3 in line with the reclassification of the related securitised mortgage loans referred to above.

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		
2013	**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**	**2,489**	**516**	**(443)**	**(58)**	**—**
Total net (losses)/gains recognised in the income statement	**—**	**—**	**(36)**	**(39)**	**179**	**4**	**—**	**(13)**	**—**
Total net gains recognised in other comprehensive income	**—**	**—**	**—**	**—**	**1**	**19**	**—**	**—**	**—**
Purchases	**—**	**—**	**1,983**	**11**	**832**	**187**	**—**	**(50)**	**—**
Issuances	**—**	**—**	**—**	**—**	**—**	**—**	**(11)**	**—**	**—**
Disposals[1]	**—**	**—**	**(1,527)**	**(11)**	**(897)**	**(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 movements	**(31)**	**—**	**285**	**10**	**19**	**(3)**	**—**	**—**	**—**
Balance at 31 December 2013	**9,451**	**15,362**	**8,879**	**441**	**2,890**	**148**	**—**	**(63)**	**(482)**

1 Disposals include the disposal of the US business in 2013 (£609 million assets and £270 million liabilities).

2012 (Restated)[1,2]	Debt securities £m	Equity securities £m	Other investments (including derivatives) £m	Financial Investments Total £m	Financial liabilities Total £m
Opening balance at 1 January 2012	7,940	483	2,945	11,368	(292)
Total net gains recognised in the income statement	934	7	18	959	4
Total net gains recognised in other comprehensive income	113	—	17	130	—
Purchases	1,826	27	646	2,499	(18)
Issuances	—	—	1	1	(23)
Disposals	(767)	(29)	(755)	(1,551)	—
Transfers into Level 3	443	2	56	501	(184)
Transfers out of Level 3	(149)	(3)	(12)	(164)	—
Impact of IFRS10 restatement	—	—	6	6	—
Foreign exchange rate movements	(258)	(14)	(37)	(309)	12
Balance at 31 December 2012	10,082	473	2,885	13,440	(501)
Less: Amounts classified as held for sale	(120)	—	(396)	(516)	—
	9,962	473	2,489	12,924	(501)

1 Restated for the impact of the adoption of IFRS 10. Refer to note 1 for further details.
2 This table was prepared in accordance with IFRS 7.

23 – Fair value methodology continued

Total net gains recognised in the income statement in the year ended 31 December 2013 in respect of Level 3 assets measured at fair value amounted to £108 million *(2012: £959 million)*, with net losses in respect of liabilities of £13 million *(2012: gains £4 million)*. Included in this balance are £73 million *(2012: £1,030 million)* of net gains attributable to those assets and £13 million *(2012: £3 million)* of losses attributable to those liabilities still held at the end of the year.

The principal investments classified as Level 3, and the valuation techniques applied to them, are:

- Commercial mortgage loans held by our UK Life business amounting to £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 not deemed to be market observable.
- Equity release and UK securitised mortgage loans held by our UK Life business amounting to £4.7 billion, valued using Discounted Cash Flow models (DCF). Cash flows are adjusted for credit risk and discounted using a yield curve and global assumptions for the liquidity premium. The mortgage loans have been classified as Level 3 as assumptions used to derive the credit risk and property risk are not deemed to be market observable.
- Investment property amounting to £9.5 billion. In the UK, the majority of 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. For other investment property, valuations are produced by local qualified staff of the Group or external qualified professional valuers in the countries concerned. Fair values are determined using an income method, by which own lease agreement cash-flows are adjusted for anticipated uplifts, and discounted by rates implied by recent market transactions for similar properties where available. These inputs are deemed unobservable.
- Structured bond-type and non-standard debt products held by our business in France amounting to £7.1 billion *(2012: £8.6 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 2013, the values reported in respect of these products were the lower of counterparty and broker quotes and internally modelled valuations.
- Private equity investment funds amounting to £1.1 billion *(2012: £1.3 billion)*, together with external hedge funds held principally by businesses in the UK and France amounting to £1.1 billion *(2012: £1.3 billion)*, and property funds amounting to £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 *(2012: £nil)* and UK non-recourse loans of £0.8 billion *(2012: £nil)* have been valued using internally developed discounted cash flow models.
- Investments including debt securities held by our French business of £0.7 billion *(2012: £nil)* and notes issued by loan partnerships held by our UK Life business amounting to £0.3 billion (*2012: £1.0 billion)*, have been valued using third party or counterparty valuations.
- Other Level 3 investments amount to £1.1 billion *(2012: £0.9 billion)* and relate to a diverse range of different types of securities held by a number of businesses throughout the Group.
- Level 3 liabilities include £0.5 billion *(2012: £nil)* of securitised mortgage loan notes which are valued using a similar technique to the related Level 3 securitised mortgage assets.

Where possible, the Group tests the sensitivity of the fair values of Level 3 investments to changes in unobservable inputs to reasonable alternatives. Where possible of valuations for Level 3 investments are sourced from independent third parties 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, IRR 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 £35.7 billion of the Group's Level 3 investments. For these Level 3 investments, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value by ± £1.8 billion. Of the £1.5 billion Level 3 investments for which sensitivity analysis is not provided, £0.6 billion relates to investments held in unit-linked and participating funds in France where investment risk is predominantly borne by policyholders and therefore shareholder profit before tax is insensitive to reasonable change in fair value of these investments. The remaining £0.9 billion of Level 3 investments are held predominantly to back non-linked shareholder business and it is estimated that a 10% change in valuation of these investments would increase or reduce shareholder profit before tax by £90 million.

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 2013 and 2012 were as follows:

	2013			2012		
	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**	**888**	**889**	2	1,309	1,311
Loans to banks	**757**	**4,087**	**4,844**	—	4,250	4,250
UK securitised mortgage loans (see note 25)	**2,169**	**—**	**2,169**	2,218	—	2,218
Non-securitised mortgage loans	**15,550**	**192**	**15,742**	16,753	3,211	19,964
Loans to brokers and other intermediaries	**—**	**78**	**78**	—	89	89
Other loans	**—**	**157**	**157**	—	102	102
Total	**18,477**	**5,402**	**23,879**	18,973	8,961	27,934
Less: Amounts classified as sale	**—**	**—**	**—**	(56)	(3,341)	(3,397)
	18,477	**5,402**	**23,879**	18,917	5,620	24,537

Loans to banks include cash collateral received under stock lending arrangements (see note 27(d)). The obligation to repay this collateral is included in payables and other financial liabilities (note 51).

Of the above loans, £21,850 million *(2012: £19,179 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 £43 million loss *(2012: £491 million loss)*. The cumulative change attributable to changes in credit risk to 31 December 2013 was £2,709 million loss *(2012: £2,665 million loss)*.

Non-securitised mortgage loans include £4.1 billion *(2012: £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 2013 was £5,334 million *(2012: £8,735 million)*.

(b) Analysis of loans carried at amortised cost

	2013			2012		
	Amortised Cost £m	**Impairment £m**	**Carrying Value £m**	Amortised Cost £m	Impairment £m	Carrying Value £m
Policy loans	**888**	**—**	**888**	1,309	—	1,309
Loans to banks	**4,087**	**—**	**4,087**	4,250	—	4,250
Non-securitised mortgage loans	**343**	**(151)**	**192**	3,335	(124)	3,211
Loans to brokers and other intermediaries	**78**	**—**	**78**	89	—	89
Other Loans	**157**	**—**	**157**	106	(4)	102
Total	**5,553**	**(151)**	**5,402**	9,089	(128)	8,961

24 – Loans continued

The movements in the impairment provisions on these loans for the years ended 31 December 2012 and 2013 were as follows:

	2013 £m	2012 £m
At 1 January	**(128)**	(94)
Increase during the year	**(30)**	(45)
Write back following sale or reimbursement	**3**	2
Write back following recovery in value	**4**	9
Foreign exchange rate movements	**—**	—
At 31 December	**(151)**	(128)

(c) Collateral

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. Transfer of title for the collateral received always occurs in such cases, although no market risk or benefit is taken. In the event of a default, the Group is able to sell or repledge the collateral.

The amount of collateral received with respect to loans which the Group is permitted to sell or repledge in the absence of default was £5,513 million *(2012: £4,560 million)*. No collateral was actually sold or repledged in the absence of default during the year *(2012: £nil)*.

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:

	2013		2012	
	Securitised assets £m	**Securitised borrowings £m**	Securitised assets £m	Securitised borrowings £m
Secured mortgage loans at fair value (note 24)	**2,169**	**(1,493)**	2,218	(1,515)
Other securitisation assets/(liabilities)	**301**	**(977)**	351	(1,054)
	2,470	**(2,470)**	2,569	(2,569)

Loan notes held by third parties are as follows:

	2013 £m	2012 £m
Total loan notes issued, as above	**1,493**	1,515
Less: Loan notes held by Group companies	**(180)**	(183)
Loan notes held by third parties (note 50 (c)(i))	**1,313**	1,332

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 which comprise securitisation vehicles that Aviva does not originate. These securities consist of: Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Asset Backed Securities (ABS), Asset Backed Commercial Papers (ABCP) and Wrapped credits securities. The Group also has extremely limited exposure to Collateralised Debt Obligation (CDO) and Collateralised Loan Obligation (CLO) securities.
- Investment funds which include: hedge funds, liquidity funds, private equity funds, unit trusts, mutual funds and Private Finance Initiative (PFIs).
- Specialised investment vehicles which comprise Open Ended Investment Companies (OEICs), Property Limited Partnerships (PLPs), Specialised Open Investment Funds (SOIFs), Sociétés d'Investissement à Capital Variable (SICAVs), Fonds Communs de Placement (FCPs) and Special Purpose Vehicles (SPVs).

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.

(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 2013 the Group has granted loans to consolidated PLPs for a total of £371 million (*2012: £351 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 PLPs via letters of support amounting to £39 million (*2012: £34 million*) in relation to loans to consolidated PLPs.

The Group has also given support to the consolidated structured entity Aviva Equity Release UK Limited (AER).

As reported 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. For the administration of the loan note liabilities Aviva receives cash management fees based on the outstanding loan balance at the start of each quarter. As compensation for managing the mortgage assets, AER receives portfolio administration fees.

As at the reporting date, the Group has no intentions to provide financial or other support in relation to any other investment vehicles.

26 – Interests in structured entities continued

(b) Interests in unconsolidated structured entities

As part of its investment activities, the Group invests in unconsolidated structured entities. As at 31 December 2013, the Group's total interest in unconsolidated structured entities was £26,474 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 2013, a summary of the Group's interest in unconsolidated structured entities is as follows:

	Interest in, and loans to, joint ventures £m	Interest in, and loans to associates £m	Financial investments £m	Total assets £m
Debt securities[1]	—	—	**2,122**	**2,122**
Analysed as:				
RMBS	—	—	**152**	**152**
CMBS	—	—	**336**	**336**
ABS	—	—	**682**	**682**
CDO (including CLO)	—	—	**444**	**444**
ABCP	—	—	**34**	**34**
Wrapped credit	—	—	**474**	**474**
Investment funds[2]	—	—	**13,283**	**13,283**
Analysed as:				
Hedge funds	—	—	**1,034**	**1,034**
Liquidity funds	—	—	**54**	**54**
Private equity funds	—	—	**981**	**981**
Unit trusts	—	—	**11,214**	**11,214**
Specialised investment vehicles[2]	**917**	**84**	**10,068**	**11,069**
Analysed as:				
OEICs	—	—	**1,683**	**1,683**
PLPs	**917**	**84**	**986**	**1,987**
SICAVs	—	—	**3,966**	**3,966**
FCPs	—	—	**3,312**	**3,312**
SPVs	—	—	**121**	**121**
Total	**917**	**84**	**25,473**	**26,474**

1 Reported within 'Other' debt securities in Note 27a).
2 Reported within 'Other investments' in Note 27a).

The Group's maximum exposure to loss 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. Based on the different structures of the securities, in some cases the Group may be required to absorb losses from an unconsolidated structured entity before other parties. Those cases occur when and if Aviva's interest is more subordinated with respect to other owners of the same security.

With regard to unconsolidated PLPs, the Group has provided a guarantee to a property management company to fund its future development. The amount provided is £66 million and the intention is for the Group to provide an additional £10 million. As at 31 December 2013, the Group has granted loans to PLPs classified as joint ventures and associates for a total of £29 million. This amount has been provided for the purpose of short term liquidly 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 usually provides in the course of its business, please refer to Note 53 (f) 'Contingent liabilities and other risk factors'.

(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 in and the fees earned from those entities.

31 December 2013	Assets Under Management £m	Investment Management Fees £m
Investment funds[1]	**23,730**	**94**
Specialised investment vehicles:	**1,496**	**9**
Analysed as:		
OEICs	**200**	**3**
PLPs	**1,196**	**5**
SICAVS	**2**	—
FCP	**98**	**1**
Total	**25,226**	**103**

1 Investment funds relate to the Group's US external mutual funds management business and the Spanish and Polish pension funds.

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:

	2013				Restated[1] 2012			
	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	—	**17,297**	—	**17,297**	—	18,300	—	18,300
UK local authorities	—	**133**	—	**133**	—	18	—	18
Non-UK government (note 27e)	—	**43,113**	**781**	**43,894**	—	44,202	2,258	46,460
Corporate bonds								
Public utilities	—	**7,988**	**25**	**8,013**	—	6,266	2,881	9,147
Other corporate	—	**48,820**	**255**	**49,075**	—	55,056	21,449	76,505
Convertibles and bonds with warrants attached	—	**310**	**79**	**389**	—	465	6	471
Other	—	**7,070**	—	**7,070**	—	5,525	3,301	8,826
	—	**124,731**	**1,140**	**125,871**	—	129,832	29,895	159,727
Certificates of deposit	—	**934**	—	**934**	—	2,047	3	2,050
	—	**125,665**	**1,140**	**126,805**	—	131,879	29,898	161,777
Equity securities								
Ordinary shares								
Public utilities	—	**3,716**	—	**3,716**	—	3,697	—	3,697
Banks, trusts and insurance companies	—	**7,968**	**39**	**8,007**	—	7,574	62	7,636
Industrial miscellaneous and all other	—	**25,258**	**2**	**25,260**	—	22,542	1	22,543
	—	**36,942**	**41**	**36,983**	—	33,813	63	33,876
Non-redeemable preference shares	—	**397**	—	**397**	—	437	—	437
	—	**37,339**	**41**	**37,380**	—	34,250	63	34,313
Other investments								
Unit trusts and other investment vehicles	—	**28,599**	**7**	**28,606**	—	25,142	441	25,583
Derivative financial instruments (note 59)	**1,058**	—	—	**1,058**	1,590	—	—	1,590
Deposits with credit institutions	—	**598**	**3**	**601**	—	739	—	739
Non-controlling interest in property management undertakings	—	**796**	—	**796**	—	726	—	726
Other investments – long-term	—	**386**	**3**	**389**	—	370	54	424
Other investments – short-term	—	**1**	—	**1**	—	6	—	6
	1,058	**30,380**	**13**	**31,451**	1,590	26,983	495	29,068
Total financial investments	**1,058**	**193,384**	**1,194**	**195,636**	1,590	193,112	30,456	225,158
Less assets classified as held for sale								
Fixed maturity securities	—	**(2,413)**	**(7)**	**(2,420)**	—	(4,236)	(29,381)	(33,617)
Equity securities	—	**(54)**	—	**(54)**	—	(1,187)	(61)	(1,248)
Other investments	—	**(201)**	—	**(201)**	—	(1,072)	(478)	(1,550)
	—	**(2,668)**	**(7)**	**(2,675)**	—	(6,495)	(29,920)	(36,415)
	1,058	**190,716**	**1,187**	**192,961**	1,590	186,617	536	188,743

1 Restated for the adoption of IFRS10. See note 1 for further details.

Of the above total, £114,391 million *(2012: £129,448 million)* is due to be recovered in more than one year after the statement of financial position date.

Other debt securities of £7,070 million *(2012: £8,826 million)* primarily 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:

	2013				Restated[1] 2012			
	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	**120,316**	**8,164**	**(1,675)**	**126,805**	148,540	15,316	(2,079)	161,777
Equity securities	**31,164**	**7,775**	**(1,559)**	**37,380**	31,833	4,753	(2,273)	34,313
Other investments								
Unit trusts and specialised investment vehicles	**26,880**	**1,881**	**(155)**	**28,606**	24,296	1,315	(28)	25,583
Derivative financial instruments	**793**	**683**	**(418)**	**1,058**	1,201	518	(129)	1,590
Deposits with credit institutions	**601**	**—**	**—**	**601**	739	—	—	739
Non-controlling interests in property management undertakings	**774**	**130**	**(108)**	**796**	741	123	(138)	726
Other long-term investments	**405**	**12**	**(28)**	**389**	434	20	(30)	424
Other investments – short-term	**1**	**—**	**—**	**1**	6	—	—	6
	180,934	**18,645**	**(3,943)**	**195,636**	207,790	22,045	(4,677)	225,158
These are further analysed as follows:								
At fair value through profit or loss	**179,683**	**18,592**	**(3,833)**	**194,442**	180,739	18,463	(4,500)	194,702
Available for sale	**1,251**	**53**	**(110)**	**1,194**	27,051	3,582	(177)	30,456
	180,934	**18,645**	**(3,943)**	**195,636**	207,790	22,045	(4,677)	225,158

1 Restated for the adoption of IFRS10. See note 1 for further details.

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 £1,524 million *(2012: £12,381 million net gain)*. Of this, £135 million net gain *(2012: £19 million net loss)* related to financial investments designated as trading and £1,389 million net gain *(2012: £12,400 million net gain)* related to investments designated as other than trading.

Total impairments of financial investments classified as available for sale (AFS) in the income statement in the year were £13 million (*2012: £14 million*). The total accumulated impairment provision for financial investments classified as available-for-sale included in the table above within unrealised losses and impairments was £13 million *(2012: £97 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 2012 and 2013 were as follows:

	2013				2012			
	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	**(84)**	**(4)**	**(9)**	**(97)**	(126)	(5)	(7)	(138)
Charge for the year taken to the income statement	**(12)**	**—**	**(1)**	**(13)**	(12)	—	(2)	(14)
Write back following sale or reimbursement	**101**	**—**	**—**	**101**	49	—	—	49
Write back following recovery in value	**—**	**—**	**—**	**—**	—	1	—	1
Foreign exchange rate movements	**(5)**	**(1)**	**2**	**(4)**	5	—	—	5
At 31 December	**—**	**(5)**	**(8)**	**(13)**	(84)	(4)	(9)	(97)

(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.

27 – Financial investments continued

Non-cash collateral received

The Group receives collateral in order to reduce the credit risk of these arrangements. Collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts. Transfer of title always occurs for collateral received, although no market risk or economic benefit is taken. The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Group's risk exposure.

In certain markets, the Group or the Group's appointed stock lending managers obtain legal ownership of the collateral received and can re-pledge it as collateral elsewhere or sell outright in the absence of default. The carrying amount of financial assets received in this manner at 31 December 2013 was £16,914 million *(2012: £16,943 million)*. The value of collateral that was actually sold in the absence of default was £nil *(2012: £nil)*.

Cash collateral received

In addition to the above, the Group has received cash collateral under stock lending arrangements that has been recognised in the statement of financial position with a corresponding obligation for its return. The latter balance is included in note 51.

(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 2013 £1,201 million *(2012: £1,208 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 2013 analysed by policyholder, participating and shareholder funds.

	Policyholder		Participating		Shareholder		Total	
Non UK Government Debt Securities	**2013 £m**	Restated[1] 2012 £m	**2013 £m**	Restated[1] 2012 £m	**2013 £m**	2012 £m	**2013 £m**	Restated[1] 2012 £m
Austria	**9**	14	**636**	634	**133**	123	**778**	771
Belgium	**29**	45	**1,475**	1,342	**154**	172	**1,658**	1,559
France	**108**	189	**9,714**	9,073	**1,909**	1,944	**11,731**	11,206
Germany	**146**	217	**1,922**	2,390	**763**	957	**2,831**	3,564
Greece	**—**	—	**1**	—	**—**	—	**1**	—
Ireland	**21**	35	**364**	363	**28**	26	**413**	424
Italy	**255**	263	**8,458**	8,518	**628**	617	**9,341**	9,398
Netherlands	**43**	65	**1,222**	1,194	**399**	228	**1,664**	1,487
Poland	**649**	673	**885**	1,015	**490**	445	**2,024**	2,133
Portugal	**—**	—	**187**	257	**—**	—	**187**	257
Spain	**101**	36	**1,355**	1,317	**930**	854	**2,386**	2,207
European Supranational debt	**89**	136	**2,612**	2,928	**1,583**	1,470	**4,284**	4,534
Other European countries	**91**	238	**587**	646	**359**	421	**1,037**	1,305
Europe	**1,541**	1,911	**29,418**	29,677	**7,376**	7,257	**38,335**	38,845
Canada	**7**	18	**171**	195	**2,198**	2,517	**2,376**	2,730
United States	**112**	131	**32**	40	**280**	1,665	**424**	1,836
North America	**119**	149	**203**	235	**2,478**	4,182	**2,800**	4,566
Singapore	**8**	7	**450**	453	**288**	276	**746**	736
Sri Lanka	**1**	1	**7**	3	**—**	—	**8**	4
Other	**329**	625	**1,616**	1,291	**60**	393	**2,005**	2,309
Asia Pacific and other	**338**	633	**2,073**	1,747	**348**	669	**2,759**	3,049
Total	**1,998**	2,693	**31,694**	31,659	**10,202**	12,108	**43,894**	46,460
Less: assets of operations classified as held for sale	**13**	197	**1,649**	556	**201**	2,274	**1,863**	3,027
Total (excluding assets held for sale)	**1,985**	2,496	**30,045**	31,103	**10,001**	9,834	**42,031**	43,433

1 Restated for the adoption of IFRS10. See note 1 for further details.

At 31 December 2013, the Group's total non-UK government debt securities stood at £43.9 billion *(2012: £46.5 billion),* a decrease of £2.6 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 non-UK government debt securities amounts to £10.2 billion *(2012: £12.1 billion).* The primary exposures, relative to total shareholder non-UK government debt exposure, are to Canadian (22%), French (19%), Spanish (9%), German (7%) and Italian (6%) government debt securities.

The participating funds exposure to non-UK government debt amounts to £31.7 billion (*2012: £31.7 billion).* The primary exposures, relative to total non-UK government debt exposures included within our participating funds, are to the government debt securities of France (31%), Italy (27%), Germany (6%), Belgium (5%), Spain (4%) and Netherlands (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		
2013	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
Austria	—	—	—	0.2	—	0.2
France	0.2	—	0.2	3.4	0.9	4.3
Germany	—	—	—	0.5	0.5	1.0
Italy	0.1	0.1	0.2	0.3	0.1	0.4
Netherlands	0.2	0.2	0.4	1.8	0.1	1.9
Spain	0.8	0.1	0.9	0.9	0.1	1.0
United Kingdom	0.6	0.3	0.9	0.7	0.9	1.6
United States	0.5	0.1	0.6	1.0	0.1	1.1
Other	0.4	0.3	0.7	1.7	0.5	2.2
Total	**2.8**	**1.1**	**3.9**	**10.5**	**3.2**	**13.7**
Less: assets of operations classified as held for sale	—	—	—	—	—	—
Total (excluding assets held for sale)	**2.8**	**1.1**	**3.9**	**10.5**	**3.2**	**13.7**
2012 Total	4.2	2.3	6.5	11.7	3.9	15.6

Net of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £3.9 billion. The reduction from 2012 is principally driven by the disposal of our US business during 2013. The majority of our holding (72%) is in senior debt. The primary exposures are to Spain (23%), UK (23%) and US (15%) banks. Net of non-controlling interests, our direct shareholder asset exposure to worldwide bank equity securities is £0.3 billion. Our holdings include strategic holdings in Italian banks of £132 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 £13.7 billion. The majority of the exposure (77%) is in senior debt. Participating funds are the most exposed to French (31%), Dutch (14%) and UK (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		
2013	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn	Total senior debt £bn	Total subordinated debt £bn	Total debt £bn
Austria	—	—	—	0.2	—	0.2
France	0.2	—	0.2	3.8	0.9	4.7
Germany	0.1	—	0.1	0.6	0.5	1.1
Italy	0.1	0.1	0.2	0.7	0.1	0.8
Netherlands	0.2	0.2	0.4	1.8	0.2	2.0
Spain	1.1	0.1	1.2	1.2	0.1	1.3
United Kingdom	0.6	0.3	0.9	0.8	1.0	1.8
United States	0.5	0.2	0.7	1.0	0.1	1.1
Other	0.5	0.3	0.8	2.0	0.6	2.6
Total	**3.3**	**1.2**	**4.5**	**12.1**	**3.5**	**15.6**
Less: assets of operations classified as held for sale	—	—	—	—	—	—
Total (excluding assets held for sale)	**3.3**	**1.2**	**4.5**	**12.1**	**3.5**	**15.6**
2012 Total	4.9	2.4	7.3	13.3	4.4	17.7

Gross of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £4.5 billion. The majority of our holding (73%) is in senior debt. The primary exposures are to Spain (27%), UK (20%) and US (16%) banks. Gross of non-controlling interests, our direct shareholder asset exposure to worldwide bank equity securities is £0.4 billion. Our holdings include strategic holdings in Italian banks of £258 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 £15.6 billion. The majority of the exposure (78%) is in senior debt. Participating funds are the most exposed to French (30%), Dutch (13%) and UK (12%) banks.

28 – Receivables

This note analyses our total receivables.

	2013 £m	Restated[1] 2012 £m
Amounts owed by contract holders	**1,762**	1,693
Amounts owed by intermediaries	**1,222**	1,398
Deposits with ceding undertakings	**1,479**	1,395
Amounts due from reinsurers	**294**	367
Amounts due from brokers for investment sales	**149**	444
Amounts receivable for cash collateral pledged (note 59)	**202**	241
Amounts due from government, social security and taxes	**475**	521
Corporate owned life insurance	**—**	162
Dividends receivable	**4**	6
Other receivables	**1,549**	1,662
Total	**7,136**	7,889
Less: Amounts classified as held for sale	**(76)**	(413)
	7,060	7,476
Expected to be recovered in less than one year	**6,918**	7,384
Expected to be recovered in more than one year	**142**	92
	7,060	7,476

1 Restated for the adoption of IFRS10. See note 1 for further 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:

	2013 £m	Restated[1] 2012 £m
Deferred acquisition costs in respect of:		
Insurance contracts – Long-term business	**485**	2,122
Insurance contracts – General insurance and health business	**868**	939
Participating investment contracts – Long-term business	**27**	30
Non-participating investment contracts – Long-term business	**1,013**	936
Retail fund management business	**10**	14
Total deferred acquisition costs	**2,403**	4,041
Surpluses in the staff pension schemes (note 49(a))	**606**	1,257
Other assets	**49**	35
Total	**3,058**	5,333
Less: Amounts classified as held for sale	**(7)**	(1,555)
	3,051	3,778

1 Restated for the adoption of IFRS10. See note 1 for further details.

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, £1,285 million (*2012: £1,351 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.

29 – Deferred acquisition costs, other assets, prepayments and accrued income continued

(b) Deferred acquisition costs – movements in the year

The movements in deferred acquisition costs (DAC) during the year were:

	2013				2012			
	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	**3,088**	**939**	**14**	**4,041**	3,778	986	14	4,778
Acquisition costs deferred during the year	**407**	**2,276**	**—**	**2,683**	841	2,221	4	3,066
Amortisation	**(466)**	**(2,327)**	**(4)**	**(2,797)**	(804)	(2,257)	(4)	(3,065)
Impact of assumption changes	**(213)**	**—**	**—**	**(213)**	(201)	—	—	(201)
Effect of portfolio transfers, acquisitions and disposals[1]	**(2,418)**	**—**	**—**	**(2,418)**	(15)	(1)	—	(16)
Foreign exchange rate movements	**(22)**	**(20)**	**—**	**(42)**	(89)	(10)	—	(99)
Shadow adjustment	**1,149**	**—**	**—**	**1,149**	(422)	—	—	(422)
Carrying amount at 31 December	**1,525**	**868**	**10**	**2,403**	3,088	939	14	4,041
Less: Amounts classified as held for sale	**—**	**(6)**	**—**	**(6)**	(1,538)	—	—	(1,538)
	1,525	**862**	**10**	**2,397**	1,550	939	14	2,503

1 Disposals in 2013 include the disposal of the US business *(£2,344 million)*, and the disposal of Ark Life *(£67 million)*.

The balance of deferred acquisition costs for long-term business decreased by £1.6 billion in 2013, primarily reflecting the disposal of the US Life and Ark Life businesses.

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 £2 million *(2012: £30 million)* if market yields on fixed income investments were to increase by 1% and increase profit by £8 million *(2012: £50 million)* if yields were to reduce by 1%.

The shadow adjustments relate to deferred acquisition costs on business in the US backed by investments classified as available for sale (AFS). As explained in accounting policies T and L, movements in unrealised gains and losses on the AFS investments and movements in the shadow adjustments are recognised directly in other comprehensive income.

(c) Other assets

Other assets include £1 million *(2012: £3 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 £2,599 million including assets classified as held for sale *(2012: £3,104 million),* includes £103 million *(2012: £108 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.

	2013 £m	Restated[1] 2012 £m
Loans	**471**	605
Debt securities	**12,835**	16,494
Equity securities	**25,836**	22,648
Reinsurance assets	**2,043**	1,576
Cash and cash equivalents	**4,725**	4,380
Other	**30,703**	28,027
	76,613	73,730
Less: Assets classified as held for sale	**(44)**	(3,048)
	76,569	70,682

1 Restated for the adoption of IFRS10. See note 1 for further 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:

	2013 £m	2012 £m
The allotted, called up and fully paid share capital of the Company at 31 December 2013 was: 2,946,939,622 *(2012: 2,945,972,261)* ordinary shares of 25 pence each	**736**	736

(b) During 2013, a total of 967,361 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	2013			2012		
	Number of shares	Share Capital £m	Share Premium £m	Number of shares	Share Capital £m	Share Premium £m
At 1 January	**2,945,972,261**	**736**	**1,165**	2,905,712,938	726	1,173
Shares issued under the Group's Employee and Executive Share Option Schemes	**967,361**	**—**	**—**	3,335,566	1	1
Shares issued in lieu of dividends	**—**	**—**	**—**	36,923,757	9	(9)
At 31 December	**2,946,939,622**	**736**	**1,165**	2,945,972,261	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.

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.

32 – Group's share plans

This note describes the Group's various equity compensation plans, and shows how the Group values the options and awards of shares in the Company.

(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 HMRC-approved save as you earn (SAYE) share option schemes in the UK and the Irish revenue-approved SAYE share option scheme in Ireland. Options are normally exercisable during the six-month period following either the third, fifth or seventh anniversary of the start of the relevant savings contract. Options granted in 2012 and 2013 are normally exercisable following the third or fifth anniversary.

(ii) Executive share options

These are options granted on various dates until 2004 under the Aviva executive share option plan. Options granted between 2001 and 2004 were subject to the satisfaction of conditions relating to both the Company's return on equity (ROE) and its relative total shareholder return (TSR). The performance was measured over a three-year performance period and the options are normally exercisable between the third and tenth anniversary of their grant.

(iii) 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.

(iv) 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.

(v) Recruitment and retention share award 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. 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. No new Aviva plc ordinary shares will be issued or transferred from treasury to satisfy vested awards under this plan.

(vi) 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 the grant, subject to achieving performance conditions.

32 – Group's share plans continued

(b) Outstanding options and awards

(i) Share options

At 31 December 2013, 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
	593	31,442	2013	310	1,032,407	2013, 2015 or 2017
	563	43,128	2014	268	8,589,161	2014, 2016 or 2018
	410	237,203	2013 or 2015	266	4,854,627	2015 or 2017
	316	1,318,491	2014 or 2016	312	2,822,984	2016 or 2018

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
	509	37,914	2013	304	335,245	2014 or 2016
	360	153,543	2014	336	204,105	2015 or 2017
	374	29,140	2013 or 2015	369	114,995	2016 or 2018

Aviva executive share option plan	Option price p	Number of shares	Normally exercisable
	526	265,463	2007 to 2014

The following table summarises information about options outstanding at 31 December 2013:

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 – £5.63	340,033	1	536.89

The comparative figures as at 31 December 2012 were:

Range of exercise prices	Outstanding options Number	Weighted average remaining contractual life Years	Weighted average exercise price p
£2.66 – £3.75	22,232,093	3	278.96
£3.76 – £4.84	1,860,467	1	393.12
£4.85 – £5.93	1,119,650	1	526.97

32 – Group's share plans continued

(ii) Share awards

At 31 December 2013, 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	Vesting period
	6,430,603	2011 to 2013
	9,186,213	2012 to 2014
	11,993,474	2013 to 2015

Aviva annual bonus plan 2011	Number of shares	Vesting period
	1,799,593	2011 to 2013
	3,248,634	2012 to 2014
	3,367,346	2013 to 2015

Aviva recruitment and retention share awards plan	Number of shares	Vesting period
	20,784	2014
	85,358	2014 and 2015
	34,050	2015
	62,441	2014, 2015 and 2016

Aviva Investors Holdings Limited 2009 long term incentive plan	Number of shares	Vesting period
	418,156	2013 to 2015

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 attach to the awards under the Aviva annual bonus plan 2011 or most of the awards under the recruitment and retention share awards plan.

7,215 of the shares awarded under the recruitment and retention share awards plan which vest in 2015 are subject to the attainment of the same performance conditions that apply to the 2013 grant under the Aviva long-term incentive plan 2011 as outlined in the director's remuneration report. Shares which do not vest will lapse.

The vesting of the awards under the Aviva Investors Holdings Limited long-term incentive plan are subject to Aviva Investors Holdings Limited achieving 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

Since July 2008, it has been 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 make it necessary to issue new shares. Further details are given in note 33.

(c) Movements in the year

A summary of the status of the option plans as at 31 December 2012 and 2013, and changes during the years ended on those dates, is shown below.

	2013		2012	
	Number of options	**Weighted average exercise price p**	Number of options	Weighted average exercise price p
Outstanding at 1 January	**25,212,210**	**298.40**	30,073,984	321.55
Granted during the year	**2,986,293**	**312.00**	6,236,944	269.02
Exercised during the year	**(2,442,874)**	**304.57**	(2,862,952)	315.24
Forfeited during the year	**(1,171,735)**	**274.84**	(2,187,371)	337.96
Cancelled during the year	**(1,355,364)**	**274.74**	(3,282,095)	300.34
Expired during the year	**(3,158,682)**	**403.02**	(2,766,300)	432.85
Outstanding at 31 December	**20,069,848**	**286.18**	25,212,210	298.40
Exercisable at 31 December	**846,226**	**410.53**	1,943,130	424.99

(d) Expense charged to the income statement

The total expense recognised for the year arising from equity compensation plans was as follows:

	2013 £m	2012 £m
Equity-settled expense	**37**	42
Cash-settled expense	**2**	5
Total (note 11(b))	**39**	47

(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, were £1.26 and £2.15 *(2012: £0.70 and £2.61)* respectively.

32 – Group's share plans continued

(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	**2013**	2012
Share price	**408p**	326p
Exercise price	**312p**	266p
Expected volatility	**38%**	41%
Expected life	**3.66 years**	3.71 years
Expected dividend yield	**3.58%**	7.98%
Risk-free interest rate	**0.92%**	0.37%

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. 2,442,874 options granted after 7 November 2002 were exercised during the year *(2012: 2,862,952)*.

(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	**2013**	2012
Share price	**295.37p**	331.54p
Expected volatility[1]	**35%**	37%
Expected volatility of comparator companies' share price[1]	**31%**	38%
Correlation between Aviva and competitors' share price[1]	**67%**	63%
Expected life	**3.00 years**	3.00 years
Expected dividend yield[2]	**—**	—
Risk-free interest rate[1]	**0.29%**	0.42%

1 For awards with market-based performance conditions.
2 The long term incentive plan awards granted in 2012 and 2013 include additional shares being provided to employees equal to dividend rights before vesting. As a result, no dividend yield assumption is required for 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

We satisfy awards and options granted under the Group's share plans primarily through shares purchased in the market and held by employee share trusts. This note gives details of the shares held in these trusts. Movements in the carrying value of shares held by employee trusts comprise:

	2013		2012	
	Number	**£m**	Number	£m
Cost debited to shareholders' funds				
At 1 January	**10,053,515**	**32**	13,284,476	43
Acquired in the year	**7,863,726**	**32**	10,269,904	33
Distributed in the year	**(9,355,859)**	**(33)**	(13,500,865)	(44)
Balance at 31 December	**8,561,382**	**31**	10,053,515	32

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 in note 32.

These shares were purchased in the market and are carried at cost. At 31 December 2013, they had an aggregate nominal value of £2,140,346 *(2012: £2,513,379)* and a market value of £38,500,535 *(2012: £37,499,611)*. 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 2013 was:

	2013 £m	2012 £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

Under its articles of association, the Company may issue and allot sterling new preference shares and euro new preference shares, which, if issued and allotted, would rank, as to payment of a dividend and capital, ahead of the Company's ordinary share capital but behind the cumulative irredeemable preference shares currently in issue. 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. 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	2013 £m	2012 £m
Issued November 2004		
5.9021% £500 million direct capital instrument	**500**	500
4.7291% €700 million direct capital instrument	**490**	490
	990	990
Issued May 2012		
8.25% US $650 million fixed rate tier 1 notes	**392**	392
	1,382	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'. They have no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the euro and sterling DCIs at their principal amounts on 28 November 2014 and 27 July 2020 respectively, at which dates the interest rates change to variable rates, or on any respective coupon payment date thereafter. In the case of the sterling DCI this variable rate will be the six month sterling deposit rate plus margin while the euro DCI variable rate will be the three month euro 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 DCIs and FxdRNs, the Company may at its sole option substitute at any time not less than all of the DCIs or FxdRNs for, or vary the terms of the DCIs 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 DCIs, the Company may at its sole option substitute not less than all of the DCIs for fully paid non-cumulative preference shares in the Company. These preference shares can only be redeemed on 28 November 2014 in the case of the euro DCIs and on 27 July 2020 in the case of the sterling DCIs, or in each case 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.

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

In relation to the DCIs, 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

This note describes the use of the 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 *(2012: £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 2012	1,530	79	530	(663)	86	1,562
Arising in the year through other comprehensive income:						
Fair value gains/(losses)	—	(3)	554	—	—	551
Fair value gains transferred to profit on disposals	—	—	(234)	—	—	(234)
Share of other comprehensive income of joint ventures and associates	—	—	14	—	—	14
Impairment losses on assets previously revalued directly through other comprehensive income now taken to income statement	—	—	12	—	—	12
Foreign exchange rate movements	(367)	—	—	74	—	(293)
Aggregate tax effect – shareholders' tax	18	1	(117)	—	—	(98)
Total other comprehensive income for the year	(349)	(2)	229	74	—	(48)
Transfer to profit on disposal of subsidiaries, joint ventures and associates	91	—	96	—	—	187
Reserves credit for equity compensation plans	—	—	—	—	42	42
Shares issued under equity compensation plans (note 38)	—	—	—	—	(68)	(68)
Balance at 31 December 2012	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 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 (note 38)	**—**	**—**	**—**	**—**	**(43)**	**(43)**
Balance at 31 December 2013	**907**	**74**	**18**	**(578)**	**54**	**475**

38 – Retained earnings

This note analyses the movements in the consolidated retained earnings during the year.

	2013 £m	Restated[1] 2012 £m
Balance at 1 January	**1,389**	5,954
Profit/(Loss) for the year attributable to equity shareholders	**2,008**	(3,102)
Remeasurements of pension schemes	**(674)**	(980)
Dividends and appropriations (note 16)	**(538)**	(847)
Shares issued in lieu of dividends	**—**	127
Shares issued under equity compensation plans (note 37)	**43**	67
Shares distributed by employee trusts	**(28)**	(36)
Transfer from other reserves on disposal of subsidiary	**1**	—
Aggregate tax effect	**147**	206
Balance at 31 December	**2,348**	1,389

1 Restated for the adoption of revised IAS19. See note 1 for further details.

The shares issued in lieu of dividends in 2012 were in respect of the transfer to retained earnings from the ordinary dividend account, arising from the treatment of these shares explained in note 31(b).

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:

	2013 £m	2012 £m
Equity shares in subsidiaries	**641**	424
Share of earnings	**321**	643
Share of other reserves	**259**	257
	1,221	1,324
Preference shares in General Accident plc	**250**	250
	1,471	1,574

Movements in the year comprised:

	2013 £m	2012 £m
Balance at 1 January	**1,574**	1,530
Profit for the year attributable to non-controlling interests	**143**	168
Non-controlling interests share of movements in other reserves	**—**	1
Foreign exchange rate movements	**34**	(37)
Total comprehensive income attributable to non-controlling interests	**177**	132
Capital contributions from non-controlling interests	**1**	20
Non-controlling interests share of dividends declared in the year	**(134)**	(102)
Changes in non-controlling interest in subsidiaries	**(147)**	(6)
Balance at 31 December	**1,471**	1,574

The Group has one subsidiary 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	
Italy	2013	2012	2013	2012	2013 £m	2012 £m	2013 £m	2012 £m
Eurovita Assicurazioni S.p.A	**61%**	61%	**61%**	61%	**(45)**	(25)	**29**	73

Eurovita Assicurazioni S.p.A (Eurovita) is classified as held for sale as at 31 December 2013. Details can be found in note 4(c) – Subsidiaries. There were no dividends paid to the non-controlling interest of Eurovita during the year *(2012: £nil)*.

Although the Group holds only 39% of the voting rights of Eurovita, it controls the entity. This is because Finoa S.r.l, a consolidated special purpose company of the Group which is controlled by Aviva Italia Holding S.p.A., owns 77.6% of Eurovita and has the ability to use its power over Eurovita to influence its returns.

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.

	2013			2012		
	Gross provisions £m	Reinsurance assets £m	Net £m	Gross provisions £m	Reinsurance assets £m	Net £m
Long-term business						
Insurance contracts	**(94,972)**	**3,734**	**(91,238)**	(131,190)	4,291	(126,899)
Participating investment contracts	**(70,628)**	**2**	**(70,626)**	(66,849)	3	(66,846)
Non-participating investment contracts	**(48,140)**	**2,048**	**(46,092)**	(47,699)	1,678	(46,021)
	(213,740)	**5,784**	**(207,956)**	(245,738)	5,972	(239,766)
Outstanding claims provisions						
Long-term business	**(1,287)**	**53**	**(1,234)**	(1,342)	93	(1,249)
General insurance and health	**(7,730)**	**849**	**(6,881)**	(7,711)	900	(6,811)
	(9,017)	**902**	**(8,115)**	(9,053)	993	(8,060)
Provisions for claims incurred but not reported	**(2,568)**	**315**	**(2,253)**	(2,843)	354	(2,489)
	(225,325)	**7,001**	**(218,324)**	(257,634)	7,319	(250,315)
Provision for unearned premiums	**(4,226)**	**256**	**(3,970)**	(4,441)	248	(4,193)
Provision arising from liability adequacy tests	**(10)**	**—**	**(10)**	(11)	—	(11)
Totals	**(229,561)**	**7,257**	**(222,304)**	(262,086)	7,567	(254,519)
Less: Amounts classified as held for sale	**2,948**	**(37)**	**2,911**	38,501	(883)	37,618
	(226,613)	**7,220**	**(219,393)**	(223,585)	6,684	(216,901)

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 the Group used.

(a) Carrying amount

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

	2013			2012		
	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	**45,098**	**—**	**45,098**	49,473	—	49,473
Unit-linked non-participating	**8,714**	**—**	**8,714**	9,936	—	9,936
Other non-participating	**41,160**	**—**	**41,160**	71,781	—	71,781
	94,972	**—**	**94,972**	131,190	—	131,190
Outstanding claims provisions	**1,287**	**7,730**	**9,017**	1,342	7,711	9,053
Provision for claims incurred but not reported	**—**	**2,568**	**2,568**	—	2,843	2,843
	1,287	**10,298**	**11,585**	1,342	10,554	11,896
Provision for unearned premiums	**—**	**4,226**	**4,226**	—	4,441	4,441
Provision arising from liability adequacy tests	**—**	**10**	**10**	—	11	11
Other technical provisions	**—**	**—**	**—**	—	—	—
Total	**96,259**	**14,534**	**110,793**	132,532	15,006	147,538
Less: Amounts classified as held for sale	**(106)**	**(132)**	**(238)**	(34,446)	(1)	(34,447)
	96,153	**14,402**	**110,555**	98,086	15,005	113,091

(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 note 41. To do this we need to separate out 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 below, as within the income statement, this is included within earned premiums.

	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									
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									
Change in insurance liabilities (note 41c(iv) and 44c(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 (note 7)	**(2,396)**	**(97)**	**(2,493)**	**320**	**(8)**	**312**	**(2,076)**	**(105)**	**(2,181)**

	Continuing Operations			Discontinued Operations			Total		
2012	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Long term business									
Change in long term business provisions (note 41b(iv))	531	(252)	279	1,691	(125)	1,566	2,222	(377)	1,845
Change in provision for outstanding claims	52	28	80	7	(7)	—	59	21	80
	583	(224)	359	1,698	(132)	1,566	2,281	(356)	1,925
General insurance and health									
Change in insurance liabilities (note 41c(iv) and 44c(ii))	140	(46)	94	—	—	—	140	(46)	94
Less: Unwind of discount on GI reserves and other	(35)	12	(23)	—	—	—	(35)	12	(23)
	105	(34)	71	—	—	—	105	(34)	71
Total change in insurance liabilities (note 7)	688	(258)	430	1,698	(132)	1,566	2,386	(390)	1,996

41 – Insurance liabilities continued

(b) Long-term business liabilities

(i) Business description

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

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

(ii) Group practice

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, modified where necessary to reflect the requirements of the Companies Act 2006.

Material judgment is required in calculating the provisions and is exercised particularly through the choice of assumptions where discretion is permitted. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates. Where discount rate assumptions are based on current market yields on fixed interest securities, allowance is made for default risk implicit in the yields on the underlying assets.

Bonuses paid during the year are reflected in claims paid, whereas those allocated as part of the bonus declaration are included in the movements in the long-term business provision.

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

(iii) Methodology and assumptions

There are two main methods of actuarial valuation of liabilities arising under long-term insurance contracts – the net premium method and the gross premium method – both of which involve the discounting of projected premiums and claims.

Under the net premium method, the premium taken into account in calculating the provision is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder, and so no assumption is required for persistency.

The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience.

(a) UK

With-profit business

The valuation of with-profit business uses the methodology developed for the Realistic Balance Sheet, adjusted to remove the shareholders' share of future bonuses. The key elements of the Realistic Balance Sheet methodology are the with-profit benefit reserve (WPBR) and the present value of the expected cost of any payments in excess of the WPBR (referred to as the cost of future policy-related liabilities). The realistic liability for any contract is equal to the sum of the WPBR and the cost of future policy-related liabilities. The WPBR for an individual contract is generally calculated on a retrospective basis, and represents the accumulation of the premiums paid on the contract, allowing for investment return, taxation, expenses and any other charges levied on the contract.

For a small proportion of business, a prospective valuation approach is used, including allowance for anticipated future regular and final bonuses.

The items included in the cost of future policy-related liabilities include:

- Maturity Guarantees;
- Guarantees on surrender, including no-MVR Guarantees and Guarantees linked to inflation;
- Guaranteed Annuity Options;
- GMP underpin on Section 32 transfers; and
- Expected payments under Mortgage Endowment Promise.

41 – Insurance liabilities continued

The cost of future policy-related liabilities is determined using a market-consistent approach and, in the main, this is based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market-related assumptions (for example, persistency, mortality and expenses) are based on experience, adjusted to take into account future trends.

The principal assumptions underlying the cost of future policy-related liabilities are as follows:

Future investment return

A 'risk-free' rate equal to the spot yield on UK swaps is used for the valuation of With-Profits business. The rates vary according to the outstanding term of the policy, with a typical rate as at 31 December 2013 of 3.11% *(2012: 1.92 %)* 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	**2013**	2012
Equity returns	**22.2%**	26.3%
Property returns	**15.0%**	15.0%
Fixed interest yields	**16.3%**	17.1%

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 2014 have been set consistently with the year-end 2013 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	**2013**	2012
Assurances, pure endowments and deferred annuities before vesting	**Nil or Axx00 adjusted**	Nil or Axx00 adjusted
Pensions business after vesting and pensions annuities in payment	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

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

Non-profit business

The valuation of non-profit business is based on regulatory requirements, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business. Conventional non-profit contracts, including those written in the with-profit funds, are valued using gross premium methods which discount projected future cash flows. The cash flows are calculated using the amount of contractual premiums payable, together with explicit assumptions for investment returns, inflation, discount rates, mortality, morbidity, persistency and future expenses. These assumptions vary by contract type and reflect current and expected future experience.

For unit-linked and some unitised with-profit business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows on the assumption that future premiums cease, unless it is more onerous to assume that they continue. Where appropriate, allowance for persistency is based on actual experience.

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields. An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical default experience of each asset class. A further margin for risk is then deducted for all asset classes.

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option.

41 – Insurance liabilities continued

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

Valuation discount rates	**2013**	2012
Assurances		
Life conventional non-profit	**2.5%**	1.8%
Pensions conventional non-profit	**3.2%**	2.2%
Annuities		
Conventional immediate and deferred annuities	**3.2% to 4.7%**	2.6% to 4.1%
Non-unit reserves on Unit Linked business		
Life	**2.8%**	2.1%
Pensions	**3.5%**	2.5%
Income Protection		
Active lives	**2.9%**	2.2%
Claims in payment – level	**3.1%**	3.1%
Claims in payment – index linked	**(0.6)%**	(0.7)%

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. The credit risk allowance made for corporate bonds and mortgages, including healthcare mortgages, held by Aviva Annuity UK Limited equated to 48bps and 124bps respectively at 31 December 2013 *(2012: 56 bps and 89 bps respectively)*. For corporate bonds, the allowance represented 44% of the average credit spread for the portfolio *(2012: 30%)*. The total valuation allowance held by Aviva Annuity UK Limited in respect of corporate bonds and mortgages, including healthcare mortgages, was £2.0 billion *(2012: £2.0 billion including an implicit reinvestment margin of £0.2 billion)* over the remaining term of the UK Life corporate bond and mortgage portfolio. Total liabilities for the annuity business were £30 billion at 31 December 2013 *(2012: £30 billion)*. Whilst the total valuation allowance held by Aviva Annuity UK Limited remained unchanged, the allowance for defaults for commercial mortgages was increased by £0.3 billion at half year (whilst the implicit reinvestment margin was reduced by £0.2 billion to reflect management actions to better duration match), during the second half of 2013 this has reduced slightly in line with interest rate increases and default experience, the allowance for corporate bonds remains largely unchanged.

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	**2013**	2012
Assurances		
Non-profit	**AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors**	AM00/AF00 or TM00/TF00 adjusted for smoker status and age/sex specific factors
Pure endowments and deferred annuities before vesting	**AM00/AF00 adjusted**	AM00/AF00 adjusted
Annuities in payment		
Pensions business and general annuity business	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

For the main pensions annuity business in Aviva Annuity UK Limited, the underlying mortality assumptions for Males are 103.0% of PCMA00 with base year 2000; for Females the underlying mortality assumptions are 98.5% of PCFA00 with base year 2000. Improvements have been strengthened and are based on data used in 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 *(2012: CMI_2011 with long-term improvement rate of 1.5% for males and 1.0% 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
	2013 and 2012	2013 and 2012
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

41 – Insurance liabilities continued

(c) Other countries

In all other countries, local generally accepted interest rates and published standard mortality tables are used for different categories of business as appropriate. The tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

(iv) Movements

The following movements have occurred in the gross long-term business provisions during the year:

	2013 £m	Restated[1] 2012 £m
Carrying amount at 1 January	**131,190**	131,171
Provisions in respect of new business	**5,671**	8,631
Expected change in existing business provisions	**(8,015)**	(8,362)
Variance between actual and expected experience	**2,871**	943
Impact of operating assumption changes	**428**	(718)
Impact of economic assumption changes	**(2,812)**	1,726
Other movements[1]	**(235)**	2
Change in liability recognised as an expense	**(2,092)**	2,222
Effect of portfolio transfers, acquisitions and disposals[2]	**(34,441)**	(214)
Foreign exchange rate movements	**509**	(1,878)
Other movements[1,3]	**(194)**	(111)
Carrying amount at 31 December	**94,972**	131,190

1 Other movements (outside change in liability recognised as an expense) of £(111) million in 2012 represents the reclassification of liabilities from insurance to non-participating investment in Eurovita. In 2012 these were included within "Other movements" within change in liability recognised as an expense.
2 Disposals in 2013 include £31,167 million related to the disposal of the US business, £1,900 million related to the disposal of Aseval, and £1,233 million related to the disposal of Ark Life.
3 Other movements (outside change in liability recognised as an expense) in 2013 of £(194) million represents the reclassification of liabilities from insurance to participating investment in Eurovita.

The variance between actual and expected experience of £2.9 billion in 2013 was primarily due to the impact of favourable equity and property returns on liabilities for unit-linked and with profit contracts in the UK and Ireland, and unit-linked contracts in France and Italy. 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. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of insurance liabilities. The £0.4 billion impact of operating assumption changes relates to a strengthening of mortality and lapse assumptions on protection business in the UK (with the impact on profit mainly offset by a corresponding increase in reinsurance assets), and the impact on with profit liabilities in the With profits sub-fund (WPSF), of a decision to discontinue the charge on assets shares for guarantee costs, and to refund previously deducted charges to asset shares. The £2.8 billion impact of economic assumption changes reflects increases in valuation interest rates, primarily in respect of immediate annuity and participating insurance contracts in the UK.

The £0.2 billion release of reserves due to "other movements" (included within change in liability recognised as an expense) largely relates to UK with profit liabilities, the most significant individual item being the impact on asset shares of moving to a fair-value asset valuation, for loans previously valued at amortised cost.

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.

In 2013 we found evidence of improper allocation of trades in fixed income securities in Aviva Investors. This occurred between 2006 – 2012. 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 has been carried out by management and reviewed by PwC. Measures to improve controls have been implemented.

Of the total expected cost of £132 million, an amount of £126 million in relation to this matter has been recognised within insurance liabilities (this reflects the compensation expected to be claimed in respect of these breaches), with the balance relating to other associated costs.

41 – Insurance liabilities continued

(c) General insurance and health liabilities

(i) Provisions for outstanding claims

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

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses (LAE) in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

The Group only establishes loss reserves for losses that have already occurred. The Group therefore does not establish catastrophe equalisation reserves that defer a share of income in respect of certain lines of business from years in which a catastrophe does not occur to future periods in which catastrophes may occur. When calculating reserves, the Group takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability.

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

	As at 31 December 2013			As at 31 December 2012		
	Outstanding claim provisions £m	**IBNR provisions £m**	**Total claim provisions £m**	Outstanding claim provisions £m	IBNR provisions £m	Total claim provisions £m
Motor	**3,724**	**1,001**	**4,725**	3,737	1,051	4,788
Property	**1,493**	**180**	**1,673**	1,408	212	1,620
Liability	**2,035**	**1,208**	**3,243**	2,003	1,394	3,397
Creditor	**26**	**18**	**44**	54	13	67
Other	**452**	**161**	**613**	509	173	682
	7,730	**2,568**	**10,298**	7,711	2,843	10,554

(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	**2013**	2012	**2013**	2012
Reinsured London Market business	**2.5%**	2.0%	**12 years**	11 years
Latent claims	**0.36% to 3.76%**	0.33% to 3.35%	**6 to 15 years**	6 to 15 years
Structured settlements	**2.8%**	2.6%	**35 years**	33 years

The gross outstanding claims provision before discounting was £10,914 million *(2012: £11,004 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 operating profit as an economic assumption change.

During 2013, the Group has seen a levelling off 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. Claims 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.

41 – Insurance liabilities continued

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at a point estimate for the ultimate cost of claims that represents the likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range.

The following explicit assumptions are made which could materially impact the level of booked net reserves:

UK mesothelioma claims

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities. UK mesothelioma claims account for a large proportion of the Group's latent claims. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim, future inflation in the average cost of claims and legal fees.

The best estimate of the liabilities reflects the latest available market information and studies. Many different scenarios can be derived by flexing these key assumptions and applying different combinations of the different assumptions. An upper and lower scenario can be derived by making reasonably likely changes to these assumptions, resulting in an estimate £235 million greater than the best estimate, or £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 2013, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £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 reduction in the Ogden discount rates. A reduction in the Ogden discount rates will increase lump sum payments to UK bodily injury claimants.

41 – Insurance liabilities continued

(iv) Movements

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

	2013 £m	2012 £m
Carrying amount at 1 January	**10,554**	10,745
Impact of changes in assumptions	**(80)**	61
Claim losses and expenses incurred in the current year	**6,337**	6,291
Decrease in estimated claim losses and expenses incurred in prior years	**(237)**	(199)
Exceptional strengthening of general insurance latent claims provisions	**—**	—
Incurred claims losses and expenses	**6,020**	6,153
Less:		
Payments made on claims incurred in the current year	**(3,352)**	(3,243)
Payments made on claims incurred in prior years	**(3,001)**	(3,104)
Recoveries on claim payments	**285**	297
Claims payments made in the year, net of recoveries	**(6,068)**	(6,050)
Unwind of discounting	**15**	35
Other movements in the claims provisions	**—**	2
Changes in claims reserve recognised as an expense	**(33)**	140
Effect of portfolio transfers, acquisitions and disposals	**(44)**	(171)
Foreign exchange rate movements	**(178)**	(158)
Other movements	**(1)**	(2)
Carrying amount at 31 December	**10,298**	10,554

The effect of changes in the main assumptions is given in note 45 and the economic assumption changes are explained in note 10.

(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 2004 to 2013. 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 2004, by the end of 2013 £5,843 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 £6,891 million was re-estimated to be £5,919 million at 31 December 2013.

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. 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. However, in order to maintain overall reserve adequacy, the Group establishes strong reserves in respect of the current accident year (2013) where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

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.
- £9 million release from Europe mainly due to favourable development across a number of lines of business in France.
- £160 million release from Canada mainly due to continued favourable experience on motor, following the legislative changes in Ontario.

Key elements of the release from prior accident year general insurance and health net provisions during 2012 were:

- £47 million release from UK & Ireland, including Group reinsurance business, due to favourable development in Group reinsurance, health and across a number of lines of business in Ireland.
- £51 million release from Europe mainly due to favourable development of personal motor and commercial property claims in France.
- £122 million release from Canada mainly due to continued favourable experience on motor, following the legislative changes in Ontario.

41 – Insurance liabilities continued

(ii) Gross figures

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

Accident year	All prior years £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**Total £m**
Gross cumulative claim payments												
At end of accident year		(2,971)	(3,345)	(3,653)	(4,393)	(4,915)	(3,780)	(3,502)	(3,420)	(3,055)	(3,068)	
One year later		(4,561)	(5,011)	(5,525)	(6,676)	(7,350)	(5,464)	(5,466)	(4,765)	(4,373)		
Two years later		(4,981)	(5,449)	(5,971)	(7,191)	(7,828)	(6,102)	(5,875)	(5,150)			
Three years later		(5,263)	(5,784)	(6,272)	(7,513)	(8,304)	(6,393)	(6,163)				
Four years later		(5,448)	(6,001)	(6,531)	(7,836)	(8,607)	(6,672)					
Five years later		(5,617)	(6,156)	(6,736)	(8,050)	(8,781)						
Six years later		(5,725)	(6,311)	(6,936)	(8,144)							
Seven years later		(5,792)	(6,467)	(7,015)								
Eight years later		(5,826)	(6,496)									
Nine years later		(5,843)										
Estimate of gross ultimate claims												
At end of accident year		6,891	7,106	7,533	8,530	9,508	7,364	6,911	6,428	6,201	6,122	
One year later		6,557	6,938	7,318	8,468	9,322	7,297	7,006	6,330	6,028		
Two years later		6,371	6,813	7,243	8,430	9,277	7,281	6,950	6,315			
Three years later		6,178	6,679	7,130	8,438	9,272	7,215	6,914				
Four years later		6,008	6,603	7,149	8,409	9,235	7,204					
Five years later		6,003	6,605	7,167	8,446	9,252						
Six years later		5,953	6,591	7,167	8,381							
Seven years later		5,933	6,596	7,176								
Eight years later		5,926	6,604									
Nine years later		5,919										
Estimate of gross ultimate claims		5,919	6,604	7,176	8,381	9,252	7,204	6,914	6,315	6,028	6,122	
Cumulative payments		(5,843)	(6,496)	(7,015)	(8,144)	(8,781)	(6,672)	(6,163)	(5,150)	(4,373)	(3,068)	
	2,792	76	108	161	237	471	532	751	1,165	1,655	3,054	**11,002**
Effect of discounting	(614)	(1)	(1)	—	(1)	1	—	—	—	—	—	**(616)**
Present value	2,178	75	107	161	236	472	532	751	1,165	1,655	3,054	**10,386**
Cumulative effect of foreign exchange movements	—	12	16	22	17	(30)	(21)	(42)	(38)	(33)	—	**(97)**
Effect of acquisitions	2	1	2	4	—	—	—	—	—	—	—	**9**
Present value recognised in the statement of financial position	**2,180**	**88**	**125**	**187**	**253**	**442**	**511**	**709**	**1,127**	**1,622**	**3,054**	**10,298**

41 – Insurance liabilities continued

(iii) Net of reinsurance

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

Accident year	All prior years £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	**Total £m**
Net cumulative claim payments												
At end of accident year		(2,870)	(3,281)	(3,612)	(4,317)	(4,808)	(3,650)	(3,386)	(3,300)	(2,925)	(2,905)	
One year later		(4,378)	(4,925)	(5,442)	(6,542)	(7,165)	(5,286)	(5,242)	(4,578)	(4,166)		
Two years later		(4,712)	(5,344)	(5,881)	(7,052)	(7,638)	(5,885)	(5,637)	(4,963)			
Three years later		(4,986)	(5,671)	(6,181)	(7,356)	(8,094)	(6,177)	(5,905)				
Four years later		(5,163)	(5,892)	(6,434)	(7,664)	(8,356)	(6,410)					
Five years later		(5,327)	(6,039)	(6,625)	(7,852)	(8,515)						
Six years later		(5,430)	(6,188)	(6,724)	(7,942)							
Seven years later		(5,491)	(6,245)	(6,789)								
Eight years later		(5,524)	(6,294)									
Nine years later		(5,541)										
Estimate of net ultimate claims												
At end of accident year		6,602	6,982	7,430	8,363	9,262	7,115	6,650	6,202	5,941	5,838	
One year later		6,266	6,818	7,197	8,302	9,104	7,067	6,751	6,103	5,765		
Two years later		6,082	6,688	7,104	8,244	9,028	7,036	6,685	6,095			
Three years later		5,882	6,544	6,996	8,249	9,007	6,978	6,644				
Four years later		5,709	6,476	6,980	8,210	8,962	6,940					
Five years later		5,699	6,448	6,992	8,221	8,949						
Six years later		5,639	6,397	6,939	8,149							
Seven years later		5,624	6,372	6,938								
Eight years later		5,613	6,385									
Nine years later		5,600										
Estimate of net ultimate claims		5,600	6,385	6,938	8,149	8,949	6,940	6,644	6,095	5,765	5,838	
Cumulative payments		(5,541)	(6,294)	(6,789)	(7,942)	(8,515)	(6,410)	(5,905)	(4,963)	(4,166)	(2,905)	
	1,720	59	91	149	207	434	530	739	1,132	1,599	2,933	**9,593**
Effect of discounting	(394)	—	13	3	3	1	1	—	—	—	—	**(373)**
Present value	1,326	59	104	152	210	435	531	739	1,132	1,599	2,933	**9,220**
Cumulative effect of foreign exchange movements	—	10	13	21	17	(28)	(20)	(39)	(37)	(32)	—	**(95)**
Effect of acquisitions	2	1	2	4	—	—	—	—	—	—	—	**9**
Present value recognised in the statement of financial position	**1,328**	**70**	**119**	**177**	**227**	**407**	**511**	**700**	**1,095**	**1,567**	**2,933**	**9,134**

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 2004. The undiscounted claim provisions for continuing operations, net of reinsurance, in respect of this business at 31 December 2013 were £976 million *(2012: £1,003 million)*. The movement in the year reflects strengthening of provisions by £5 million in the UK *(2012: £8 million)*, other decreases in undiscounted provisions of £2 million *(2012: £51 million increase)*, claim payments, 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:

	2013 £m	2012 £m
Carrying amount at 1 January	**4,441**	4,483
Premiums written during the year	**9,361**	9,535
Less: Premiums earned during the year	**(9,497)**	(9,514)
Change in UPR recognised as income	**(136)**	21
Gross portfolio transfers and acquisitions	**—**	(6)
Foreign exchange rate movements	**(79)**	(57)
Carrying amount at 31 December	**4,226**	4,441

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	2013 £m	2012 £m
Participating contracts	**70,628**	66,849
Non-participating contracts at fair value	**48,140**	46,299
Non-participating contracts at amortised cost	**—**	1,400
	48,140	47,699
Total	**118,768**	114,548
Less: Amounts classified as held for sale	**(2,710)**	(4,054)
	116,058	110,494

(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 the US, there are no non-participating investment contracts, that are measured at amortised cost, at 31 December 2013.

Of the non-participating investment contracts measured at fair value, £47,684 million in 2013 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 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.

(c) Movements in the year

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

(i) Participating investment contracts

	2013 £m	2012 £m
Carrying amount at 1 January	**66,849**	67,707
Provisions in respect of new business	**3,421**	2,695
Expected change in existing business provisions	**(2,243)**	(2,039)
Variance between actual and expected experience	**1,085**	102
Impact of operating assumption changes	**329**	9
Impact of economic assumption changes	**(301)**	74
Other movements	**(47)**	(82)
Change in liability recognised as an expense	**2,244**	759
Effect of portfolio transfers, acquisitions and disposals[1]	**(39)**	—
Foreign exchange rate movements	**1,380**	(1,610)
Other movements[2]	**194**	(7)
Carrying amount at 31 December	**70,628**	66,849

1 Disposals in 2013 relate to Aseval.
2 Other movements (outside change in liability recognised as an expense) in 2013 of £194 million represents 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. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The £0.3 billion impact of operating assumption changes relates to the impact on with profit liabilities in the With-profits sub-fund (WPSF), of a decision to discontinue the charge on assets shares for guarantee costs, and to refund previously deducted charges to asset shares.

The impact of assumption changes in the above 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

	2013 £m	Restated[1] 2012 £m
Carrying amount at 1 January	**47,699**	45,659
Provisions in respect of new business	**3,386**	3,851
Expected change in existing business provisions	**(2,698)**	(2,531)
Variance between actual and expected experience	**3,122**	982
Impact of operating assumption changes	**4**	14
Impact of economic assumption changes	**1**	4
Other movements	**46**	(18)
Change in liability	**3,861**	2,302
Effect of portfolio transfers, acquisitions and disposals[2]	**(3,785)**	25
Foreign exchange rate movements	**365**	(404)
Other movements	**—**	117
Carrying amount at 31 December	**48,140**	47,699

1 "Other movements" (outside Change in liability) of £117 million in 2012 include £111 million in respect of the reclassification of liabilities from insurance to non-participating investment. In the 2012 statements this £111 million was included within "Other movements" (within change in liability).
2 Disposals include £1,826 million related to the disposal of the US business, and £1,955 million related to the disposal of Ark Life.

The variance between actual and expected experience of £3.1 billion was primarily driven by favourable movements in investment markets in 2013. The rise in investment markets increased the value of unit linked contracts, which comprise the vast majority of the non-participating investment contract liabilities. For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of non-participating investment contract liabilities. The impact 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 £921 million at 31 December 2013 *(2012: £1,156 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 £149 million at 31 December 2013 *(2012: £180 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 £31 million at 31 December 2013 *(2012: £35 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 the end of 2013.

The most significant of these contracts is the AFER Eurofund which has total liabilities of £34 billion at 31 December 2013 *(2012: £33 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 3.36% for 2013 (*2012: 3.45%*) compared with an accounting income from the fund of 3.85% (*2012: 3.94%*).

Non-AFER contracts with guaranteed surrender values had liabilities of £15 billion at 31 December 2013 *(2012: £14 billion)* and all guaranteed annual bonus rates are between 0% and 4.5%.

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 2013 for this guarantee is £20 million *(2012: £101 million).* The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2013, total sums at risk for these contracts were £101 million *(2012: £223 million)* out of total unit-linked funds of £15 billion *(2012: £12 billion).* The average age of policyholders was approximately 54. It is estimated that this liability would increase by £22 million *(2012: £88 million)* if yields were to decrease by 1% per annum and by £8 million *(2012: £21 million)* if equity markets were to decline by 10% from year end 2013 levels. These figures do not reflect our ability to review the tariff for this option.

(ii) Ireland

Guaranteed annuity options

Products with similar GAOs to those offered in the UK have been issued in Ireland. The current net of reinsurance provision for such options is £202 million *(2012: £256 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 are currently 'in-the-money' by £0.2 million *(2012: £0.4 million).* 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. There is no sensitivity to either interest rates or equity markets since there is no longer any exposure to equity in these funds and a matching strategy has been implemented for bonds.

(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 2013, total liabilities for the Spanish business were £1 billion *(2012: £3 billion)* with a further reserve of £0.1 million *(2012: £0.1 million)* for guarantees. Total liabilities for the Italian business were £11 billion *(2012: £10 billion)*, with a further provision of £43 million *(2012: £45 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 £7 million *(2012: £5 million)* in Spain and £0 million *(2012: £1 million)* in Italy if interest rates fell by 1% from end 2013 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 2.34% and no lapses or premium discontinuances.

(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:

	2013 £m	2012 £m
Long-term business		
Insurance contracts	**3,734**	4,291
Participating investment contracts	**2**	3
Non-participating investment contracts[1]	**2,048**	1,678
	5,784	5,972
Outstanding claims provisions	**53**	93
	5,837	6,065
General insurance and health		
Outstanding claims provisions	**849**	900
Provisions for claims incurred but not reported	**315**	354
	1,164	1,254
Provisions for unearned premiums	**256**	248
	1,420	1,502
	7,257	7,567
Less: Amounts classified as held for sale	**(37)**	(883)
Total	**7,220**	6,684

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, £5,553 million *(2012: £5,251 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

	2013 £m	2012 £m
Carrying amount at 1 January	**5,972**	5,373
Asset in respect of new business	**268**	387
Expected change in existing business asset	**19**	166
Variance between actual and expected experience	**454**	197
Impact of operating assumption changes	**247**	(306)
Impact of economic assumption changes	**(426)**	143
Other movements	**81**	(137)
Change in asset	**643**	450
Effect of portfolio transfers, acquisitions and disposals[1]	**(873)**	197
Foreign exchange rate movements	**42**	(48)
Carrying amount at 31 December	**5,784**	5,972

1 Includes £631 million related to the disposal of the US business in 2013, £3 million related to the disposal of Aseval, and £230 million related to the disposal of Ark Life.

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

	2013 £m	2012 £m
Carrying amount at 1 January	**1,254**	1,369
Impact of changes in assumptions	**(45)**	22
Reinsurers' share of claim losses and expenses		
Incurred in current year	**312**	286
Incurred in prior years	**(32)**	13
Exceptional strengthening of general insurance latent claims provisions	**—**	—
Reinsurers' share of incurred claim losses and expenses	**280**	299
Less:		
Reinsurance recoveries received on claims		
Incurred in current year	**(169)**	(138)
Incurred in prior years	**(140)**	(150)
Reinsurance recoveries received in the year	**(309)**	(288)
Unwind of discounting	**10**	13
Other movements	**—**	—
Change in reinsurance asset recognised as income	**(64)**	46
Effect of portfolio transfers, acquisitions and disposals	**(9)**	(136)
Foreign exchange rate movements	**(11)**	(26)
Other movements	**(6)**	1
Carrying amount at 31 December	**1,164**	1,254

(iii) Reinsurers' share of the provision for UPR

	2013 £m	2012 £m
Carrying amount at 1 January	**248**	245
Premiums ceded to reinsurers in the year	**641**	641
Less: Reinsurers' share of premiums earned during the year	**(643)**	(636)
Change in reinsurance asset recognised as income	**(2)**	5
Reinsurers' share of portfolio transfers and acquisitions	**7**	3
Foreign exchange rate movements	**—**	(5)
Other movements	**3**	—
Carrying amount at 31 December	**256**	248

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 2012 to 2013, 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 2013 £m	Effect on profit 2012 £m
Assumptions		
Long-term insurance business		
Interest rates	**1,389**	(515)
Expenses	**3**	11
Persistency rates	**(1)**	—
Mortality for assurance contracts	**8**	—
Mortality for annuity contracts	**85**	241
Tax and other assumptions	**20**	(207)
Investment contracts		
Interest rates	**—**	(2)
Expenses	**—**	(1)
Persistency rates	**—**	—
Tax and other assumptions	**—**	—
General insurance and health business		
Change in loss ratio assumptions	**3**	—
Change in discount rate assumptions	**33**	(21)
Change in expense ratio and other assumptions	**—**	(21)
Total	**1,540**	(515)

The impact of interest rates for long-term business relates primarily to the UK and Ireland driven by the increase in valuation interest rates. This had the effect of decreasing liabilities and hence a positive impact on profit. The overall impact on profit also depends on movements in the value of assets backing the liabilities, which is not included in this disclosure. The impact of annuitant mortality assumptions relates to a slight weakening of annuitant mortality assumptions in the UK and Ireland. Mortality assumptions in the UK and Ireland are reviewed each year, and updated to reflect recent experience.

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.

The following movements have occurred in the year:

	2013 £m	2012 £m
Carrying amount at 1 January	**6,986**	650
Change in participating contract assets	**(262)**	6,140
Change in participating contract liabilities	**(22)**	253
Other movements	**4**	(77)
Change in liability recognised as an expense	**(280)**	6,316
Effect of portfolio transfers, acquisitions and disposals	**(115)**	1
Foreign exchange rate movements	**118**	24
Other movements	**—**	(5)
Carrying amount at 31 December	**6,709**	6,986
Less: Amounts classified as held for sale	**4**	(55)
	6,713	6,931

Following the reversal of previous losses in Italy and Spain, all Italian participating funds at 31 December 2013 have a positive UDS balance with the exception of Eurovita (which is held for sale) and a number of smaller funds in Italy. In Spain, all participating funds had positive UDS balances at 31 December 2013.

Negative UDS balances result from an accounting mismatch between participating assets carried at market value and participating liabilities measured using local practice. The 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. The negative balances are considered to be recoverable from margins in the existing participating business liabilities.

In Italy the estimation of the recoverable negative UDS balance uses a real-world embedded value method, with a risk-discount rate of 6.6% *(2012: 6.25%)*. The embedded value method includes implicit allowance for the time value of options and guarantees. In Spain, the estimation of the recoverable negative UDS balance uses a market-consistent embedded value method.

At 31 December 2013 there was no negative UDS in Spain and consequently testing was not required. The carrying value of UDS was £132 million positive *(2012: £95 million positive in aggregate, though certain funds had a negative UDS balance totalling £39 million).*

At 31 December 2013, the negative UDS balances in Italy were tested for recoverability and £42 million (£39 million Eurovita) of negative UDS was considered irrecoverable *(2012: £130 million, £108 million Eurovita)*. The remaining carrying value of negative UDS in Italy is £5 million, of which £4 million is in Eurovita. The aggregate UDS balance was £205 million positive at 31 December 2013 *(2012: £2 million negative)*.

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 £42 million and £1 million *(2012: £37 million and £8 million),* respectively.

(b) Deferred tax

(i) The balances at 31 December comprise:

	2013 £m	2012 £m
Deferred tax assets	**252**	220
Deferred tax liabilities	**(564)**	(1,227)
Net deferred tax liability	**(312)**	(1,007)
Less: Amounts classified as held for sale	**(7)**	648
	(319)	(359)

Amounts classified as held for sale include £8 million of deferred tax assets *(2012: £32 million)* and £1 million of deferred tax liabilities *(2012: £680 million)*.

(ii) The net deferred tax liability arises on the following items:

	2013 £m	2012 £m
Long-term business technical provisions and other insurance items	**1,276**	2,067
Deferred acquisition costs	**(220)**	(681)
Unrealised gains on investments	**(1,856)**	(2,869)
Pensions and other post-retirement obligations	**(78)**	(135)
Unused losses and tax credits	**296**	535
Subsidiaries, associates and joint ventures	**(8)**	(10)
Intangibles and additional value of in-force long-term business	**(190)**	(363)
Provisions and other temporary differences	**468**	449
Net deferred tax liability	**(312)**	(1,007)
Less: Amounts classified as held for sale	**(7)**	648
	(319)	(359)

(iii) The movement in the net deferred tax liability was as follows:

	2013 £m	Restated 2012 £m
Net liability at 1 January	**(1,007)**	(933)
Acquisition and disposal of subsidiaries[1]	**682**	—
Amounts charged to income statement (note 14(a))	**(251)**	(141)
Amounts credited to other comprehensive income (note 14(b))	**271**	43
Foreign exchange rate movements	**(8)**	27
Other movements	**1**	(3)
Net liability at 31 December	**(312)**	(1,007)

1 Disposals include the disposal of the US business in 2013 £689 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 £777 million *(2012: £1,005 million)* to carry forward against future taxable income of the necessary category in the companies concerned. Of these, trading losses of £79 million will expire within the next 20 years. The remaining losses have no expiry date.

In addition, the Group has unrecognised capital losses of £438 million *(2012: £652 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 2013 (*2012: £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

	2013 £m	2012 £m
Total IAS 19 obligations to main staff pension schemes (Note 49(a))	**367**	651
Deficits in other staff pension schemes	**43**	88
Total IAS 19 obligations to staff pension schemes	**410**	739
Restructuring provisions	**140**	144
Other provisions	**437**	423
Total provisions	**987**	1,306
Less: Amounts classified as held for sale	**(3)**	(187)
	984	1,119

Other provisions comprise many small provisions throughout the Group for obligations such as costs of compensation, litigation and staff entitlements.

Of the total, £532 million *(2012: £901 million)* is expected to be settled more than one year after the statement of financial position date.

(b) Movements on restructuring and other provisions

	2013			2012		
	Restructuring provisions £m	Other provisions £m	Total £m	Restructuring provisions £m	Other provisions £m	Total £m
At 1 January	**144**	**423**	**567**	106	398	504
Additional provisions	**222**	**219**	**441**	236	120	356
Unused amounts reversed	**—**	**(22)**	**(22)**	—	(30)	(30)
Change in the discounted amount arising from passage of time	**—**	**1**	**1**	—	5	5
Charge to income statement	**222**	**198**	**420**	236	95	331
Utilised during the year	**(210)**	**(72)**	**(282)**	(197)	(53)	(250)
Disposal of subsidiaries	**(17)**	**(116)**	**(133)**	—	(3)	(3)
Foreign exchange rate movements	**1**	**4**	**5**	(1)	(14)	(15)
At 31 December	**140**	**437**	**577**	144	423	567

Disposal of subsidiaries in 2013 includes £132 million relating to US Life.

49 – Pension obligations

(a) Introduction

The Group operates a large 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 2013 are shown below.

	2013				2012			
	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)	**11,734**	**431**	**233**	**12,398**	11,647	406	228	12,281
Present value of defined benefit obligation	**(11,185)**	**(640)**	**(334)**	**(12,159)**	(10,501)	(777)	(397)	(11,675)
Net surplus/(deficits) in the schemes	**549**	**(209)**	**(101)**	**239**	1,146	(371)	(169)	606
Surplus included in other assets (note 29)	**606**	**—**	**—**	**606**	1,257	—	—	1,257
Deficit included in provisions (note 48)	**(57)**	**(209)**	**(101)**	**(367)**	(111)	(371)	(169)	(651)
	549	**(209)**	**(101)**	**239**	1,146	(371)	(169)	606

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	
	2013 Number	2012 Number	**2013 Number**	2012 Number	**2013 Number**	2012 Number
Active members	**—**	—	**—**	791	**—**	—
Deferred members	**56,009**	56,825	**2,017**	1,246	**919**	1,022
Pensioners	**30,945**	30,647	**747**	723	**1,364**	1,344
Total members	**86,954**	87,472	**2,764**	2,760	**2,283**	2,366

As noted in section (ii) below, the final salary section of the Irish scheme was closed to future accrual with effect from 30 April 2013. The final salary sections of the UK and Canadian schemes were closed to future accrual in 2011. 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 and new entrants participate in the defined contribution section of the ASPS. Both schemes operate within the UK pensions' regulatory framework.

(ii) Other schemes

Following formal consultation, the Group confirmed its decision to close the final salary section of the Irish scheme with effect from 30 April 2013, in addition to making amendments to future pension increases and breaking the link to final salary. The consequential reduction in the liabilities, arising from the plan amendments to future pension increases and the break to final salary has resulted in a negative past service cost (a gain) of £145 million. The Irish scheme is regulated by the Irish Pensions Board.

In Canada, although future accruals ceased with effect from 31 December 2011, the defined benefit components continue to reflect future increases in salary as benefits are based on a member's best average earnings at a future date. The main Canadian plan is a 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:

2013	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus £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 statement from continuing operations	**543**	**(381)**	**162**
Remeasurements:			
Actual return on these 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 scheme at 31 December	**12,398**	**(12,159)**	**239**

1 Includes £145 million gain relating to plan amendments to the Irish pension scheme.
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.

49 – Pension obligations continued

The present value of unfunded post-retirement benefit obligations included in the table above is £118 million at 31 December 2013 *(2012: £127 million).*

The net surplus in the pension schemes in 2013 was adversely affected by a narrowing of the spread between UK corporate bond yields and gilt yields. This was partly offset by a variety of factors which increased the surplus, including deficit funding contributions, positive equity and property market performance, and reductions to future member benefits.

2012 (Restated)[1]	Fair Value of Scheme Assets £m	Present Value of defined benefit obligation £m	IAS 19 Pensions net surplus £m
Net surplus in the schemes at 1 January	11,791	(10,527)	1,264
Current service costs	—	(6)	(6)
Past service costs – curtailment gain	—	15	15
Administrative expenses[2]	—	(13)	(13)
Total pension cost charged to net operating expenses	—	(4)	(4)
Net interest credited/(charged) to investment income/(finance costs)[3]	577	(509)	68
Total recognised in income from continuing operations	577	(513)	64
Remeasurements:			
Actual return on these assets	611	—	611
Less: Interest income on scheme assets	(577)	—	(577)
Return on scheme assets excluding amounts in interest income	34	—	34
Losses from change in financial assumptions	—	(914)	(914)
Experience losses	—	(100)	(100)
Total remeasurements recognised in other comprehensive income from continuing operations	34	(1,014)	(980)
Employer contributions	250	—	250
Employee contributions	2	(2)	—
Benefits paid	(344)	344	—
Administrative expenses paid from scheme assets[2]	(13)	13	—
Foreign exchange rate movements	(16)	24	8
Net surplus in the scheme at 31 December	12,281	(11,675)	606

1 Following the adoption of the revised IAS 19 "Employee Benefits", the Group has retrospectively applied the changes to the comparative periods. The key impact of the standard is the replacement of interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate at the beginning of the year. This has resulted in an increase of £150 million recognised in income and a corresponding decrease in remeasurements recognised in other comprehensive income.
2 Administrative expenses are expensed as incurred.
3 Net interest income of £87 million has been credited to investment income and net interest expense of £19 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 2013. Total scheme assets are comprised in the UK, Ireland and Canada as follows:

	2013				2012			
	UK £m	**Ireland £m**	**Canada £m**	**Total £m**	UK £m	Ireland £m	Canada £m	Total £m
Bonds[1]								
Fixed interest government	**1,500**	**139**	**69**	**1,708**	1,601	130	76	1,807
Fixed interest corporate	**2,776**	**10**	**60**	**2,846**	2,595	14	45	2,654
Index-linked	**4,502**	**112**	**—**	**4,614**	4,492	116	—	4,608
Equities	**900**	**99**	**81**	**1,080**	909	87	92	1,088
Property	**1,074**	**13**	**—**	**1,087**	914	12	—	926
Cash	**518**	**1**	**21**	**540**	514	44	13	571
Derivatives	**225**	**55**	**—**	**280**	386	1	—	387
Other[1]	**239**	**2**	**2**	**243**	236	2	2	240
Total fair value of assets	**11,734**	**431**	**233**	**12,398**	11,647	406	228	12,281

1 £179 million of transferrable insurance policies with other Group companies in the UK, previously disclosed within bonds, has been reclassified to other assets for 2012.

Total scheme assets are analysed by those that have a quoted market price in an active market and those that do not as follows:

	2013			2012		
	Total Quoted £m	**Total Unquoted £m**	**Total £m**	Total Quoted £m	Total Unquoted £m	Total £m
Bonds[1]						
Fixed interest government	**808**	**900**	**1,708**	1,566	241	1,807
Fixed interest corporate	**10**	**2,836**	**2,846**	7	2,647	2,654
Index-linked	**3,864**	**750**	**4,614**	2,698	1,910	4,608
Equities	**409**	**671**	**1,080**	484	604	1,088
Property	**—**	**1,087**	**1,087**	—	926	926
Cash	**540**	**—**	**540**	571	—	571
Derivatives	**88**	**192**	**280**	15	372	387
Other[1]	**—**	**243**	**243**	—	240	240
Total fair value of assets	**5,719**	**6,679**	**12,398**	5,341	6,940	12,281

1 £179 million of transferrable insurance policies with other Group companies in the UK, previously disclosed within bonds, has been reclassified to other assets for 2012.

49 – Pension obligations continued

Plan assets include investments in Group-managed funds in the consolidated statement of financial position of £868 million *(2012: £616 million)* and transferrable insurance policies with other Group companies of £177 million *(2012: £179 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 'Other'.

(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 2013.

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	
	2013	2012	**2013**	2012	**2013**	2012
Inflation rate[1]	**3.4%/2.3%**	3.0%/2.2%	**2.0%**	2.0%	**2.5%**	2.5%
General salary increases[2]	**5.2%**	4.8%	**3.5%**	3.5%	**3.0%**	3.0%
Pension increases[1]	**3.4%/2.3%**	3.0%/2.2%	**0.5%**	2.0%	**1.25%**	1.25%
Deferred pension increases[1]	**3.4%/2.3%**	3.0%/2.2%	**2.0%**	2.0%	**—**	—
Discount rate	**4.4%**	4.5%	**3.6%**	3.5%	**4.75%**	3.75%
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 Pensions benefits that increases, 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 2013 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	89.6 (29.6)	91.5 (31.5)	90.8 (30.8)	92.6 (32.6)
– RAC	SAPS series 1, including allowances for future improvement	65	88.0 (23.0)	90.6 (25.6)	89.8 (24.8)	92.2 (27.2)
Ireland	89% PNA00 with allowance for future improvements	61	87.6 (26.6)	90.8 (29.8)	90.5 (29.5)	93.6 (32.6)
Canada	Canadian Pensioner Mortality – RPP2014	65	87.5 (22.5)	89.0 (24.0)	89.5 (24.5)	90.5 (25.5)

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 2012 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 of £12,159 million *(2012: £11,675 million)* would have increased (decreased) as a result of the change in the respective assumptions:

Impact on present value of defined benefit obligation

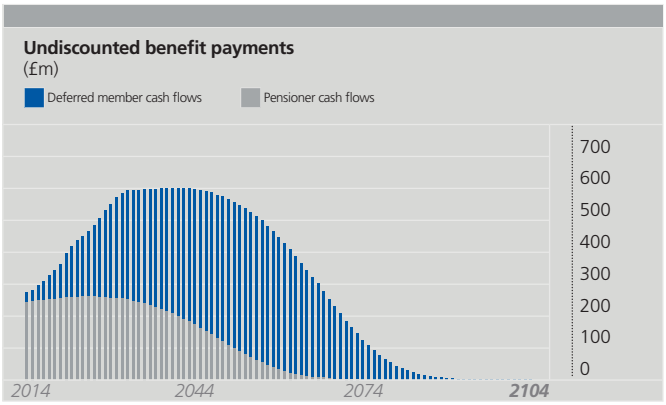
	Discount rate +1% £m	Discount rate -1% £m	Inflation rate +1% £m	Inflation rate -1% £m	1 year younger[1] £m
Impact on present value of defined benefit obligation at 31 December 2013	**(1,968)**	**2,616**	**2,388**	**(1,824)**	**324**
Impact on present value of defined benefit obligation at 31 December 2012	(1,954)	2,591	2,334	(1,790)	293

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 change 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.

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 those objectives, each scheme's assets are invested in a portfolio consisting primarily (nearly 75%) of debt securities, as detailed in section (b)(ii). The investment strategy will continue to evolve over time and is expected to match to the liability profile increasingly closely.

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. The swap transfers longevity risk to three external reinsurers.

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) a new deficit recovery plan was agreed, to make good the deficit over a period of time, consistent with the requirements of the UK pension regulations. Under this agreement, the deficit funding payment for the next annual period is estimated to be £252 million (of which £98 million relates to contributions deferred from 2013). As at 31 December 2013, the funding deficit was estimated at £0.6 billion.

Total employer contributions for all schemes in 2014 are currently expected to be £380 million, which includes the £98 million of deficit funding contributions deferred for ASPS from 2013.

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 2014. 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 (credit)/charge to staff costs for all of the Group's defined benefit and defined contribution schemes were:

	2013 £m	2012 £m
Continuing operations		
UK defined benefit schemes	**19**	12
Overseas defined benefit schemes[1]	**(147)**	7
Total defined benefit schemes (note 11(b))	**(128)**	19
UK defined contribution schemes	**90**	91
Overseas defined contribution schemes	**17**	11
Total defined contribution schemes (note 11(b))	**107**	102
Total (credit)/charge from continuing operations	**(21)**	121
Total charge from discontinuing operations	**9**	5
Total (credit)/charge for pension schemes	**(12)**	126

1 Includes £145 million gain relating to plan amendments to the Irish Scheme.

There were no significant contributions payable or prepaid in the consolidated statement of financial position as at either 31 December 2013 or 2012.

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:

	2013 £m	Restated[1] 2012 £m
Core structural borrowings, at amortised cost	**5,125**	5,139
Operational borrowings, at amortised cost	**1,410**	1,853
Operational borrowings, at fair value	**1,313**	1,332
	2,723	3,185
	7,848	8,324
Less: Amounts classified as held for sale	**(29)**	(145)
	7,819	8,179

1 Restated for the adoption of IFRS 10. See note 1 for further details.

(b) Core structural borrowings

(i) The carrying amounts of these borrowings are:

	2013				2012			
	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**	—	691	—	691
5.250% €650 million subordinated notes 2023	**—**	**—**	**—**	**—**	—	527	—	527
5.700% €500 million undated subordinated notes	**415**	**—**	**—**	**415**	404	—	—	404
6.125% £800 million undated subordinated notes	**793**	**—**	**—**	**793**	792	—	—	792
6.125% €650 million subordinated notes 2043	**—**	**537**	**—**	**537**	—	—	—	—
6.875% £400 million subordinated notes 2058	**—**	**395**	**—**	**395**	—	395	—	395
6.875% £200 million subordinated notes 2058	**—**	**199**	**—**	**199**	—	199	—	199
6.875% €500 million subordinated notes 2018	**—**	**415**	**—**	**415**	—	404	—	404
10.6726% £200 million subordinated notes 2019	**—**	**200**	**—**	**200**	—	200	—	200
10.464% €50m subordinated notes 2019	**—**	**42**	**—**	**42**	—	40	—	40
8.25% $400 million subordinated notes 2041	**—**	**236**	**—**	**236**	—	239	—	239
6.625% £450 million subordinated notes 2041	**—**	**446**	**—**	**446**	—	446	—	446
	1,208	**3,162**	**—**	**4,370**	1,196	3,141	—	4,337
Debenture Loans								
9.5% guaranteed bonds 2016	**—**	**—**	**199**	**199**	—	—	199	199
	—	**—**	**199**	**199**	—	—	199	199
Commercial paper	**—**	**—**	**556**	**556**	—	—	603	603
Total	**1,208**	**3,162**	**755**	**5,125**	1,196	3,141	802	5,139

50 – Borrowings continued

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 2013 was £1,428 million *(2012: £1,741 million).*

(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:

	2013			2012		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within one year	**556**	**314**	**870**	603	307	910
1 to 5 years	**200**	**1,204**	**1,404**	200	1,197	1,397
5 to 10 years	**242**	**1,348**	**1,590**	241	1,342	1,583
10 to 15 years	**—**	**1,341**	**1,341**	527	1,192	1,719
Over 15 years	**4,165**	**2,950**	**7,115**	3,608	2,610	6,218
Total contractual undiscounted cash flows	**5,163**	**7,157**	**12,320**	5,179	6,648	11,827

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 £73 million *(2012: £72 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:

	2013 £m	Restated[1] 2012 £m
Amounts owed to financial institutions		
Loans	**1,410**	1,853
Securitised mortgage loan notes		
UK lifetime mortgage business	**1,313**	1,332
Total	**2,723**	3,185

1 Restated for the adoption of IFRS 10. See note 1 for further details.

All the above borrowings are stated at amortised cost, except for the loan notes issued in connection with the UK lifetime mortgage business of £1,313 million *(2012: £1,332 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.

(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:

	2013			Restated[1] 2012		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within one year	**558**	**81**	**639**	725	64	789
1 to 5 years	**659**	**330**	**989**	951	259	1,210
5 to 10 years	**437**	**396**	**833**	399	364	763
10 to 15 years	**707**	**306**	**1,013**	611	284	895
Over 15 years	**766**	**125**	**891**	940	291	1,231
Total contractual undiscounted cash flows	**3,127**	**1,238**	**4,365**	3,626	1,262	4,888

1 Restated for the adoption of IFRS 10. See note 1 for further details.

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.

50 – Borrowings continued

(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%
£400 million	20 May 2008	20 May 2058	20 May 2038	3 month LIBOR + 3.26%
£200 million	8 Aug 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 Apr 2009	1 Apr 2019	1 Apr 2014	3 month LIBOR + 8.10%
€50 million	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%

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 these notes at 31 December 2013 was £4,707 million *(2012: £*4,435 *million)*, calculated with reference to quoted prices.

On 28 February 2014, the Company notified the respective holders of the £200 million subordinated notes due 2019 and the €50 million subordinated notes due 2019 that it would redeem each of the notes on their respective first call dates in April 2014.

(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 2013 was £236 million *(2012: £246 million)*, calculated with reference to quoted prices.

(iii) Commercial paper

The commercial paper consists of £556 million issued by the Company *(2012: £603 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:

	2013 £m	Restated[1] 2012 £m
Non-recourse		
Loans to property partnerships (see (a) below)	**804**	989
Loans to Irish investment funds (see (b) below)	**7**	20
UK Life reassurance (see (c) below)	**208**	257
Other non-recourse loans (d)	**288**	336
	1,307	1,602
Other loans (see (e) below)	**103**	251
	1,410	1,853

1 Restated for the adoption of IFRS10. See note 1 for further details.

(a) As explained in accounting policy D, the UK long-term business policyholder funds have invested in a number of property limited partnerships (PLPs). The PLPs have raised external debt, 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 or shareholders' funds of any companies in the Group. Loans of £804 million *(2012: £989 million)* included in the table relate to those PLPs which have been consolidated as subsidiaries.
(b) There is one Irish policyholder investment fund, which has been fully consolidated in accordance with accounting policy D, that has raised external borrowings. The borrowings are secured on the fund, with the only recourse on default being the underlying investments in this fund. The lender has no recourse whatsoever to the shareholders' funds of any companies in the Aviva Group. The loan runs for a period of five years, with the interest rate fixed quarterly based on a fixed margin above the euro inter-bank rate.
(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.

50 – Borrowings continued

(e) Movements during the year

Movements in borrowings during the year were:

	2013			Restated[1] 2012		
	Core Structural £m	**Operational £m**	**Total £m**	Core Structural £m	Operational £m	Total £m
New borrowings drawn down, including commercial paper, net of expenses	**2,137**	**184**	**2,321**	2,200	452	2,652
Repayment of borrowings, including commercial paper	**(2,179)**	**(347)**	**(2,526)**	(2,295)	(347)	(2,642)
Net cash (outflow)/inflow	**(42)**	**(163)**	**(205)**	(95)	105	10
Impact of the adoption of IFRS 10[1]	**—**	**—**	**—**	—	(15)	(15)
Foreign exchange rate movements	**24**	**(42)**	**(18)**	(54)	(130)	(184)
Loans repaid for non-cash consideration[2]	**—**	**(183)**	**(183)**	—	—	—
Fair value movements	**—**	**(4)**	**(4)**	—	43	43
Amortisation of discounts and other non-cash items	**5**	**(21)**	**(16)**	1	(13)	(12)
Movements in debt held by Group companies[3]	**(1)**	**(49)**	**(50)**	32	—	32
Movements in the year	**(14)**	**(462)**	**(476)**	(116)	(10)	(126)
Balance at 1 January	**5,139**	**3,185**	**8,324**	5,255	3,195	8,450
Balance at 31 December	**5,125**	**2,723**	**7,848**	5,139	3,185	8,324

1 Comprises the impact of adoption of IFRS 10 on prior year comparatives and the resulting consolidation and deconsolidation of entities based on the revised definition and criteria of control outlined in accounting Policy (D). See note 1 for further details
2 Includes borrowings disposed of / repaid as part of the disposal of the US business 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 2012 and 2013 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 *(2012: £750 million)* is used to support the commercial paper programme:

	2013 £m	2012 £m
Expiring within one year	**400**	420
Expiring beyond one year	**1,100**	1,725
	1,500	2,145

51 – Payables and other financial liabilities

This note analyses our payables and other financial liabilities at the end of the year.

	2013 £m	Restated[1] 2012 £m
Payables arising out of direct insurance	**1,115**	1,234
Payables arising out of reinsurance operations	**398**	426
Deposits and advances received from reinsurers	**145**	318
Bank overdrafts	**493**	566
Derivative liabilities	**1,188**	1,751
Amounts due to brokers for investment purchases	**164**	135
Obligations for repayment of cash collateral received (notes 27(d) (i) & 59(c))	**3,958**	4,460
Other financial liabilities	**1,747**	1,616
Total	**9,208**	10,506
Less: Amounts classified as held for sale	**(14)**	(1,108)
	9,194	9,398
Expected to be settled within one year	**8,579**	8,582
Expected to be settled in more than one year	**615**	816
	9,194	9,398

1 Restated for the adoption of IFRS10. See note 1 for further details.

Bank overdrafts amount to £77 million *(2012: £194 million)* in life business operations and £416 million *(2012: £372 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.

	2013 £m	Restated[1] 2012 £m
Deferred income	**177**	319
Reinsurers' share of deferred acquisition costs	**11**	11
Accruals	**1,386**	1,138
Other liabilities	**930**	1,109
Total	**2,504**	2,577
Less: Amounts classified as held for sale	**(32)**	(735)
	2,472	1,842
Expected to be settled within one year	**2,145**	1,457
Expected to be settled in more than one year	**327**	385
	2,472	1,842

1 Restated for the adoption of IFRS10. See note 1 for further details.

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 fulfil their obligations. The Company's maximum exposure to credit risk for these types of arrangements is approximately $1,119 million as at 31 December 2013 *(2012: $1,145 million, 2011: $1,085 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 2013, 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 or regulatory action. 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:

	2013 £m	2012 £m
Investment property	**3**	6
Property and equipment	**24**	36
	27	42

Contractual obligations for future repairs and maintenance on investment properties are £nil *(2012: £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:

	2013 £m	2012 £m
Within 1 year	**252**	269
Later than 1 year and not later than 5 years	**807**	832
Later than 5 years	**1,307**	1,570
	2,366	2,671

(ii) Future contractual aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2013 £m	2012 £m
Within 1 year	**111**	136
Later than 1 year and not later than 5 years	**357**	421
Later than 5 years	**575**	587
	1,043	1,144
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases	**45**	53

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.

55 – Group capital structure continued

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.

	2013 Capital employed IFRS basis £m	2012 Capital employed IFRS basis £m
Life business		
United Kingdom	**5,237**	4,911
Ireland	**595**	735
United Kingdom & Ireland	**5,832**	5,646
France	**2,366**	2,119
Poland	**380**	336
Italy	**1,108**	1,276
Spain	**769**	1,113
Other Europe	**93**	155
Europe	**4,716**	4,999
Asia	**676**	784
	11,224	11,429
General insurance & health		
United Kingdom	**3,725**	3,653
Ireland	**421**	355
United Kingdom & Ireland	**4,146**	4,008
France	**570**	562
Italy	**269**	242
Other Europe	**43**	57
Europe	**882**	861
Canada	**925**	1,039
Asia	**33**	41
	5,986	5,949
Fund Management	**237**	225
Corporate & Other Business[1]	**(1,305)**	(1,471)
Total capital employed (excluding United States)	**16,142**	16,132
United States	**—**	367
Total capital employed (including United States)	**16,142**	16,499
Financed by		
Equity attributable to ordinary shareholders	**7,964**	8,204
Non-controlling interests	**1,471**	1,574
Direct capital instruments & fixed rate tier 1 notes	**1,382**	1,382
Preference shares	**200**	200
Subordinated debt	**4,370**	4,337
External debt	**755**	802
Total capital employed	**16,142**	16,499
Less: Goodwill & other intangibles (net of tax & non-controlling interests)[2]	**(2,204)**	(2,523)
Total tangible capital employed	**13,938**	13,976
Total debt[3]	**6,957**	6,971
Tangible debt leverage	**50%**	50%

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 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.
— Certain subsidiaries, subject to satisfying standalone 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.

2 Goodwill and intangibles comprise £1,480 million *(2012: £1,703 million)* of goodwill in subsidiaries, £1,068 million *(2012: £1,090 million)* of intangibles in subsidiaries and £60 million *(2012: £132 million)* of goodwill and intangibles in joint ventures, net of deferred tax liabilities of £(189) million *(2012: £(188) million)* and the non-controlling interest share of intangibles of £(215) million *(2012: £(214) 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 General Accident plc preference share capital 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 2013 we had £16.1 billion *(2012: £16.5 billion)* of total capital employed in our trading operations measured on an IFRS basis.

In July 2013 we issued €650 million of Lower Tier 2 subordinated debt callable in 2023. This was used to repay a €650 million Lower Tier 2 subordinated debt instrument at its first call date, in October 2013. On a net basis, these transactions did not impact on Group IGD solvency and Economic Capital measures. Financial leverage, the ratio of external senior and subordinated debt to tangible capital employed was 50% *(2012: 50%)*.

At the end of 2013 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 interests, of £250 million), and direct capital instruments and fixed rate tier 1 notes was £7,573 million (*2012: £7,260 million*), with a weighted average cost, post tax, of 3.8% (*2012: 4.4%*). The Group Weighted Average Cost of Capital (WACC) is 6.6% (*2012: 6.3%*) and has been calculated by reference to the cost of equity and the cost of debt at the relevant date. The cost of equity at 2013 was 8.3% (*2012: 7.5%*) based on a risk free rate of 3% (*2012: 1.9%*), an equity risk premium of 4.0% (*2012: 4.0%*) and a market beta of 1.3 (*2012: 1.4*).

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:

	2013 £m	Restated[1] 2012 £m
Profit before tax from continuing operations	**1,472**	396
Adjustments for:		
Share of (profits)/loss of joint ventures and associates	**(120)**	255
Dividends received from joint ventures and associates	**47**	48
(Profit)/loss on sale of:		
Investment property	**2**	(7)
Property and equipment	**—**	—
Subsidiaries, joint ventures and associates	**(115)**	164
Investments	**(3,047)**	(1,167)
	(3,160)	(1,010)
Fair value (gains)/losses on:		
Investment property	**(184)**	475
Investments	**(1,525)**	(12,418)
Borrowings	**(4)**	43
	(1,713)	(11,900)
Depreciation of property and equipment	**31**	42
Equity compensation plans, equity settled expense	**37**	42
Impairment and expensing of:		
Goodwill on subsidiaries	**48**	109
Financial investments, loans and other assets	**32**	46
Acquired value of in-force business and intangibles	**14**	122
Non-financial assets	**—**	—
	94	277
Amortisation of:		
Premium or discount on debt securities	**144**	105
Premium or discount on borrowings	**(16)**	(12)
Premium or discount on non participating investment contracts	**8**	20
Financial instruments	**194**	64
Acquired value of in-force business and intangibles	**110**	121
	440	298
Change in unallocated divisible surplus	**(280)**	6,316
Interest expense on borrowings	**589**	634
Net finance charge on pension schemes	**(37)**	(68)
Foreign currency exchange gains	**(187)**	(128)
Changes in working capital		
(Increase) in reinsurance assets	**(571)**	(416)
Decrease in deferred acquisition costs	**90**	216
Increase in insurance liabilities and investment contracts	**3,983**	4,325
Increase in other assets and liabilities	**5,114**	2,021
	8,616	6,146
Net purchases of operating assets		
Purchases of investment property	**(370)**	(839)
Proceeds on sale of investment property	**1,115**	1,141
Net (purchases)/sales of financial investments	**(4,033)**	1,231
	(3,288)	1,533
Cash generated from operating activities – continuing operations	**2,541**	2,881
Cash generated from operating activities – discontinued operations[2]	**1,950**	46
Total cash generated from operating activities	**4,491**	2,927

1 Restated for the adoption of IFRS10. See note 1 for further details.
2 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.

Operating cash flows reflect the movement in both policyholder and shareholder controlled cash and cash equivalent balances. Around two thirds of the Group's balances relate to unit-linked or participating policyholder funds. As such, the asset mix and the level of cash held by these funds are determined from a policyholder perspective and can move significantly from one year to another. Shareholder cash at 31 December 2013 is at £8.3 billion (*2012: £9.0 billion*).

Purchases and sales of operating assets, including 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. During the year, the net operating cash inflow reflects a number of factors, including the level of premium income and the timing of receipts of premiums and the payment of creditors, claims and surrenders. It also includes changes in the size and value of consolidated cash investment funds and changes in the Group participation in these funds.

56 – Statement of cash flows continued

(b) Cash flows in respect of, and additions to, the acquisition of subsidiaries, joint ventures and associates comprised:

	2013 £m	2012 £m
Cash consideration for subsidiaries, joint ventures and associates acquired and additions	**1**	136
Less: Cash and cash equivalents acquired with subsidiaries	**(1)**	(7)
Cash flows on acquisitions and additions – continuing operations	**—**	129
Cash flows on acquisitions and additions – discontinued operations	**—**	—
Total cash flow on acquisitions and additions	**—**	129

(c) Cash flows in respect of the disposal of subsidiaries, joint ventures and associates comprised:

	2013 £m	2012 £m
Cash proceeds from disposal of subsidiaries, joint ventures and associates	**817**	442
Less: Net cash and cash equivalents divested with subsidiaries	**(440)**	(21)
Cash flows on disposals – continuing operations	**377**	421
Cash flows on disposal – discontinued operations	**(1,582)**	—
Total cash flow on disposals	**(1,205)**	421

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:

	2013 £m	Restated[1] 2012 £m
Cash at bank and in hand	**12,314**	12,898
Cash equivalents	**13,036**	11,121
	25,350	24,019
Bank overdrafts	**(493)**	(566)
	24,857	23,453

1 Restated for the adoption of IFRS10. See note 1 for further details.

Cash and cash equivalents reconciles to the statement of financial position as follows:

	2013 £m	Restated[1] 2012 £m
Cash and cash equivalents (excluding bank overdrafts)	**25,350**	24,019
Less: Assets classified as held for sale	**(351)**	(917)
	24,999	23,102

1 Restated for the adoption of IFRS10. See note 1 for further 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 2013.

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	2013 Total £m	2012 Total £m
Total shareholders' funds	**3**	**(19)**	**35**	**19**	**5,198**	**5,217**	**5,876**	**11,093**	**(76)**	**11,017**	11,360
Other sources of capital[1]	**—**	**—**	**—**	**—**	**200**	**200**	**43**	**243**	**4,170**	**4,413**	4,380
Unallocated divisible surplus[2]	**323**	**—**	**1,397**	**1,720**	**26**	**1,746**	**4,963**	**6,709**	**—**	**6,709**	6,986
Adjustments onto a regulatory basis:											
Shareholders' share of accrued bonus	**(27)**	**128**	**(190)**	**(89)**	**—**	**(89)**	**—**	**(89)**	**—**	**(89)**	(304)
Goodwill and other intangibles[3]	**—**	**—**	**—**	**—**	**(146)**	**(146)**	**(1,017)**	**(1,163)**	**(1,445)**	**(2,608)**	(3,410)
Regulatory valuation and admissibility restrictions[4]	**64**	**1,189**	**268**	**1,521**	**(2,485)**	**(964)**	**867**	**(97)**	**(789)**	**(886)**	23
Total available capital resources	**363**	**1,298**	**1,510**	**3,171**	**2,793**	**5,964**	**10,732**	**16,696**	**1,860**	**18,556**	19,035
Analysis of liabilities:											
Participating insurance liabilities	**1,746**	**12,723**	**9,803**	**24,272**	**100**	**24,372**	**20,726**	**45,098**	**—**	**45,098**	49,473
Unit-linked liabilities	**—**	**—**	**—**	**—**	**3,639**	**3,639**	**5,075**	**8,714**	**—**	**8,714**	9,936
Other non-participating life insurance	**352**	**2,618**	**476**	**3,446**	**33,410**	**36,856**	**5,591**	**42,447**	**—**	**42,447**	73,123
Amounts classified as held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**(106)**	**(106)**	**—**	**(106)**	(34,446)
Total insurance liabilities	**2,098**	**15,341**	**10,279**	**27,718**	**37,149**	**64,867**	**31,286**	**96,153**	**—**	**96,153**	98,086
Participating investment liabilities	**667**	**3,057**	**6,098**	**9,822**	**2,606**	**12,428**	**58,200**	**70,628**	**—**	**70,628**	66,849
Non-participating investment liabilities	**(3)**	**(19)**	**—**	**(22)**	**38,429**	**38,407**	**9,733**	**48,140**	**—**	**48,140**	47,699
Amounts classified as held for sale	**—**	**—**	**—**	**—**	**—**	**—**	**(2,710)**	**(2,710)**	**—**	**(2,710)**	(4,054)
Total investment liabilities	**664**	**3,038**	**6,098**	**9,800**	**41,035**	**50,835**	**65,223**	**116,058**	**—**	**116,058**	110,494
Total liabilities	**2,762**	**18,379**	**16,377**	**37,518**	**78,184**	**115,702**	**96,509**	**212,211**	**—**	**212,211**	208,580

1 Other sources of capital include subordinated debt of £4,370 million issued by Aviva and £43 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 Goodwill and other intangibles includes goodwill of £60 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.

Analysis of movements in capital of long-term businesses

For the year ended 31 December 2013

	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	**291**	**907**	**1,836**	**3,034**	**2,688**	**5,722**	**12,360**	**18,082**
Effect of new business	**3**	**(191)**	**(4)**	**(192)**	**158**	**(34)**	**(102)**	**(136)**
Expected change in available capital resources	**5**	**134**	**164**	**303**	**261**	**564**	**627**	**1,191**
Variance between actual and expected experience	**38**	**75**	**(220)**	**(107)**	**(119)**	**(226)**	**(348)**	**(574)**
Effect of operating assumption changes	**(3)**	**2**	**(24)**	**(25)**	**86**	**61**	**143**	**204**
Effect of economic assumption changes	**26**	**80**	**363**	**469**	**—**	**469**	**165**	**634**
Effect of changes in management policy	**1**	**260**	**(597)**	**(336)**	**119**	**(217)**	**(3)**	**(220)**
Transfers, acquisitions and disposals	**—**	**—**	**—**	**—**	**—**	**—**	**(2,082)**	**(2,082)**
Foreign exchange movements	**—**	**—**	**—**	**—**	**—**	**—**	**216**	**216**
Other movements	**2**	**31**	**(8)**	**25**	**(400)**	**(375)**	**(244)**	**(619)**
Available capital resources at 31 December	**363**	**1,298**	**1,510**	**3,171**	**2,793**	**5,964**	**10,732**	**16,696**

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 NWPSF arises 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 £1,105 million (this is known as RIEESA) at 31 December 2013 *(31 December 2012: £748 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.

57 – Capital statement continued

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 £18.6 billion *(2012: £19.0 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 £3.2 billion *(2012: £3.0 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 is comfortably in excess of the required capital margin, and therefore the shareholders are not required to provide further support.

For the remaining life and general insurance operations, the total available capital amounting to £15.4 billion *(2012: £16 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 £18.6 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.

						31 December 2013	31 December 2012
	Estimated realistic assets £bn	**Estimated realistic liabilities[1] £bn**	**Estimated realistic inherited estate[2] £bn**	**Capital support arrangement[3] £bn**	**Estimated risk capital margin £bn**	**Estimated excess available capital £bn**	Estimated excess available capital £bn
NWPSF	**15.6**	**(15.6)**	**—**	**1.1**	**(0.2)**	**0.9**	0.3
OWPSF	**2.8**	**(2.4)**	**0.4**	**—**	**(0.1)**	**0.3**	0.2
WPSF[4]	**16.9**	**(15.4)**	**1.5**	**—**	**(0.3)**	**1.2**	1.3
Aggregate	**35.3**	**(33.4)**	**1.9**	**1.1**	**(0.6)**	**2.4**	1.8

1 These realistic liabilities include the shareholders' share of accrued bonuses of £0.1 billion *(31 December 2012: £0.3 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of accrued bonuses are £33.4 billion *(31 December 2012: £36.0 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, £0.2 billion and £2.5 billion for NWPSF, OWPSF and WPSF respectively *(31 December 2012: £1.8 billion, £0.3 billion and £3.5 billion for NWPSF, OWPSF and WPSF respectively)*.

2 Estimated realistic inherited estate at 31 December 2012 was £nil, £0.3 billion and £1.8 billion for NWPSF, OWPSF and WPSF respectively.

3 This represents the reattributed estate of £1.1 billion at 31 December 2013 *(31 December 2012: £0.7 billion)* held within NPSF1 (a non-profit fund within UKLAP included within other UK life operations).

4 The WPSF fund includes the Provident Mutual (PM) fund, which has realistic assets and liabilities of £1.5 billion and therefore does not impact 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.

57 – Capital statement continued

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.

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. 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 and Reputation Committee (ORRC) which focuses on operational and reputational risks. Similar committee structures with equivalent terms of reference exist in the business units.

58 – Risk management continued

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 2013	AAA	AA	A	BBB	Speculative grade	Not rated	Carrying value including held for sale £m	Less: Amounts classified as held for sale £m	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	**—**	**0.3%**	**0.7%**	**1.0%**	**0.1%**	**97.9%**	**31,451**	**(201)**	**31,250**
Loans	**3.8%**	**12.1%**	**1.2%**	**—**	**0.3%**	**82.6%**	**23,879**	**—**	**23,879**
Total							**189,392**	**(2,658)**	**186,734**

As at 31 December 2012 (Restated[1])	AAA	AA	A	BBB	Speculative grade	Not rated	Carrying value including held for sale £m	Less: Amounts classified as held for sale £m	Carrying value £m
Debt securities	24.4%	16.9%	23.9%	25.4%	4.2%	5.2%	161,777	(33,617)	128,160
Reinsurance assets	0.4%	63.4%	30.1%	0.7%	0.1%	5.3%	7,567	(883)	6,684
Other investments	0.1%	0.2%	2.4%	2.1%	1.6%	93.6%	29,068	(1,550)	27,518
Loans	5.8%	8.2%	1.2%	0.1%	0.7%	84.0%	27,934	(3,397)	24,537
Total							226,346	(39,447)	186,899

1 Restated for the adoption of IFRS10. See note 1 for further details.

The Group's maximum exposure to credit risk of financial assets, without taking collateral 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

Additional information in respect to collateral is provided in notes 24(c) and notes 27(d)(i).

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 2013 to limit our direct shareholder and participating assets exposure to the governments (including local authorities and agencies) and banks of Greece, Ireland, Portugal, Italy and Spain, which has been offset by an increase in market values. 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. However, in the light of the improving economic situation in Ireland, we plan to allow a modest increase in our exposure to Irish sovereign debt during 2014.

58 – Risk management continued

(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 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 is approximately 1.9% 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 risk function has an active monitoring role with escalation to the Chief Financial Officer (CFO), Group ALCO and the Board Risk Committee as appropriate.

The Group's largest reinsurance counterparty is Swiss Reinsurance Company Ltd (including subsidiaries). At 31 December 2013, the reinsurance asset recoverable, including debtor balances, from Swiss Reinsurance Company Ltd was £1,620 million.

(vii) Securities finance

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

(viii) Derivative credit exposures

The Group is exposed to counterparty credit risk through derivative trades. This risk is mitigated through collateralising almost all trades (the exception being certain foreign exchange trades where it has historically been the market norm not to collateralise). Residual exposures are captured within the Group's credit management framework.

(ix) Unit-linked business

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

58 – Risk management continued

(x) Impairment of financial assets

In assessing whether financial assets carried at amortised costs 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 2013	**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	**7,220**	**—**	**—**	**—**	**—**	**—**	**7,220**
Other investments	**7**	**—**	**—**	**—**	**—**	**6**	**13**
Loans	**5,263**	**—**	**—**	**—**	**—**	**139**	**5,402**
Receivables and other financial assets	**6,934**	**56**	**26**	**18**	**22**	**4**	**7,060**

		Financial assets that are past due but not impaired					
At 31 December 2012 (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	517	—	—	—	—	—	517
Reinsurance assets	6,684	—	—	—	—	—	6,684
Other investments	9	—	—	—	—	8	17
Loans	5,469	—	—	—	—	151	5,620
Receivables and other financial assets	7,384	43	12	13	24	—	7,476

1 Restated for the impact of IFRS 10 (see note 1 for further details) and to exclude financial assets carried at fair value through profit or loss.

Excluded from the tables above are financial assets carried at fair value through profit or loss that are not subject to impairment testing, as follows: £125.7 billion of debt securities (*2012: £131.9 billion)*, £31.4 billion of other investments (*2012: £28.6 billion*) and £18.5 billion of loans (*2012: £18.9 billion)*. Of these financial assets none are past due other than £513 million (*2012: £531 million)* of loans that are deemed not to have met their contractual commitments, and are therefore considered to be non-performing. The fair value of these loans reflects the underlying property exposure.

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 Risk 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. The disposal of the Group's remaining shareholding in Delta Lloyd has decreased the Group's shareholder equity price risk and, in particular, has led to a fall in equity exposures. 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 signigicant holdings of unquoted equity securities.

Equity risk is also managed using a variety of derivative instruments, including futures and options. Businesses actively model the performance of equities through the use of risk models, in particular to understand the impact of equity performance on guarantees, options and bonus rates. At 31 December 2013 the Group's shareholder funds held £1.5 billion notional of equity hedge put spreads, with up to 15 months to maturity with an average strike of 82-68% of the prevailing market levels on 31 December 2013.

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

58 – Risk management continued

(ii) Property price risk

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

As at 31 December 2013, 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. Although we think it is reasonably likely that interest rates will rise, we still anticipate that interest rates may remain below historical averages for some time. 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, which includes amounts held for sale, the weighted average minimum guaranteed crediting rates and weighted average book value yields on assets as at 31 December 2013 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	0.78%	3.99%	63,407
Italy	2.21%	3.80%	11,246
Other[1]	N/A	N/A	41,073
Total	N/A	N/A	115,726

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
2011	3.9%	18,978
2012	3.7%	18,802
2013	3.1%	18,352

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 2013 and 2012, 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 2013	**4,942**	**4,178**	**987**	**910**	**11,017**
Capital 31 December 2012	4,445	4,648	1,119	1,148	11,360

A 10% change in sterling to euro/Canada$ (CAD) 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 2013	**(260)**	**360**	**(81)**	**99**
Net assets at 31 December 2012	(386)	411	(112)	106

A 10% change in sterling to euro/Canada$ (CAD) foreign exchange rates relative to the year-end rate 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 2013	**8**	**7**	**(5)**	**(4)**
Impact on profit before tax 31 December 2012	(32)	32	(20)	5

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.

58 – Risk management continued

(vi) Derivatives risk

Derivatives are used by a number of the businesses. Activity is overseen by the Group risk function, which monitors 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. 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 (£1.5 billion) 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 2013 and 2012 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. Changes in durations between 2012 and 2013 reflect evolution of the portfolio, and changes to the models for projecting cash-flows. This table includes amounts held for sale.

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**

At 31 December 2012	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	117,602	8,303	31,894	44,455	32,950
Investment contracts – non-linked	59,788	2,491	12,390	16,679	28,228
Linked business	69,690	5,667	18,203	21,590	24,230
General insurance and health	15,006	6,166	5,763	2,456	621
Total contract liabilities	262,086	22,627	68,250	85,180	86,029

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 2013	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	**31,250**	**28,067**	**701**	**587**	**1,895**
Loans	**23,879**	**2,029**	**3,909**	**17,920**	**21**
Cash and cash equivalent	**24,999**	**24,999**	**—**	**—**	**—**
	241,839	**70,241**	**40,234**	**92,120**	**39,244**

At 31 December 2012 (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	128,160	16,953	36,009	75,195	3
Equity securities	33,065	—	—	—	33,065
Other investments[2]	27,518	24,195	866	7	2,450
Loans	24,537	5,358	1,780	17,329	70
Cash and cash equivalent	23,102	23,102	—	—	—
	236,382	69,608	38,655	92,531	35,588

1 Restated for the impact of IFRS 10. See note 1 for further details
2 To reflect the contractual redemption terms of the instruments, collective investment schemes included in 'other investments' previously reported as having no fixed term and maturing over 5 years, amounting to £17 million and £12,278 million respectively, have been reclassified as repayable on demand or within 1 year

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 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 2013, although the current continued relatively low levels of interest rates have increased our sensitivity to longevity shocks compared to historical norms. 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 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.

(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 a Business Capability team who provide 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 but retains a pooled element for its own account gaining diversification benefit. The total Group potential loss from its most concentrated catastrophe exposure zone (Northern Europe) is approximately £180 million, for a one in ten year annual loss scenario, compared to approximately £280 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 2013 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.

Our regulators regularly consider 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 (life insurance only)	The impact of a reduction in mortality rates for annuity contracts by 5%.
Gross loss ratios (non-life insurance only)	The impact of an increase in gross loss ratios for general insurance and health business by 5%.

58 – Risk management continued

Long-term business

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)**

Sensitivities as at 31 December 2012

2012 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)	(15)	(110)	60	(95)	(25)	(5)	(50)
Insurance non-participating	(160)	130	(430)	—	—	(75)	(45)	(470)
Investment participating	(55)	45	—	5	(10)	(10)	—	—
Investment non-participating	(40)	35	(5)	10	(15)	(20)	—	—
Assets backing life shareholders' funds	10	(15)	(40)	45	(45)	—	—	—
Total excluding Delta Lloyd and United States	(290)	180	(585)	120	(165)	(130)	(50)	(520)
United States	880	(640)	495	—	—	—	—	—
Total excluding Delta Lloyd	590	(460)	(90)	120	(165)	(130)	(50)	(520)

2012 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)	(15)	(110)	60	(95)	(25)	(5)	(50)
Insurance non-participating	(165)	125	(430)	—	—	(75)	(45)	(470)
Investment participating	(55)	45	—	5	(10)	(10)	—	—
Investment non-participating	(45)	40	—	10	(15)	(20)	—	—
Assets backing life shareholders' funds	(5)	—	(45)	50	(50)	—	—	—
Total excluding Delta Lloyd and United States	(315)	195	(585)	125	(170)	(130)	(50)	(520)
United States	—	—	—	—	—	—	—	—
Total excluding Delta Lloyd	(315)	195	(585)	125	(170)	(130)	(50)	(520)

Changes in sensitivities between 2013 and 2012 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. The mortality sensitivities also relate primarily to the UK.

58 – Risk management continued

General insurance and health business 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)**

Sensitivities as at 31 December 2012

2012 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 excluding Delta Lloyd	(260)	235	(125)	45	(50)	(120)	(300)
Net of reinsurance excluding Delta Lloyd	(300)	285	(125)	45	(50)	(120)	(285)

2012 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 excluding Delta Lloyd	(260)	235	(125)	50	(50)	(25)	(300)
Net of reinsurance excluding Delta Lloyd	(300)	285	(125)	50	(50)	(25)	(285)

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

Fund management and non-insurance business 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**

Sensitivities as at 31 December 2012

2012 Impact on profit before tax (£m)	Interest rates +1%	Interest rates –1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property –10%
Total excluding Delta Lloyd	(5)	—	30	(90)	10

2012 Impact on shareholders' equity before tax (£m)	Interest rates +1%	Interest rates –1%	Credit spreads +0.5%	Equity/ property +10%	Equity/ property –10%
Total excluding Delta Lloyd	(5)	—	30	(90)	10

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 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.

(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*. These instruments are analysed into cash flow, fair value and net investment hedges, as detailed below.

(i) Cash flow hedges

At the end of 2012 the Group entered into two cash flow hedges, using foreign exchange forward and option contracts, to hedge the currency exposure on expected proceeds in 2013 of businesses which were held for sale as of 31 December 2012 and sold in 2013. The fair value of the cash flow hedges as of 31 December 2012 was a £5 million derivative asset and no amounts in respect of the cash flow hedges were recognised in the income statement. All cash flows being hedged have ceased as of the disposal dates of the Aseval (Spanish long-term business) and the US Life businesses in 2013 and therefore no derivative asset or liability exists as of 31 December 2013. Following the disposal of these entities in 2013, £(4) million *(2012: £nil)* has been recycled to the income statement.

(ii) Fair value hedges

The Group entered into a number of interest rate swaps in order to hedge fluctuations in the fair value part of its portfolio of mortgage loans and debt securities in the US. Subsequent to the sale of the US Life business, Aviva exited these swaps. Therefore at 31 December 2013 there was a £nil notional value of these swaps *(2012: £765 million)* and £nil fair value *(2012: £54 million liability)*.

(iii) Net investment hedges

To reduce its exposure to foreign currency risk, the Group has entered into the following net investment hedges:

The Group has designated a portion of its euro denominated debt as a hedge of the net investment in its European subsidiaries. Prior to the sale of the US business the Group also held a portion of its US dollar denominated debt as a hedge of the net investment in the US Subsidiaries. The carrying value of the debt at 31 December 2013 was £1,428 million *(2012: £1,741 million)* and its fair value at that date was £1,516 million *(2012: £1,785 million)*.

The foreign exchange loss of £40 million *(2012: gain of £74 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.

(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.

59 – Derivative financial instruments and hedging continued

(i) The Group's non-hedge derivative activity at 31 December 2013 and 2012 was as follows:

	2013			2012		
	Contract/ notional amount £m	**Fair value asset £m**	**Fair value liability £m**	Contract/ notional amount £m	Fair value asset £m	Restated[1] Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	**6,906**	**38**	**(9)**	8,123	71	(7)
Interest rate and currency swaps	**1,411**	**51**	**(24)**	611	64	(21)
Options	**7,000**	**19**	**(7)**	4,600	6	(5)
Total	**15,317**	**108**	**(40)**	13,334	141	(33)
Interest rate contracts						
OTC						
Forwards	**333**	**22**	**—**	—	—	—
Swaps	**28,051**	**198**	**(914)**	25,889	135	(915)
Options	**53,925**	**92**	**—**	32,656	272	(4)
Exchange traded						
Futures	**2,723**	**111**	**(36)**	3,725	58	(14)
Total	**85,032**	**423**	**(950)**	62,270	465	(933)
Equity/Index contracts						
OTC						
Options	**12**	**1**	**—**	2,765	650	(10)
Exchange traded						
Futures	**3,186**	**117**	**(13)**	5,468	45	(123)
Options	**5,015**	**256**	**(91)**	11,880	228	(139)
Total	**8,213**	**374**	**(104)**	20,113	923	(272)
Credit contracts	**6,071**	**1**	**(55)**	6,277	41	(53)
Other	**12,354**	**152**	**(39)**	3,163	15	(406)
Totals at 31 December	**126,987**	**1,058**	**(1,188)**	105,157	1,585	(1,697)
Less: Assets classified as held for sale	**—**	**—**	**—**	(4,403)	(679)	54
	126,987	**1,058**	**(1,188)**	100,754	906	(1,643)

1 Restated for the adoption of IFRS 10. See note 1 for further details.

Interest rate swap option ("swaption") contracts are grouped with options above as management's intention in entering into and subsequent managing of the 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. 2012 fair value assets in note 27(a) of £1,590 million represent non-hedge derivatives of £1,585 million per the table above plus £5 million of cash flow hedges. Fair value liabilities in note 51 of £1,751 million represent non-hedge derivatives of £1,697 million per the table above plus £54 million of fair value hedges.

The Group's derivative risk management policies are outlined in note 58.

(ii) The contractual undiscounted cash flows in relation to non-hedge derivative liabilities have the following maturities:

	2013 £m	2012 £m
Within 1 year	**245**	534
Between 1 and 2 years	**156**	434
Between 2 and 3 years	**115**	158
Between 3 and 4 years	**86**	387
Between 4 and 5 years	**41**	113
After 5 years	**785**	1,787
	1,428	3,413

(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.

60 – Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

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.

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.

Reverse repurchase arrangements are instances in which cash has been received as collateral for securities. Those amounts included as securities lending in the tables below are securities which have been obtained as collateral in arrangements which transfer economic risk and reward, and therefore are recognised as assets by Aviva. In both of these cases, the collateral received is over 100%, however, in accordance with IFRS 7, the amount reported in the tables below as collateral is limited to the amount reported on the balance sheet.

The amounts in the other investments lines represent offsetting collateral arrangements related to miscellaneous asset lending and unit trust arrangements.

				Related amounts not set off in the statement of financial position		
2013	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m	Financial instruments £m	Collateral received £m	Net amount £m
Financial assets						
Derivatives	2,099	(1,041)	1,058	(36)	(65)	957
Cash held as collateral on reverse repurchase and similar arrangements	4,543	—	4,543	—	(4,543)	—
Securities Lending	666	(111)	555	—	(552)	3
Other investments	532	—	532	—	(301)	231
Total	**7,840**	**(1,152)**	**6,688**	**(36)**	**(5,461)**	**1,191**

				Related amounts not set off in the statement of financial position		
2013	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the statement of financial position £m	Net amounts of financial liabilities presented in the statement of financial position £m	Financial instruments £m	Collateral pledged £m	Net amount £m
Financial liabilities						
Derivatives	3,734	(2,546)	1,188	(36)	(152)	1,000
Securities Lending	91	(91)	—	—	—	—
Total	**3,825**	**(2,637)**	**(1,188)**	**(36)**	**(152)**	**1,000**

60 – Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements continued

2012	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m	Related amounts not set off in the statement of financial position: Financial instruments £m	Related amounts not set off in the statement of financial position: Collateral received £m	Net amount £m
Financial assets						
Derivatives	2,470	(880)	1,590	(13)	(67)	1,510
Cash held as collateral on reverse repurchase and similar arrangements	4,250	—	4,250	—	(4,250)	—
Securities Lending	661	(116)	545	—	(543)	2
Other investments	8	—	8	—	—	8
Total	7,389	(996)	6,393	(13)	(4,859)	1,520

2012	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the statement of financial position £m	Net amounts of financial liabilities presented in the statement of financial position £m	Related amounts not set off in the statement of financial position: Financial instruments £m	Related amounts not set off in the statement of financial position: Collateral pledged £m	Net amount £m
						Restated[1]
Financial liabilities						
Derivatives	5,328	(3,577)	1,751	(13)	(193)	1,545
Total	5,328	(3,577)	1,751	(13)	(193)	1,545

1 Restated for the adoption of IFRS10. See note 1 for further 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.

Collateral held by UK Life in relation to securities lending totals £4,844 million *(2012: £4,250 million)* and is recognised within 'Loans to Banks' in note 24(a). The 2013 total is split in this table between cash collateral of £4,543 million and £301 million of other collateral included in the other investments line. The entire 2012 balance of £4,250 was in cash collateral.

The asset amounts within securities lending relate to securities lending arrangements in Canada, and are included within their recognised financial investments.

The remaining £231 million in the other investment line above relate to hedge funds held by unit trusts.

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

	2013				2012[1]			
	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	**3**	**(3)**	**—**	**11**	—	(4)	—	9
Joint ventures	**51**	**—**	**—**	**56**	23	(1)	—	54
Employee pension schemes	**12**	**—**	**—**	**9**	12	—	—	6
	66	**(3)**	**—**	**76**	35	(5)	—	69

1 Restated for the adoption of IFRS 10. See note 1 for details.

Transactions with joint ventures in the UK relate to the property management undertakings, the principal ones 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:

	2013 £m	2012 £m
Salary and other short-term benefits	**5.3**	4.7
Other long-term benefits	**1.6**	0.4
Post-employment benefits	**1.1**	1.9
Equity compensation plans	**3.3**	4.8
Termination benefits	**1.1**	1.5
Total	**12.4**	13.3

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' Remuneration Report.

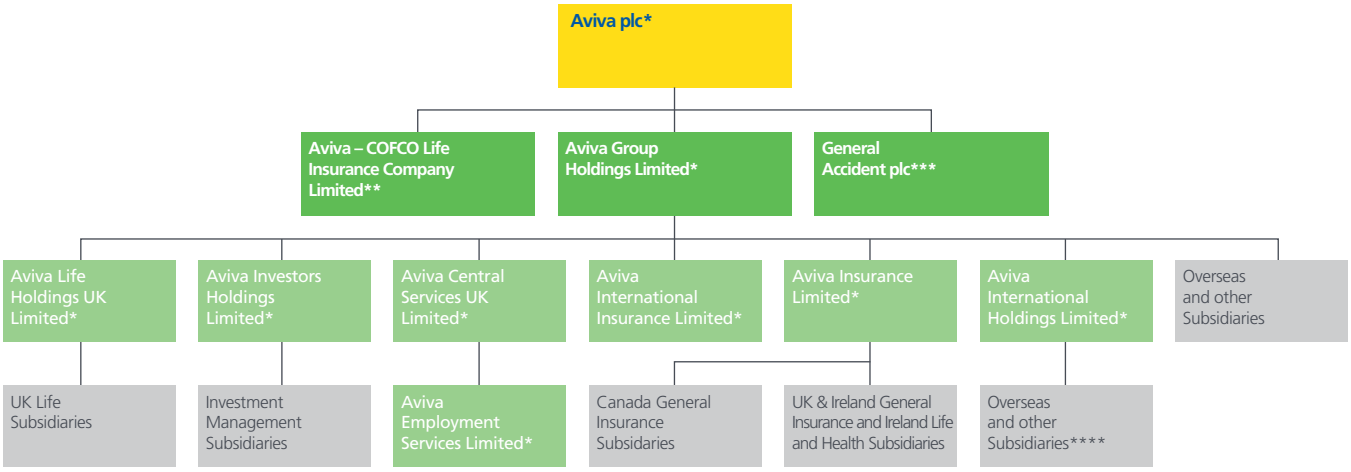
62 – Organisational structure

The following chart shows, in simplified form, the organisational structure of the Group as at 31 December 2013. 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
**** Includes certain investment management businesses

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 Risk Management Solutions 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 and its principal subsidiaries:
- Antarius S.A. (50.0%)
- 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 (71.4%)
Aviva Life & Pensions Ireland Limited

62 – Organisational structure continued

Italy
Aviva Italia Holding S.p.A and its principal subsidiaries:
- Avipop Assicurazioni S.p.A (50.0%)
- Avipop Vita S.p.A (50.0%)
- Aviva S.p.A (51.0%)
- Aviva Assicurazioni Vita S.p.A (50.0%)
- Aviva Italia S.p.A
- Aviva Previdenza S.p.A (55.0%)
- Aviva Vita S.p.A (25.5%)
- Eurovita Assicurazioni S.p.A (38.8%)

Lithuania
Uždaroji akcinė gyvybės draudimo ir pensijų bendrovė "Aviva Lietuva"

Poland
Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. (90.0%)
Aviva Towarzystwo Ubezpieczen na Zycie SA (90.0%)
Aviva Towarzystwo Ubezpieczen Ogolnych SA (90.0%)

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 (50.0%)
Caja Murcia Vida y Pensiones, de Seguros y Reaseguros S.A. (50.0%)
Caja Granada Vida, de Seguros y Reaseguros, S.A. (25.0%)
CxG Aviva Corporación Caixa Galicia de Seguros y Reaseguros, S.A. (50.0%)
Unicorp Vida, Compania de Seguros y Reaseguros (50.0%)

Turkey
Aviva Sigorta A.S. (98.6%)

United States
Aviva Investors North America, Inc.
River Road Asset Management, LLC

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 2013 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 (50.0%)

India
Aviva Life Insurance Company India Limited (26.0%)

South Korea
Woori Aviva Life Insurance Co, Ltd (47.3%)

Turkey
AvivaSA Emeklilik ve Hayat A.S (49.8%)

Vietnam
Vietinbank Aviva Life Insurance Company Limited (50.0%)

Financial statements of the Company

Income statement

For the year ended 31 December 2013

	Note	2013 £m	2012 £m
Income			
Dividends receivable from subsidiaries	I	**1,450**	1,585
Interest receivable from Group companies	I	**103**	107
		1,553	1,692
Expenses			
Net investment (expense)/income		**(5)**	28
Operating expenses	B	**(326)**	(333)
Interest payable to Group companies	I	**(326)**	(402)
Interest payable on borrowings		**(332)**	(347)
Realised loss on loan	I	**(78)**	—
Impairment of subsidiaries		—	(254)
		(1,067)	(1,308)
Profit before tax		**486**	384
Tax credit	C	**116**	232
Profit after tax		**602**	616

Statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 £m	2012 £m
Profit for the year		**602**	616
Other comprehensive income			
Items that may be reclassified subsequently to income statement			
Fair value gains on investments in subsidiaries and joint ventures	E	**2,108**	2,126
Impairment losses on assets previously revalued through other comprehensive income now taken to income statement		**—**	254
Items that will not be reclassified to income statement			
Remeasurements of pension schemes	E	**(2)**	—
Other comprehensive income, net of tax		**2,106**	2,380
Total comprehensive income for the year		**2,708**	2,996

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 110 to 123. 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 131 to 237.

Statement of changes in equity

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	DCI 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)**
Shares issued in lieu of dividends	31 & 38	—	—	—	—	—	—	—	—	—	—
Employee trust shares distributed in the year	33	—	—	—	—	—	—	**(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**

For the year ended 31 December 2012

	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	DCI and fixed rate tier 1 notes £m	Total equity £m
Balance at 1 January		726	200	1,173	735	4,414	86	3,116	10,450	990	11,440
Profit for the year		—	—	—	—	—	—	616	616	—	616
Other comprehensive income		—	—	—	—	2,380	—	—	2,380	—	2,380
Total comprehensive income for the year		—	—	—	—	2,380	—	616	2,996	—	2,996
Dividends and appropriations	16	—	—	—	—	—	—	(847)	(847)	—	(847)
Shares issued in lieu of dividends	31 & 38	9	—	(9)	—	—	—	127	127	—	127
Employee trust shares distributed in the year	33	—	—	—	—	—	—	(44)	(44)	—	(44)
Reserves credit for equity compensation plans		—	—	—	—	—	42	—	42	—	42
Shares issued under equity compensation plans		1	—	1	—	—	(68)	74	8	—	8
Issue of fixed rate tier 1 notes		—	—	—	—	—	—	—	—	392	392
Aggregate tax effect		—	—	—	—	—	—	18	18	—	18
Balance at 31 December		736	200	1,165	735	6,794	60	3,060	12,750	1,382	14,132

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 110 to 123. 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 131 to 237.

Statement of financial position

At 31 December 2013

	Note	2013 £m	2012 £m
Assets			
Non-current assets			
Investments in subsidiaries	A	**33,095**	31,023
Investment in joint venture	19a	**177**	141
Loans owed by subsidiaries	I	**1,040**	1,054
Deferred tax assets	C	**205**	180
Current tax assets	C	**93**	50
		34,610	32,448
Current assets			
Loans owed by subsidiaries	I	**42**	1,240
Other amounts owed by subsidiaries	I	**624**	3,019
Other assets	D	**347**	49
Cash and cash equivalents		**223**	152
Total assets		**35,846**	36,908
Equity			
Ordinary share capital	31	**736**	736
Preference share capital	34	**200**	200
Called up capital		**936**	936
Share premium account	31b	**1,165**	1,165
Merger reserve	E	**735**	735
Investment valuation reserve	E	**8,902**	6,794
Equity compensation reserve	E	**54**	60
Retained earnings	E	**3,158**	3,060
Direct capital instruments and fixed rate tier 1 notes	35	**1,382**	1,382
Total equity		**16,332**	14,132
Liabilities			
Non-current liabilities			
Borrowings	F	**4,569**	4,536
Loans owed to subsidiaries	I	**563**	13,153
Provisions		**39**	36
		5,171	17,725
Current liabilities			
Borrowings	F	**556**	603
Loans owed to subsidiaries	I	**9,975**	794
Other amounts owed to subsidiaries	I	**3,722**	3,569
Other creditors		**90**	85
Total liabilities		**19,514**	22,776
Total equity and liabilities		**35,846**	36,908

Approved by the Board on 5 March 2014.

Patrick Regan
Chief Financial Officer

Company number: 2468686

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 110 to 123. 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 131 to 237.

Statement of cash flows

For the year ended 31 December 2013

All the Company's operating and investing 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 activities, the following items pass through the Company's own bank accounts.

	2013 £m	2012 £m
Cash flows from investing activities		
Purchase of Financial investments	**(294)**	—
Net cash used in investing activities	**(294)**	—
Cash flows from financing activities		
Funding provided by subsidiaries	**1,283**	887
New borrowings, net of expenses	**2,137**	2,200
Repayment of borrowings	**(2,179)**	(2,295)
Net repayment of borrowings	**(42)**	(95)
Proceeds from issue of fixed rate tier 1 notes, net of expenses	—	392
Preference dividends paid	**(17)**	(17)
Ordinary dividends paid	**(429)**	(630)
Interest paid on direct capital instruments and fixed rate tier 1 notes	**(92)**	(73)
Interest paid on borrowings	**(328)**	(310)
Treasury shares purchased for employee trusts	**(25)**	(25)
Shares issued under equity compensation plans	**—**	1
Net cash from financing activities	**350**	130
Net increase in cash and cash equivalents	**56**	130
Cash and cash equivalents at 1 January	**152**	17
Exchange gains on cash and cash equivalents	**15**	5
Cash and cash equivalents at 31 December	**223**	152

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 110 to 123. 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 131 to 237.

Notes to the Company's financial statements

A – Investments in subsidiaries

(i) Movements in the Company's investments in its subsidiaries are as follows:

	2013 £m	2012 £m
Fair value as at 1 January	**31,023**	28,889
Movement in fair value	**2,072**	2,134
At 31 December	**33,095**	31,023

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 2013, 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 2013 are described in note 62 to the Group consolidated financial statements.

B – Operating expenses

(i) Operating expenses

Operating expenses comprise:

	2013 £m	2012 £m
Staff costs and other employee-related expenditure (see below)	**194**	208
Other operating costs	**156**	96
Net foreign exchange (gains)/losses	**(24)**	29
Total	**326**	333

(ii) Staff costs

Total staff costs were:

	2013 £m	2012 £m
Wages and salaries	**84**	143
Social security costs	**8**	12
Post-retirement obligations		
Defined benefit schemes (see (iii) below)	**—**	1
Defined contribution schemes	**11**	12
Profit sharing and incentive plans	**—**	(2)
Equity compensation plans (see (iv) below)	**11**	32
Termination benefits	**80**	10
Total	**194**	208

(iii) Pension costs

The Company is one of a number of UK companies being charged for its employees participating in the Aviva Staff Pension Scheme, and its contributions are affected by the financial position of the scheme. There is no contractual agreement or policy for charging the net defined benefit cost for this scheme across the participating Group entities but, instead, this cost is recognised in the financial statements of the main UK employing company. The Company therefore recognises a pension expense equal to its contributions payable in the year for its staff, together with the service cost of any unfunded benefits, within staff costs above. Full disclosure on the Group's pension schemes is given in the Group consolidated financial statements, note 49.

(iv) 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 on the grounds of immateriality.

(v) Termination benefits

The £80 million of termination benefits recognised during 2013 relate to costs borne by the Company as part of the Group's transformation programme, which is referred to in note 7 of the Group consolidated financial statements.

C – Tax

(i) Tax (credited) /charged to the income statement

The total tax credit comprises:

	2013 £m	2012 £m
Current tax		
For this year	**(84)**	(46)
Prior year adjustments	**(7)**	(6)
Total current tax	**(91)**	(52)
Deferred tax		
Origination and reversal of temporary differences	**(49)**	(180)
Changes in tax rates or tax laws	**24**	—
Total deferred tax	**(25)**	(180)
Total tax credited to income statement	**(116)**	(232)

(ii) Tax charged to other comprehensive income

No tax was charged or credited to other comprehensive income in 2013 or 2012.

(iii) Tax credited to equity

Tax credited to equity comprises £22 million (*2012: £18 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:

	2013 £m	2012 £m
Profit before tax	**486**	384
Tax calculated at standard UK corporation tax rate of 23.25% *(2012: 24.5%)*	**113**	94
Adjustment to tax credit in respect of prior years	**(7)**	(6)
Non-assessable dividends	**(337)**	(388)
Disallowable expenses	**13**	76
Non-taxable loss on settlement of intra-group loan	**17**	—
Movement in deferred tax not recognised	**—**	(118)
Change in future local statutory tax rate	**32**	4
Losses surrendered intra-group for nil value	**53**	106
Total tax credited to income statement	**(116)**	(232)

The UK corporation tax rate reduced to 23% from 1 April 2013. Legislation was substantively enacted in July 2013 to reduce the main rate of UK corporation tax to 21% from 1 April 2014, with a further reduction to 20% from 1 April 2015. The 20% rate has been used in the calculation of the Company's deferred tax as at 31 December 2013.

(v) Deferred tax

A deferred tax asset of £205 million, arising in respect of deferred interest, has been recognised in the Company at 31 December 2013 at 20% *(2012: £180 million)*.The Company has unrecognised temporary differences of £54 million *(2012: £50 million)* to carry forward indefinitely against future taxable income.

(vi) Current tax assets

Current tax assets recoverable in more than one year are £93 million *(2012: £50 million)*.

D – Other assets

Included in other assets are financial investments of £297 million *(2012: £nil)* made up of UK Government Bonds which are due to expire during 2014. These financial investments are valued as Level 1 in the fair value hierarchy described in note 23 to the Group consolidated financial statements and are classified as other than trading as described in note 27.

E – Reserves

	Merger reserve £m	Investment valuation reserve £m	Equity compen-sation reserve £m	Retained earnings £m
Balance at 1 January 2012	735	4,414	86	3,116
Arising in the year:				
Profit for the year	—	—	—	616
Fair value gains on investments in subsidiaries and joint ventures	—	2,126	—	—
Impairment losses on assets previously revalued through other comprehensive income now taken to the income statement	—	254	—	—
Dividends and appropriations	—	—	—	(847)
Reserves credit for equity compensation plans	—	—	42	—
Shares issued in lieu of dividends	—	—	—	127
Trust shares distributed in the year	—	—	—	(44)
Issue of share capital under equity compensation scheme	—	—	(68)	74
Aggregate tax effect	—	—	—	18
Balance at 31 December 2012	**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**	**—**	**—**
Actuarial loss on pension provision	**—**	**—**	**—**	**(2)**
Impairment losses on assets previously revalued through other comprehensive income now taken to the income statement	**—**	**—**	**—**	**—**
Dividends and appropriations	**—**	**—**	**—**	**(538)**
Reserves credit for equity compensation plans	**—**	**—**	**37**	**—**
Shares issued in lieu of dividends	**—**	**—**	**—**	**—**
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**

Tax of £22 million *(2012: £18 million)* is deductible in respect of coupon payments of £92 million *(2012: £73 million)* on the direct capital instruments and fixed rate tier 1 notes.

F – Borrowings

The Company's borrowings comprise:

	2013 £m	2012 £m
Subordinated debt	**4,370**	4,337
9.5% guaranteed bonds 2016	**199**	199
Commercial paper	**556**	603
Total	**5,125**	5,139

Maturity analysis of contractual undiscounted cash flows:

	2013			2012		
	Principal £m	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within 1 year	**556**	**314**	**870**	603	307	910
1 to 5 years	**200**	**1,204**	**1,404**	200	1,197	1,397
5 to 10 years	**242**	**1,348**	**1,590**	241	1,342	1,583
10 to 15 years	**—**	**1,341**	**1,341**	527	1,192	1,719
Over 15 years	**4,165**	**2,950**	**7,115**	3,608	2,610	6,218
Total contractual undiscounted cash flows	**5,163**	**7,157**	**12,320**	5,179	6,648	11,827

Where subordinated debt is undated, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £73 million *(2012: £72 million).*

The fair value of the subordinated debt at 31 December 2013 was £4,707 million *(2012: £4,435 million),* calculated with reference to quoted prices. The fair value of the 9.5% guaranteed bonds 2016 at 31 December 2013 was £236 million *(2012: £246 million),* calculated with reference to quoted prices. The fair value of the commercial paper is considered to be the same as its carrying value.

On 28 February 2014, the Company notified the respective holders of the £200 million subordinated notes due 2019 and the €50 million subordinated notes due 2019 that it would redeem each of the notes on their respective first call dates in April 2014.

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 venture 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 would be a decrease/increase in profit before tax of £109 million *(2012: decrease/increase of £111 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)(iii).

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 (£1.5 billion) 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	**2013 £m**	2012 £m
Within 1 year	**42**	1,240
1 to 5 years	**832**	446
Over 5 years	**208**	608
Total	**1,082**	2,294

Loans owed to subsidiaries

			2013			2012
Maturity analysis of contractual undiscounted cash flows	**Principal £m**	**Interest £m**	**Total £m**	Principal £m	Interest £m	Total £m
Within 1 year	**9,975**	**218**	**10,193**	794	336	1,130
1 to 5 years	**563**	**34**	**597**	11,333	506	11,839
Over 5 years	**—**	**—**	**—**	1,820	83	1,903
Total	**10,538**	**252**	**10,790**	13,947	925	14,872

Other related party balances comprise dividends and interest receivable and payable, as well as inter-company balances for fees and other transactions in the normal course of business.

Loans owed to Aviva Group Holdings Limited were settled during the year, resulting in a realised fair value loss of £78 million.

The loan principal payable within 1 year of £9,975 million relates to a facility provided by General Accident plc, with settlement to be received in cash at maturity in December 2014. It is the intention of both parties that this facility will be renewed in full upon maturity.

Dividends, loans, interest

Services provided to related parties

			2013		2012
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m
Subsidiaries	**1,553**	**1,706**	1,692	5,313

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

			2013		2012
	Expense incurred in year £m	**Payable at year end £m**	Expense incurred in year £m	Payable at year end £m
Subsidiaries	**326**	**14,260**	402	17,516

The related parties' payables are not secured and no guarantees were given 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

There are no subsequent events to report.

K – Statement of cash flows

Following a review of the classification of the cash flows, additional disclosures in respect of treasury shares purchased for employee trusts, interest paid on direct capital instruments, fixed rate tier 1 notes and exchange gains on cash and cash equivalents and shares issued under equity compensation plans have been provided and comparative amounts have been amended from amounts previously reported. There has been no impact on the total cash and cash equivalents balance.

Other information
Performance review

In this section

Financial and operating performance	248
Selected consolidated financial data	262
Information on the Company	264
Analysis of investments	271
Contractual obligations	275
Risk and capital management	276
Corporate responsibility key performance indicators	280
Corporate responsibility assurance statement	282

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 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, the Group undertook the following actions which impacted the overall results and performance:

- During the year, the Group modified its management structure, and the Group's operating segments were changed to align them with this revised structure. Further details of the reportable segments are given in 'IFRS Financial statements – note 5 – Segmental information'.
- On 2 October 2013 the Group completed the sale of its United States life and related internal asset management business (US Life) to Athene Holding. Profit on disposal was £808 million, mainly reflecting currency translation and investment valuation reserves recycled to the income statement on completion. See 'IFRS Financial statements – note 4 – Subsidiaries' for further details. The results of US Life are presented as discontinued operations for all periods presented.
- The Group also completed the sale of a number of operations during the year, including operations in Russia, Malaysia and Spain (Aseval). 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, including the Group's cost savings programme. Integration and restructuring costs of £366 million *(2012: £468 million)* mainly include transformation costs, and Solvency II implementation costs of £79 million *(2012: £117 million)*.
- In addition, there was an adverse movement of £674 million 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 where the surplus has decreased over the year largely as a result of narrowing spreads between corporate bonds and gilts. 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.

2013 saw the global economy recovering although the eurozone lagged behind. The challenging conditions in the economies of major European markets meant that for much of the year consumer confidence remained low. Nevertheless Aviva has increased sales significantly in France and Poland and seen a smaller increase in our turnaround business in Italy.

The economies where the Group has operations that were impacted in 2013 by estimated low or negative growth include: France (0.2%)[1]; Spain (-1.2%)[1]; and Italy (-1.8%)[1]. Economic growth in the UK was more encouraging at 1.7%[1] and the Canadian economy remains healthy with estimated growth of 1.7%[1] in 2013. The picture has been brighter still in some of our growth markets with Turkey, for example, growing at 3.8%[1].

Over the next 3 years the world economy is expected to grow c.4%[1] annually (vs. 2.9%[1] in 2008-12 and 4.2%[1] in 2000-7). Emerging markets will continue to grow strongly, although lower than historically. The US is leading the developed market recovery while the eurozone is expected to continue to lag behind.

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.

During 2013, the total long-term business investment return variance was £403 million positive *(2012: £278 million negative)*.

For continuing operations, life investment variances were £49 million negative *(2012: £620 million negative)*. Negative variances in the UK resulting 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.

For 2012, the adverse life investment variances of £620 million predominantly related to the UK. This was mainly due to increasing the allowance for credit defaults on UK commercial mortgages to reflect uncertainty in the macro-economic environment, and the cost of de-risking activity. Elsewhere, positive variances in Spain and France were offset by a negative variance in Italy.

The positive variance of £452 million *(2012: £342 million positive)* for discontinued operations relates to the US business

1 International Monetary Fund

sold in 2013, driven by the impact of favourable equity market performance on embedded derivatives.

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 2013 and 2012 we made increases in the majority of final bonus rates.

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 2013, general insurance and health sales accounted for 43% 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 2013 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, recent natural disasters 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 much of its worldwide catastrophe risk to third-party reinsurers but retains a pooled element for its own account gaining diversification benefit. See 'IFRS Financial statements – note 58 – Risk management'.

In 2013 our operations in Canada suffered from losses related to the Toronto and Alberta floods (see 'Market performance – Canada' below for further details) and our operations in France were impacted by hail storms.

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 US dollar. As a consequence, our results are exposed to translation risk arising from fluctuations in the values of these currencies against sterling. Total foreign currency translation recognised in the income statement was a gain of £187 million *(2012: £128 million gain)*.

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 2013, sterling weakened slightly against the euro and strengthened against the Canadian dollar and US dollar. This resulted in a foreign currency loss in other comprehensive income from continuing operations of £35 million *(2012: £200 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 two 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 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 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 has been classified as held for sale.

Further details can be found in the section 'IFRS Financial statements – note 4 – Subsidiaries'.

Activity in 2012

In March Aviva's distribution arrangement with Allied Irish Bank (AIB) for long term business ceased and plans were put in place for the bancassurance partnership with AIB to be unwound. A strategic review commenced to determine the most effective distribution channels going forward.

In July the Group sold 37.2 million shares in Delta Lloyd for £313 million (net of transaction costs), reducing our holding to 19.8% of Delta Lloyd's ordinary share capital, representing 18.6% of shareholder voting rights. As the Group no longer had significant influence over Delta Lloyd, we ceased to account for that company as an associate from 5 July 2012. Subsequent to the 2012 year end we disposed of our entire remaining holding.

In July, the Group sold its life businesses in the Czech Republic, Hungary and Romania to MetLife Inc., for £37 million.

In December we sold our controlling 58.4% interest in AVIVA NDB Holdings Lanka to a subsidiary of AIA group for a consideration of £31 million.

On 18 December we reached an agreement with Bankia S.A. to transfer our holding in Spanish subsidiary Aseval to Bankia for £494 million. Due to the announced sale, Aseval was classified as held for sale at the balance sheet date.

During 2012 the Group entered into negotiations to dispose of Aviva Zao, its Russian long-term business subsidiary, and the requirements for that business to be classified as held for sale were met.

In December 2012 the Group announced the disposal of its US life and related internal fund management business to Athene Holding Ltd for £1.0 billion, including the shareholder loan. As a result of this announcement the results of the business for 2012 and comparative periods were classified as a discontinued operation and it was held for sale at the balance sheet date.

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 three main lines of business: our long-term insurance and savings business, which includes a range of life insurance and savings products; general insurance and health, which focuses on personal and commercial lines; 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 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; 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 United States business which has been classified as discontinued and was 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.

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, 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 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 general insurance and health business.

The table below presents our consolidated sales for the three years ended 31 December 2013, 2012 and 2011 for our continuing operations, as well as the reconciliation of sales to net written premiums in IFRS.

Continuing operations	**2013 £m**	2012 £m	2011 £m
Long-term insurance and savings new business sales	**25,423**	25,232	27,461
General insurance and health sales	**8,720**	8,894	9,162
Total sales	**34,143**	34,126	36,623
Less: Effect of capitalisation factor on regular premium long-term business	**(6,310)**	(5,935)	(6,079)
Share of long-term new business sales from JVs and associates	**(660)**	(592)	(604)
Annualisation impact of regular premium long-term business	**(203)**	(239)	(533)
Deposits taken on non-participating investment contracts and equity release contracts	**(4,389)**	(4,607)	(4,573)
Retail sales of mutual fund type products (investment sales)	**(4,875)**	(4,586)	(3,473)
Add: IFRS gross written premiums from existing long-term business	**3,688**	3,936	4,305
Less: long-term insurance and savings business premiums ceded to reinsurers	**(905)**	(930)	(959)
Total IFRS net written premiums	**20,489**	21,173	24,707
Analysed as:			
Long-term insurance and savings net written premiums	**11,769**	12,279	15,545
General insurance and health net written premiums	**8,720**	8,894	9,162
	20,489	21,173	24,707

- ***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 Income Statement. Only the margin earned is recognised in the 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 2013, 2012 and 2011.

Continuing operations	2013 £m	2012 £m	2011 £m
United Kingdom & Ireland Life	**12,424**	13,300	14,333
United Kingdom & Ireland General Insurance	**4,200**	4,490	4,842
France	**5,614**	4,640	5,063
Poland	**555**	438	552
Italy, Spain and Other	**4,430**	4,182	5,938
Canada	**2,250**	2,176	2,083
Asia	**1,896**	2,014	2,076
Aviva Investors	**2,741**	2,819	1,659
Other group activities	**33**	67	77
Total sales	**34,143**	34,126	36,623

Sales (from continuing operations)

Year ended 31 December 2013

Total sales from continuing operations were stable at £34,143 million *(2012: £34,126 million)* for the reasons set out in the market performance section below.

Year ended 31 December 2012

Total sales from continuing operations were 7% lower at £34,126 million *(2011: £36,623 million)* for the reasons set out in the market performance section 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 2013, 2012 and 2011, as well as the reconciliation of adjusted operating profit to profit/loss before tax attributable to shareholders' profits under IFRS.

Continuing operations	2013 £m	Restated[1] 2012 £m	Restated[1] 2011 £m
United Kingdom & Ireland Life	**1,124**	903	970
United Kingdom & Ireland GI	**465**	480	524
France	**448**	422	471
Poland	**184**	167	167
Italy, Spain and Other	**314**	365	292
Canada	**246**	277	256
Asia	**87**	53	70
Aviva Investors	**(26)**	42	53
Other Group activities	**(793)**	(783)	(774)
Adjusted operating profit before tax attributable to shareholders' profit (excluding Delta Lloyd as an associate)	**2,049**	1,926	2,029
Share of Delta Lloyd's adjusted operating profit (before tax) as an associate	**—**	112	157
Adjusted operating profit before tax attributable to shareholders' profit	**2,049**	2,038	2,186
Integration and restructuring costs	**(363)**	(461)	(261)
Adjusted operating profit before tax after integration and restructuring costs	**1,686**	1,577	1,925
Adjusted for the following:			
Investment return variances and economic assumption changes on long-term business	**(49)**	(620)	(897)
Short-term fluctuation in return on investments on non long-term business	**(336)**	7	(266)
Economic assumption changes on general insurance and health business	**33**	(21)	(90)
Impairment of goodwill, associates and joint ventures and other amounts expensed	**(77)**	(60)	(392)
Amortisation and impairment of intangibles	**(91)**	(128)	(116)
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	**115**	(164)	565
Exceptional items	**—**	—	(57)
Non-operating items before tax (excluding Delta Lloyd as an associate)	**(405)**	(986)	(1,253)
Share of Delta Lloyd's non-operating items (before tax) as an associate	**—**	(523)	10
Non-operating items before tax	**(405)**	(1,509)	(1,243)
Share of Delta Lloyd's tax expense, as an associate	**—**	107	(34)
Profit before tax attributable to shareholders' profits – continuing operations	**1,281**	175	648
Profit/(loss) before tax attributable to shareholders' profits – discontinued operations	**1,538**	(2,696)	(464)
Profit/(loss) before tax attributable to shareholders' profits	**2,819**	(2,521)	184

1 Following the adoption of IAS 19 'Employee benefits' the Group has retrospectively applied the changes to the comparative periods in these financial statements. This has led to an increase in profit before tax of £150 million for 2012, and £97 million in 2011. For further detail of the impact of the restatement please see note 1 to the IFRS financial statements.

Adjusted operating profit before tax (from continuing operations)

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.

Year ended 31 December 2012

Adjusted operating profit before tax decreased by £148 million or 7% to £2,038 million *(2011: £2,186 million)* for the reasons set out in the market performance section below.

Adjusting items (from continuing operations)

Year ended 31 December 2013

Life investment return variances and economic assumption changes 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 reflect lower fixed income security market values.

Goodwill impairment charges of £48 million have been recognised as expenses. Together with impairment charges of £29 million on joint ventures and associates, the total charge for impairment of goodwill, joint ventures and associates 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 include expenses associated with the Group's transformation programme. Compared with 2012, 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)*.

Year ended 31 December 2012

The negative investment return variances and economic assumption changes of £620 million (*2011: £897 million negative)* mainly related to the UK, where the allowance for credit defaults on UK commercial mortgages increased to reflect uncertainty in the macroeconomic environment and the cost of de-risking activity. Elsewhere, positive variances in Spain and France were offset by a negative variance in Italy.

Short term fluctuations on non-long term business of £7 million positive (*2011: £266 million negative)* reflected favourable market movements.

The impairment of goodwill, associates and joint ventures was £60 million in 2012 *(2011: £392 million)*. This included an impairment of £147 million in respect of the Group's Indian associate, an impairment of £76 million in relation to goodwill on the Spanish business, an impairment of £33 million in relation to the Italian business and a small write down of £9 million in respect of the Group's Korean joint venture. These impairments were partly offset by a reversal of the impairment recognised in 2011 in respect of our associate investment in Delta Lloyd of £205 million.

Loss on disposal of subsidiaries and associates was £164 million (*2011: £565 million profit*). This includes a loss of £129 million relating to the disposal of our associate stake in Delta Lloyd.

Integration and restructuring costs were £461 million *(2011: £261 million)*. This included costs relating to restructuring and transformation activity that was taken to align our business operations with our strategy, including the Group's Simplify programme (£165 million), £130 million in Ireland which includes expenses associated with the merging of the UK and Irish business, £24 million for restructuring in Aviva Investors, £25 million in respect of restructuring activities and £117 million relating to preparing the businesses for the implementation of Solvency II.

Continuing operations	2013 £m	Restated[1] 2012 £m	Restated[1] 2011 £m
Income			
Gross written premiums	**22,035**	22,744	26,255
Premiums ceded to reinsurers	**(1,546)**	(1,571)	(1,548)
Premiums written net of reinsurance	**20,489**	21,173	24,707
Net change in provision for unearned premiums	**134**	(16)	(236)
Net earned premiums	**20,623**	21,157	24,471
Fee and commission income	**1,279**	1,273	1,465
Net investment income	**12,509**	21,135	4,373
Share of profit/(loss) of joint ventures and associates	**120**	(255)	(123)
Profit/(loss) on the disposal and re-measurement of subsidiaries and associates	**115**	(164)	565
	34,646	43,146	30,751
Expenses			
Claims and benefits paid, net of recoveries from reinsurers	**(22,093)**	(23,601)	(24,380)
Change in insurance liabilities, net of reinsurance	**2,493**	(430)	(2,284)
Change in investment contract provisions	**(7,050)**	(4,450)	1,478
Change in unallocated divisible surplus	**280**	(6,316)	2,721
Fee and commission expense	**(3,975)**	(4,457)	(4,326)
Other expenses	**(2,220)**	(2,843)	(2,779)
Finance costs	**(609)**	(653)	(711)
	(33,174)	(42,750)	(30,281)
Profit before tax	**1,472**	396	470
Tax attributable to policyholders' returns	**(191)**	(221)	178
Profit before tax attributable to shareholders' profits	**1,281**	175	648

1 Following the adoption of IAS 19 'Employee benefits' the Group has retrospectively applied the changes to the comparative periods in these financial statements. This has led to an increase in profit before tax of £150m for 2012, and £97m in 2011. For further detail of the impact of the restatement please see note 1 to the IFRS financial statements.
Following the adoption of IFRS 10 'Consolidated financial statements' the Group has retrospectively applied the change to the 2012 comparatives in these financial statements. There is no impact on the result for 2012 as a result of this restatement. For further details of the impact of the restatement please see note 1 to the IFRS financial statements.

Income (from continuing operations)

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.

Year ended 31 December 2012

Net written premiums for continuing operations decreased by £3,534 million, or 14%, to £21,173 million *(2011: £24,707 million).* Long-term insurance and savings decreased by £3,266 million, or 21%, to £12,279 million *(2011: £15,545 million)* mainly reflecting lower sales in the UK and continental Europe. General and health insurance decreased by £268 million, or 3%, to £8,894 million *(2011: £9,162 million)*. Excluding RAC in 2011, sales were broadly in line.

Net investment income (from continuing operations)

Year ended 31 December 2013

Net investment income from continuing operations was £12,509 million *(2012: £21,135 million)*. Compared to the prior year, unrealised gains were lower in 2013 primarily as a result of

lower fixed income security market values partly offsetting growth in equity markets.

Year ended 31 December 2012
Net investment income for the year increased by £16,762 million to £21,135 million *(2011: £4,373 million)* reflecting positive market performance and narrowing credit spreads on assets as market sentiment improved in the Eurozone. This led to significant increases in net unrealised gains on investments.

Other income (from continuing operations)
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)*.

Year ended 31 December 2012
Other income, which consists of fee and commission income, share of loss after tax of joint ventures and associates, and (loss)/profit on disposal of subsidiaries and associates, decreased by £1,053 million, or 55%, to £854 million in 2012 *(2011: £1,907 million*). 2011 benefited from the profit on disposal of RAC (£532 million), whilst 2012 saw a loss on disposal of our associate stake in Delta Lloyd, lower fee and commission income and higher losses from our share of JV's and associates.

Expenses (from continuing operations)
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.

Year ended 31 December 2012
Claims and benefits paid net of reinsurance in 2012 decreased by £779 million, or 3%, to £23,601 million (*2011: £24,380 million*) mainly reflecting lower claims payments in our life businesses.

Changes in insurance liabilities in 2012 was a charge of £430 million *(2011: £2,284 million charge)*. This was primarily due to changes in economic and non-economic assumptions.

The change in investment contract provisions was a charge of £4,450 million (*2011: £1,478 million credit*) 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 £6,316 million (*2011*: *£2,721 million credit*). UDS in certain funds in Italy and Spain were negative as at 31 December 2012. The main driver of the movement was a charge in France due to an increase in fixed interest asset values from lower risk-free rates and credit spreads.

Fee and commission expense, other expenses and finance costs increased by £137 million to £7,953 million *(2011: £7,816 million)*. See 'IFRS Financial Statements – note 7 – Details of expenses' for further information.

Profit/(loss) before tax attributable to shareholders' profits (from continuing operations)
Year ended 31 December 2013
Profit before tax attributable to shareholders was £1,281 million (*2012: £175 million).* The increase mainly reflects lower expenses.

Year ended 31 December 2012
Profit before tax attributable to shareholders was £175 million restated (*2011: £648 million).* The decrease was primarily due to the increased tax charge attributable to policyholders' returns.

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 2013, 2012 and 2011.

	2013 £m	Restated[1] 2012 £m	Restated[1] 2011 £m
Pensions	**5,476**	5,158	5,279
Annuities	**2,327**	3,211	3,832
Bonds	**183**	379	801
Protection	**992**	1,228	1,025
Equity release	**401**	434	317
United Kingdom	**9,379**	10,410	11,254
Ireland	**469**	632	917
Life and pensions sales	**9,848**	11,042	12,171
Investment sales	**2,040**	1,730	1,689
Long term savings sales	**11,888**	12,772	13,860
UK Health net written premiums	**536**	528	473
Sales	**12,424**	13,300	14,333
IFRS net written premiums	**4,228**	5,623	6,823
Adjusted operating profit before tax			
United Kingdom	**930**	887	917
Ireland	**22**	5	47
Life business	**952**	892	964
General insurance and health – UK health	**18**	14	12
Fund management	**23**	11	11
Other operations	**131**	(14)	(17)
Total adjusted operating profit before tax	**1,124**	903	970
Profit before tax attributable to shareholders' profits	**717**	107	134

1 Restated for the adoption of IAS19. See note 1 for further details.

Year ended 31 December 2013
On a PVNBP basis, sales in the UK long-term insurance and savings business decreased by £1,031 million, or 10%, to £9,379 million *(2012: £10,410 million)*. Volumes in the UK reduced significantly during the year, reflecting our 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 our 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. Investment sales increased 18% to £2,040 million *(2012: £1,730 million)*, with higher sales on our Wrap platform.

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 our 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)* includes a £145 million one-off gain from plan amendments to the Ireland pension scheme.

IFRS profit before tax has 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.

Year ended 31 December 2012

On a PVNBP basis, sales in the UK long-term insurance and savings business decreased by £844 million, or 7%, to £10,410 million *(2011: £11,254 million)*. Protection sales were up 20% to £1,228 million *(2011: £1,025 million)*, benefiting from a full year's sales from the distribution deal with Santander. Sales of annuities were down 16% to £3,211 million *(2011: £3,832 million)* following the decision to withdraw from the large scale bulk purchase annuity market. However, sales of individual annuities were up 10% to £3,024 million despite price increases to manage capital usage. Sales of Equity Release were up 37% to £434 million *(2011: £317 million)* as Aviva deployed risk based pricing expertise, developed in the annuities market, to this product. Pensions sales were down 2% to £5,158 million *(2011: £5,279 million)*. Within this, Group Personal Pensions sales were up 9% to £3,231 million *(2011: £2,961 million)* as benefits were seen from increased levels of activity in the run up to Retail Distribution Review ("RDR") and Auto-Enrolment. Individual Pensions (including SIPP (self invested pension plan)) were down 4% to £1,803 million *(2011: £1,876 million)* as a disciplined approach to pricing was maintained. Sales of Bonds were down 53% to £379 million *(2011: £801 million)*, impacted by changes in distribution channels in advance of RDR.

Ireland sales were down 31% to £632 million *(2011: £917 million)* due to the closure to new business of the joint venture with Allied Irish Bank ("AIB") from April 2012. Non AIB business sales were £530 million *(2011: £485 million)*, with the increase driven by sales of fixed rate deposit funds and the re-launch of protection business in the second half of 2012.

Net written premiums in our UK & Ireland long-term insurance and savings businesses decreased by £1,200 million, or 18%, to £5,623 million *(2011: £6,823 million)*. The decrease is primarily due the reduction in BPA (bulk purchase annuities) premiums.

Adjusted operating profit before tax decreased by £67 million, or 7%, to £903 million *(2011*: £970 *million*). This mainly reflects lower profits in Ireland where the Life operations result fell to £5 million from £47 million in 2011, as the closure to new business of our joint venture with AIB became effective. The UK Life business saw profits fall by £30 million or 3% to £887 million, mainly due to a lower level of one-off items in 2012 (2011 included one-off benefits of £93 million relating to the Part VII transfers of the former RBS JV entities and £30 million relating to the release of tax provisions associated with the reattribution of the inherited estate). Profit before tax decreased by £27 million, or 20%, to £107 million for 2012 *(2011: £134 million)*.

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 2013, 2012 and 2011.

	2013 £m	2012 £m	2011 £m
Sales/IFRS net written premiums			
United Kingdom	**3,823**	4,062	4,371
Ireland	**377**	428	471
	4,200	4,490	4,842
Adjusted operating profit before tax			
United Kingdom	**431**	459	478
Ireland	**40**	29	44
General insurance and health business	**471**	488	522
Other operations	**(6)**	(8)	2
Total adjusted operating profit before tax	**465**	480	524
Profit before tax attributable to shareholders' profits	**387**	248	843

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 includes adjusted operating profits of £465 million *(2012: £480 million)*, which have 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 has been partly offset by a favourable impact from an increase in the swap rate used to discount latent claims.

Year end 31 December 2012

UK and Ireland general insurance and health NWP decreased by £352 million, or 7%, to £4,490 million *(2011: £4,842 million)*, mainly as a result of the disposal of RAC. Excluding RAC, NWP decreased by £48 million, or 1%, to £4,062 million *(2011: £4,110 million)*. The UK has seen growth in personal motor, corporate and speciality risks and personal speciality lines. This

has been offset by management actions to reduce exposure in unprofitable business segments.

Adjusted general insurance and health operating profit in 2012 decreased by £34 million, or 7%, to £488 million *(2011: £522 million)*. Our UK general insurance operation has seen a decrease of £19 million, or 4%, to £459 million *(2011: £478 million)*. Excluding the RAC contribution of £75 million in 2011, this represented a like for like increase of 14% with the 2012 result benefiting from a favourable movement on prior year claims and an increase in long term investment return. 2012 was the second wettest year on record and whilst UKGI had more flood claims, weather-related claims were broadly in line with long-term average compared to the favourable experience in 2011. In Ireland, general insurance adjusted operating profit has decreased by £15 million, or 34%, to £29 million (*2011: £44 million*) mainly reflecting the difficult environment with intense competition and the adverse effect of the economy on premium volumes.

Profit before tax decreased by £595 million, or 71%, to £248 million *(2011: £843 million)*. 2011 benefited from the profit on disposal of RAC of £532 million. This combined with an increase in restructuring costs accounts for the majority of the year on year decrease.

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 2013, 2012 and 2011.

	2013 £m	2012 £m	2011 £m
Sales			
Long-term insurance and savings business	**4,509**	3,638	4,047
General insurance and health net written premiums	**1,105**	1,002	1,016
Total sales	**5,614**	4,640	5,063
IFRS net written premiums	**5,565**	4,702	5,233
Adjusted operating profit before tax			
Long-term insurance and savings business	**385**	335	323
General insurance and health	**84**	95	144
Other operations	**(21)**	(8)	4
Total adjusted operating profit before tax	**448**	422	471
Profit before tax attributable to shareholders' profits	**457**	482	267

Year ended 31 December 2013

On a PVNBP basis, long-term insurance and savings business sales in France increased by £871 million, or 24%, to £4,509 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)*.

Year ended 31 December 2012

Total sales in France were down £423 million, or 8%, to £4,640 million *(2011: £5,063 million)* mainly due to a reduction in long-term insurance and savings sales. Total life and pensions sales decreased 10% to £3,638 million *(2011: £4,047 million)*, a reduction of 4% on a local currency basis, with sales in the AFER product declining and sales through the Bancassurance channel remaining broadly flat.

France's net written premium was £4,702 million, down £531 million, or 10% *(2011: £5,233 million)* driven by the decrease in AFER sales and relatively flat sales in general insurance.

Adjusted operating profit for long-term insurance and savings business in 2012 was £335 million (*2011: £323 million*), an increase of £12 million or 4%.

General insurance and health adjusted operating profit decreased by £49 million, or 34%, to £95 million *(2011: £144 million)* due in part to the one-off release in 2011 of surplus reserve margins of £45 million. There was also adverse claims experience from the February 2012 freeze, partly offset by a decrease in personal motor bodily injury claims.

Restructuring costs in France were down £19 million, or 63%, to £11 million *(2011: £30 million)*. 2011 included higher costs from the previous European restructuring programme.

Profit before tax attributable to shareholders' profits was £482 million, an increase of £215 million, or 81% *(2011: £267 million)*.

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 2013, 2012 and 2011.

	2013 £m	2012 £m	2011 £m
Sales			
Long-term insurance and savings business	**486**	373	487
General insurance and health net written premiums	**69**	65	65
Total sales	**555**	438	552
IFRS net written premiums	**475**	433	468
Adjusted operating profit before tax			
Long-term insurance and savings business	**164**	153	167
General insurance and health	**9**	9	(5)
Other operations	**11**	5	5
Total adjusted operating profit before tax	**184**	167	167
Profit before tax attributable to shareholders' profits	**178**	176	157

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 has 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)*.

Year ended 31 December 2012

Total long-term insurance and savings in Poland were down by £114 million, or 23%, to £373 million *(2011: £487 million)* as a result of lower appetite for unit-linked products and regulatory changes relating to pensions.

Net written premiums were £433 million, down £35 million, or 7% *(2011: £468 million)* driven by lower unit-linked and pensions sales. General insurance sales were stable at £65 million *(2011: £65 million)*.

Adjusted operating profit for long-term insurance and savings business in 2012 was £153 million (*2011: £167 million*), a decrease of £14 million or 8%. General insurance adjusted operating profit increased by £14 million to £9 million *(2011: £5 million loss)*. Profit before tax attributable to shareholders' profits was £176 million, an increase of £19 million, or 12% *(2011: £157 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 2013, 2012 and 2011.

	2013 £m	2012 £m	2011 £m
Sales			
Long-term insurance and savings business			
Spain	**1,224**	1,295	1,926
Italy	**2,235**	1,971	2,993
Other	**544**	470	511
Total long-term insurance and savings business	**4,003**	3,736	5,430
General insurance and health			
Italy & Other	**427**	446	508
Total sales	**4,430**	4,182	5,938
IFRS net written premiums	**3,193**	3,036	4,592
Adjusted operating profit before tax			
Long-term insurance and savings business			
Spain	**150**	215	216
Italy	**142**	159	140
Other	**10**	7	4
	302	381	360
General insurance and health – Italy & other	**19**	(6)	(47)
Other operations	**(7)**	(10)	(21)
Total adjusted operating profit before tax	**314**	365	292
Profit/(loss) before tax attributable to shareholders' profits	**509**	273	(95)

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, life sales increased by £264 million, or 13%, to £2,235 million *(2012: £1,971 million)* driven by higher sales of unit-linked and with-profits products.

In Spain, life sales decreased by £71 million, or 5%, to £1,224 million *(2012: £1,295 million)* mainly reflecting the disposal of Aseval in April 2013.

Other life sales, which mainly includes 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)*.

Year ended 31 December 2012

Total long-term insurance and savings fell by £1,694 million, 31% to £3,736 million *(2011: £5,430 million)*.

In Italy, lower savings and protection sales reflected the challenging conditions and decreased by £1,022 million, or 34%, to £1,971 million *(2011: £2,993 million)*.

In Spain, life sales decreased by £631 million, or 33%, to £1,295 million *(2011: £1,926 million)* reflecting the continued tough economic conditions.

Our general insurance and health sales decreased by £62 million, or 12%, to £446 million *(2011: £508 million)*. The decrease was driven by Italy where credit protection sales fell reflecting low levels of loan activity by partner banks and motor sales were also lower.

Net written premiums for the segment decreased £1,556 million, or 34%, to £3,036 million *(2011: £4,592 million)* due to lower sales as described above.

Total adjusted operating profit increased £73 million, or 25%, to £365 million (*2011: £292 million*).

General insurance and health adjusted operating loss improved by £41 million to £6 million loss *(2011: £47 million loss)* driven mainly by the Italian business which saw its combined operating ratio fall below 100%.

The profit before tax attributable to shareholders' profits was £273 million *(2011: £95 million loss)*. In 2012, adjusted operating profits were higher as described above, and there were also favourable investment variances of £43 million *(2011: £345 million negative variances)*.

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 2013, 2012 and 2011.

	2013 £m	Restated[1] 2012 £m	Restated[1] 2011 £m
Sales/IFRS net written premiums	**2,250**	2,176	2,083
Adjusted operating profit before tax			
General insurance	**246**	277	256
Other operations	**—**	—	—
Total adjusted operating profit before tax	**246**	277	256
Profit before tax attributable to shareholders' profits	**104**	245	299

1 Restated for the adoption of IAS19. See note 1 for further details.

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)*.

Year ended 31 December 2012

General insurance sales in Canada increased by £93 million, or 4%, to £2,176 million *(2011: £2,083 million)*, due to a

combination of improved retention levels and rate increases across both personal and commercial lines.

Adjusted operating profit improved by £21 million, or 8%, to £277 million *(2011: £256 million)* mainly due to favourable underwriting results partially offset by lower long-term investment returns.

Profit before tax attributable to shareholders' profits decreased by £54 million, or 18%, to £245 million *(2011: £299 million restated)*.

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 2013, 2012 and 2011.

	2013 £m	2012 £m	2011 £m
Sales			
Long-term insurance and savings business			
Singapore	**818**	688	538
Other Asia	**826**	1,077	1,244
Total long-term savings sales	**1,644**	1,765	1,782
General insurance and health			
Singapore	**81**	88	76
Other Asia	**19**	32	32
Total general insurance and health sales	**100**	120	108
Investment sales	**152**	129	186
Total sales	**1,896**	2,014	2,076
IFRS net written premiums	**532**	636	583
Adjusted operating profit before tax			
Long-term insurance and savings business			
Singapore	**83**	64	52
Other Asia	**13**	5	56
General insurance and health			
Singapore	**(3)**	(4)	(5)
Other Asia	**4**	(1)	(4)
Other operations	**(10)**	(11)	(29)
Total adjusted operating profit before tax	**87**	53	70
Profit before tax attributable to shareholders' profits	**98**	62	33

Year ended 31 December 2013

Long term insurance and savings sales in Asia decreased by 7% to £1,644 million *(2012: £1,765 million)*. Excluding Malaysia and Sri Lanka, which were sold in April 2013 and December 2012 respectively, sales were 3% lower at £1,628 million *(2012: £1,673 million)* with higher sales in Singapore more than offset by lower sales in other Asian markets due to changes in business mix. General insurance and health net written premiums were £100 million *(2012: £120 million)*, down 17%, 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)*.

Year ended 31 December 2012

Long-term insurance and savings sales in Asia decreased by £17 million, or 1%, to £1,765 million *(2011: £1,782 million)* with higher sales in Singapore more than offset by lower sales in other markets.

Net written premiums in the general insurance and health business rose to £120 million *(2011: £108 million)* due to growth in Singapore.

Adjusted operating profit decreased by £17 million, or 24%, to £53 million *(2011: £70 million)*. The change mainly reflects the non-recurrence of a Hong Kong reserving change which benefited the results by £25 million in 2011. Profit before tax attributable to shareholders increased by £29 million, or 88%, to £62 million *(2011: £33 million)*, reflecting a £12 million profit in 2012 on the disposal of our Sri Lankan business, and negative life investment variances and impairment charges of £35 million in 2011.

Aviva Investors

The table below presents the investment 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 2013, 2012 and 2011. As set out in 'IFRS Financial Statements – note 4 – Subsidiaries', the internal asset management operations of Aviva Investors North America were sold with the US life business and have been classified within discontinued operations.

	2013 £m	2012 £m	2011 £m
Sales[1]	**2,741**	2,819	1,659
Adjusted operating profit before tax			
Fund management	**68**	39	50
Long-term insurance and savings business – Pooled Pensions operating profit[1]	**2**	3	3
Other operations – client compensation costs	**(96)**	—	—
Total adjusted operating (loss)/profit before tax	**(26)**	42	53
(Loss)/profit before tax attributable to shareholders' profits	**(89)**	2	36
Assets under management (continuing operations)	**240,507**	236,336	225,396

1 Includes the Aviva Investors Pooled Pension business.

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 2006 – 2012. 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 has been carried out by management and reviewed by PwC. Measures to improve controls have been implemented.

There is a total adverse impact on Group adjusted operating profit from this activity of £132 million. This reflects 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 reflects compensation expected to be claimed from, and other associated costs within, Aviva Investors. Compensation of £36 million relating to this matter is expected to be claimed from a group holding company. These amounts are shown in operating profit in 'Other operations'.

Year ended 31 December 2012

Aviva Investors' adjusted operating profit for fund management from continuing operations decreased by £11 million, or 22%, to £39 million *(2011: £50 million)*. The reduction in profits was as a result of lower performance fees, partially offset by lower operating expenditure driven by cost savings.

Profit before tax attributable to shareholders from continuing operations decreased by £34 million, or 94%, to

£2 million *(2011: £36 million)*, mainly due to the reduction in adjusted operating profit and a one-off profit in 2011 arising on the disposal of Aviva Investors Australia.

Assets under management increased by £11 billion, or 5%, to £236 billion *(2011: £225 billion)*. This was due to capital appreciation more than offsetting negative net flows.

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 2013, 2012 and 2011.

	2013 £m	Restated[1] 2012 £m	Restated[1] 2011 £m
IFRS net written premiums	**46**	77	84
Adjusted operating loss before tax			
General insurance	**(51)**	22	64
Corporate centre	**(150)**	(136)	(138)
Group debt costs and other interest	**(502)**	(537)	(568)
Delta Lloyd Associate (see below)	**—**	112	157
Other Group operations	**(90)**	(132)	(132)
Total adjusted operating loss before tax	**(793)**	(671)	(617)
Loss before tax attributable to shareholder's profits	**(1,080)**	(1,420)	(1,026)

1 Restated for the adoption of IAS19. See note 1 for further details.

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 includes £36 million of compensation expected to be 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.

Year ended 31 December 2012

Net written premiums from our reinsurance business were £77 million *(2012: £84 million)*.

Adjusted operating profit from general insurance was £22 million *(2011: £64 million)*. Corporate centre costs were stable at £136 million *(2011: £138 million)*. Group debt costs and other interest decreased to £537 million *(2011: £568 million)*. Losses from other operations were stable at £132 million *(2011: £132 million loss)*.

Loss before tax attributable to shareholders' profits was £1,420 million *(2011: £1,026 million)*. The higher loss in 2012 was mainly due to the Delta Lloyd Associate.

Delta Lloyd Associate

For the period from 6 May 2011 to 5 July 2012, the Group had an associate interest in Delta Lloyd. In July 2012, following a sell-down, the Group's holding fell to 19.8% of Delta Lloyd's ordinary share capital representing 18.6% of shareholder voting rights and for the remainder of 2012 it was treated as a financial investment. In January 2013, the Group sold the remainder of its holding in Delta Lloyd.

The Group's share of the loss of its associate interest in Delta Lloyd in 2012 was £304 million *(2011: £133 million profit)*. This comprised operating profit of £112 million *(2011: £157 million)*, £523 million of negative non operating items *(2011: £10 million positive)* and a tax credit of £107 million *(2011: £34 million charge)*. In addition, in 2012, an amount of £205 million previously recognised as an impairment was reversed through the Group's share of loss after tax of associates, after it became redundant when the Group's share of Delta Lloyd's net asset value declined to below its quoted market value prior to sale.

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 2013, 2012 and 2011.

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.

	2013 £m	2012 £m	2011 £m
IFRS net written premiums	**1,489**	3,589	3,620
Adjusted operating profit before tax			
Life business	**272**	200	197
Other operations	**(13)**	(16)	(11)
Fund management	**31**	55	37
Total adjusted operating profit before tax	**290**	239	223
Profit/(loss) before tax attributable to shareholders' profits	**1,538**	(2,696)	262

Year ended 31 December 2013

The results for 2013 are 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. Further details are set out in note 4 to the financial statements.

Year ended 31 December 2012

Net written premiums decreased by 1% to £3,589 million (*2011: £3,620 million*) as higher sales were offset by increased outward reinsurance premiums.

Adjusted operating profit increased by £16 million, or 7%, to £239 million *(2011: £223 million)*. Long-term insurance and savings adjusted operating profit remained broadly flat at £200 million *(2011: £197 million)*. Fund management operations generated profits of £55 million *(2011: £37 million)*.

Loss before tax attributable to shareholders was £2,696 million (*2011: £262 million profit*) which mainly related to an impairment to write the value of the business down at 31 December 2012.

Delta Lloyd

On 6 May 2011, the Group sold 25 million shares in Delta Lloyd, reducing our holding at that date to 42.7% of Delta Lloyd's ordinary share capital, representing 40% of shareholder voting rights. As the Group no longer commanded a majority of shareholder voting rights, it no longer controlled Delta Lloyd. Accordingly, from 6 May 2011, the Group ceased to consolidate the results and net assets of Delta Lloyd and its results up to that date were shown as discontinued operations.

	2013 £m	2012 £m	2011 £m
Sales			
Life business	**—**	—	1,255
General insurance and health	**—**	—	557
Total Sales	**—**	—	1,812
Net written premiums	**—**	—	2,043
Total adjusted operating profit	**—**	—	191
Loss before tax attributable to shareholders' profits	**—**	—	(726)

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.

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

Following the adoption of IAS 19 — Employee benefits (revised), the Group has retrospectively applied the changes to all the comparative periods in these financial statements. This has led to an increase in profit before tax of £150 million for 2012, £97 million in 2011, £48 million in 2010 and £79 million in 2009, with a corresponding decrease in other comprehensive income. For further detail of the impact of the restatement please see note 1.

Following the adoption of IFRS 10 — Consolidated financial statements, the Group has retrospectively applied the change to 2012. There is no impact on the result for 2012 as a result of this restatement.

Income statement data

Amounts in accordance with IFRS Continuing operations	**2013 £m**	Restated 2012 £m	Restated 2011 £m	Restated 2010 £m	Restated 2009 £m
Income					
Gross written premiums	**22,035**	22,744	26,255	27,192	25,690
Premiums ceded to reinsurers	**(1,546)**	(1,571)	(1,548)	(1,606)	(2,294)
Premiums written net of reinsurance	**20,489**	21,173	24,707	25,586	23,396
Net change in provision for unearned premiums	**134**	(16)	(236)	(72)	552
Net earned premiums	**20,623**	21,157	24,471	25,514	23,948
Fee and commission income	**1,279**	1,273	1,465	1,451	1,552
Net investment income	**12,509**	21,135	4,373	16,746	19,902
Share of profit/(loss) after tax of joint ventures and associates	**120**	(255)	(123)	141	(463)
Profit/(loss) on the disposal and remeasurement of subsidiaries, joint ventures and associates	**115**	(164)	565	163	122
	34,646	43,146	30,751	44,015	45,061
Expenses					
Claims and benefits paid, net of recoveries from reinsurers	**(22,093)**	(23,601)	(24,380)	(22,240)	(21,080)
Change in insurance liabilities, net of reinsurance	**2,493**	(430)	(2,284)	(2,837)	(1,119)
Change in investment contract provisions	**(7,050)**	(4,450)	1,478	(9,212)	(11,096)
Change in unallocated divisible surplus	**280**	(6,316)	2,721	362	(1,479)
Fee and commission expense	**(3,975)**	(4,457)	(4,326)	(5,500)	(4,081)
Other expenses	**(2,220)**	(2,843)	(2,779)	(2,116)	(3,583)
Finance costs	**(609)**	(653)	(711)	(634)	(675)
	(33,174)	(42,750)	(30,281)	(42,177)	(43,113)
Profit/(loss) before tax	**1,472**	396	470	1,838	1,948
Tax attributable to policyholders' returns	**(191)**	(221)	178	(394)	(217)
Profit/(loss) before tax attributable to shareholders' profits	**1,281**	175	648	1,444	1,731
Tax attributable to shareholders' profits	**(403)**	(261)	(159)	(358)	(443)
Profit/(loss) after tax from continuing operations	**848**	(86)	489	1,086	1,288
Profit/(loss) after tax from discontinued operations	**1,273**	(2,848)	(357)	841	103
Total profit/(loss) for the year	**2,151**	(2,934)	132	1,927	1,391

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)	**65.3p**	(109.1)p	8.3p	51.7p	40.6p
Diluted (pence per share)	**64.5p**	(109.1)p	8.1p	50.8p	40.3p
Continuing operations – Basic (pence per share)	**22.0p**	(11.2)p	13.6p	38.9p	38.1p
Continuing operations – Diluted (pence per share)	**21.8p**	(11.2)p	13.4p	38.2p	37.8p

	Per share	Per share	Per share	Per share	Per share
Dividends per share	**15.0**	19.0	26.0	25.5	24.0

	Millions	Millions	Millions	Millions	Millions
Number of shares in issue at 31 December	**2,947**	2,946	2,906	2,820	2,767
Weighted average number of shares in issue for the year	**2,940**	2,910	2,845	2,784	2,705

Selected consolidated financial data continued

Statement of financial position data

Amounts in accordance with IFRS	**2013 £m**	Restated 2012 £m	2011 £m	2010 £m	2009 £m
Total assets	**278,876**	314,467	312,376	370,107	354,391
Gross insurance liabilities	**110,555**	113,091	147,379	174,742	168,699
Gross liabilities for investment contracts	**116,058**	110,494	113,366	120,745	112,408
Unallocated divisible surplus	**6,713**	6,931	650	3,428	3,866
Core structural borrowings	**5,125**	5,139	5,255	6,066	5,489
Other liabilities	**29,408**	67,452	30,363	47,401	48,843
Total liabilities	**267,859**	303,107	297,013	352,382	339,305
Total equity	**11,017**	11,360	15,363	17,725	15,086

Information on the Company

History and development of Aviva

General

Aviva, a public limited company incorporated under the laws of England and Wales, 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, allowing them to get on with their lives.

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.

During 2013, the Group has undertaken and announced a number of disposals. Further details of these can be found in the sections 'IFRS Financial statements – note 4 – Subsidiaries' and 'IFRS Financial statements – note 19 – Interests in, and loans to, joint ventures'.

Business overview

Our aims and strategy

Our long-term strategic framework is based on four theses – investment, distribution, customer and people.

- **Investment thesis**
  Our aim is to be a diversified insurer with sustainable and progressive cash flows underpinned by good potential for growth. The thesis sets out why investors should choose us, enabling investors to make an informed decision about our business.
- **Distribution thesis**
  Our aim is to increase the share of business generated in our own channels, introduce new technology for distributors and customers, and maintain a diversified distribution mix in each market, to ensure that we provide a range of channels through which our customers want to purchase products from us.
- **Customer thesis**
  Our aim is to meet our customers' needs better than our competitors, so that we become the insurer of choice in our chosen markets.
- **People thesis**
  Our aim is to support our people to achieve their potential, so they can best serve our customers.

We will allocate resource to three areas of focus:

- **Digital** – our aim is to increase our share of the direct digital channel and develop more effective use of data and new technology.
- **Predictive analytics** – we will focus on enhancing our analytics capabilities, increasing the use of internal and external data to drive improved performance across the business, including underwriting, pricing and claims.
- **Automation** – we aim to reduce manual interventions in processes, reducing overheads and improving efficiency to benefit our customers.

Our business

Overview

During the year, the Group's operating segments were changed to align them with the revised management reporting structure. The operating segments are: UK & Ireland; France; Poland; Italy, Spain and Other; Canada; Asia; and Aviva Investors. In October the Group completed the sale of its United States life, savings and related internal fund management business, which is classified as a discontinued operation for the purposes of reporting financial performance.

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 and health business, 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.

Our business operates across three main market sectors – life insurance and savings; general and health insurance; and fund management.

Life insurance and savings business

Long-term insurance and savings business from continuing operations accounted for approximately 74% of our total business based on worldwide total sales from continuing operations for the year ended 31 December 2013. We reported total long-term insurance and savings new business sales from continuing operations of £20.5 billion and investment sales of £4.9 billion for the year ended 31 December 2013. Our focus is to remain financially strong so that we can pay claims and deliver on the promises we have made to our customers, shareholders and business partners.

Market position

In the UK we have a market share of 8% based on annual premium equivalent (APE)[2] according to the Association of British Insurers (ABI) data as at 30 September 2013. 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.
- 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

2 APE is a recognised sales measure in the UK and is the total of new regular premiums plus 10% of single premiums.

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, regular premium savings plans, mortgage endowment products and funding agreements.
- 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 26% of our total worldwide sales for the year ended 31 December 2013. In the year ended 31 December 2013, we reported general and health insurance net written premiums of £8.7 billion.

Market position

We are a leading general insurer in the United Kingdom and Canada and also have general insurance operations in France, Italy, Ireland, Poland and Turkey. We sell health products in the UK, Ireland, France, Singapore and Indonesia. In the year ended 31 December 2013, 50% of our total general insurance and health new business from continuing operations 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.

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.

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 main fund management operations are in the UK, North America, Europe and Asia Pacific. All sales of retail fund management products are included in our long-term insurance and savings business sales.

In October 2013 we completed the sale of the internal asset management operations of Aviva Investors North America, as part of the sale of our United States life business.

Market position

Aviva Investors was ranked 40th globally by assets under management, according to the Towers Watson World 500 largest asset managers study 2012 ranking of asset managers by assets under management. Total worldwide funds managed by Aviva Investors at 31 December 2013 was £241 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 our markets. Our business invests in most significant asset classes on behalf of institutional, pension fund and retail clients. In the US, Aviva Investors also own an asset management company called River Road Asset Management LLC.

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 8%, based on annual premium equivalent (APE) data[3] as at 30 September 2013. The Irish business is a large life and pension 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 risk products to build leading positions in annuities, equity release, life protection and private medical insurance. In addition, we are managing our savings back book for value with selective new savings business sales where financial returns achieve a return in excess of Group targets, overall and at a product level.

Our Irish long-term business is now focused primarily on distribution through intermediaries, following the disposal of its bancassurance joint venture, Ark Life Assurance Company Limited, to Allied Irish Bank (AIB) on 8 March 2013.

Market and competition

The UK industry has entered a period of significant regulatory change with the Retail Distribution Review (RDR) and Auto-Enrolment transforming the way that long-term savings products are bought and sold. The UK long-term savings market is highly competitive and we consider our main competitors to

3 ABI Stats Q3 2013.

be Standard Life, Prudential, Legal & General, Lloyds Banking Group, Friends Life, Zurich, Canada Life and Just Retirement.

In Ireland, the economic environment remains challenging although we believe the life insurance market has returned to growth in 2013. The life insurance market in Ireland is relatively concentrated and there has been further consolidation in the sector during 2013. We consider our main competitors to be Bank of Ireland Life, Irish Life, Canada Life (now merged with Irish Life) and Friends First.

Products

In the UK, we provide a comprehensive product range focused on both the consumer and corporate market. The pensions and `at retirement' products we offer include personal pensions, equity release, annuities, income drawdown and with-profits products. 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 protection, bonds, savings, pension and annuity 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 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% share[3].

In the UK, we have exclusive distribution deals for the sale of protection products with Tesco, Santander, Barclays, Royal Bank of Scotland 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%[4] and 15.3%[5] respectively. We employ around 9,000 people and operate from a number of locations throughout the UK and Ireland, including Norwich, Perth, Glasgow, London, Dublin and Galway.

We focus on personal and commercial insurance. In the UK we hold top three positions in all our major classes of business[6]. 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

The UK is the fourth largest non-life insurance market in the world[7]. In 2012, the top four companies had a 32%[4] 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 2013 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 4.3% in 2012[5].

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 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 Speciality Risks market.

In Ireland our products include property, motor, travel, farm and business insurance and our health insurance business provides products for both the personal and company sector.

Distribution

We have a multi-distribution strategy. Our personal products are sold directly to customers over the phone and through our websites www.aviva.co.uk, www.aviva.ie, www.quotemehappy.com and www.generalaccident.com, 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.

France

Business overview and strategy

France is the third[8] largest insurance market in Europe. Aviva France has a significant presence in the French Life insurance market in which it operates through two main companies: Aviva Vie and Antarius (JV structure with Crédit Du Nord). Aviva France is ranked tenth in general insurance as measured by gross written premiums, according to L'Argus de l'Assurance, as at 31 December 2012. Aviva France's strategy is to deliver sustainable dividends to Group by increasing profitability in our life business and targeted growth in profitable general insurance segments.

Market

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 according to FFSA[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

4 Datamonitor analysis of market share based on 2012 GWP.
5 Irish Insurance Federation, 2012.
6 2012 FSA returns based on GWP data – covers personal motor, homeowner, commercial motor and commercial property.
7 Swiss Re Sigma Study (World insurance 2012).
8 Fédération Française des Sociétésd'Assurance (FFSA).

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. We believe that during the last couple of years, the market has entered a phase of price increases that currently makes up the majority of its marginal growth.

Products

Aviva France provides 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 714,000 members as at 31 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

Aviva France has 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 of more than 700 Union Financière de France (UFF) consultants and 260 direct advisors transferred to UFF in January 2014 (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. This partnership gives Aviva access to over 1.9 million customers, as at December 2012.

Poland

Business overview and strategy

At 30 September 2013, our Polish life operation is the fourth largest life insurer in Poland, with a market share of 7% based on gross written premium, according to the Polish Financial Supervision Authority (KNF). Our general insurance business is the eighth largest with a market share of 2.0% on the same basis. Our focus in Poland is to grow the value of new business.

Market

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. The Act will give the state-run pension system a prominent role in managing the country's pension funds and will have important implications for the private pension providers.

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 to individuals. For institutions we offer selected commercial lines risks. 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.

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 946 branches. 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

Aviva Italy is the country's eighth largest life insurer, with a market share of 3.33% based on 2012 premiums[9] (excluding Eurovita) and is the 13th largest general insurance company with a market share of 1.22%. We have approximately 2.5 million customers across both the Life and General Insurance businesses.

During 2013 Aviva Italy continued with its transformation plan, as set out in 2012, in order to:

- Transform the operating model;
- Improve the product pricing and mix; and
- Rationalise the group structure and capital employed

A review of the business has resulted in the rationalisation of our business partnerships, with a number of loss making partnerships closed. In November 2013, Aviva announced a conditional agreement to sell its entire 39% stake in Eurovita Assicurazioni S.p.A (Eurovita) to JC Flowers. The sale is subject to approval by IVASS, the Italian insurance regulator.

Market

The Italian life market is dominated by the top 10 providers which represented around 84% of the total market share in 2012[9]. The life insurance industry in Italy reported a decline in volumes as of 31 December 2012, with gross written premiums down by 4.1% compared to the same period in 2011. The general insurance segment decreased by 1.5% in the same period[9].

Products

Our long-term insurance and savings business offers a wide range of products covering protection, bonds and savings and pensions.

In 2013 we focussed on less capital intensive products, such as our zero minimum guarantee rate products. We have reviewed our unit linked product range, and further developed what we believe is our market leading 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. In 2013 we have further developed our partnership with Banco Popolare for the distribution of motor insurance through their branches.

9 Associazione Nazionale fra le Imprese Assicuratrici (ANIA).

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 3,600 branches. In addition, we also have approximately 4,000 sales advisers, and 600 insurance (multi-mandate) agents and brokers as of 30 June 2013.

Spain

Business overview and strategy
Aviva Spain is the country's sixth largest long-term insurer by gross written premiums with a market share of 4% in the third quarter of 2013[10]. Aviva Spain sells protection, long-term savings and pensions, health and accident insurance through a bancassurance network based on joint ventures with five 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.

In April 2013, Aviva completed the transfer of its entire holding in Aseval[11] to Bankia S.A.

Our strategy is to maintain the franchise value in Spain with no further investment until market conditions improve, and to develop further our retail operations with new distribution agreements. The ongoing focus in on less capital intensive products.

Market
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 restructuring process and mergers taking place. Any opportunities arising from these will be considered by Aviva on their merits. In relation to distribution agreements with bancassurance partners, Aviva is 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 72% of gross written premiums at the end of 2012[10] in the Spanish life insurance market.

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
- CxG – in conjunction with Caixa Galicia 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 also includes our businesses in Turkey where we sell life and savings products including unit linked pensions through our life joint venture. Our Turkish general insurance operation sells personal motor, household, commercial property, small and medium size enterprises, personal accident, marine and travel insurance, and is classified as held for sale.

Canada

Business overview and strategy
Aviva Canada is the country's second largest[12]general insurer. Through its distribution partners it provides a range of personal and commercial lines insurance products to nearly three million policyholders. It has an 8%[12] market share and a top five position[12] in all major provinces. Aviva Canada employs approximately 3,600 people and operates 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 two strategic priorities of building strong broker relationships and maintaining sophisticated pricing and underwriting. 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 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
Canada is the eighth largest[13] non-life market in the world and is established and stable. The four largest provinces generate around 88% of total premiums with Ontario, the largest, representing 47% of total Canadian premiums[12].

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 close to 23% of the market[12].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 65% of distribution[14]. 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.

10 Investigación Co-operativa entre Entidades Asegurados y Fordos de Pensionies (ICEA).
11 Aseval: "Aseguradora Valenciana, Sociedad Anónima de Seguros y Reaseguros".
12 MSA Research Inc., 2012 online database.
13 Swiss Re Sigma Study (World insurance 2012).
14 Axco Insurance Report for Canada.

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[15] in the market, 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[16].

In China, through our 50% joint venture with COFCO Group, we are ranked number 7 among 25 foreign life insurers in terms of APE as of Q3 2013[17]. We have a presence in 12 provinces and over 50 branches. We have recently changed our strategy to focus on proprietary channels and higher margin protection products.

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 30 September 2013, we ranked eleventh among the private life insurance companies in India based on APE according to the Insurance Regulatory and Development Authority (IRDA)[18].

In Indonesia, we are one of the top 5 insurers in the employee benefit sector.[19] In January 2014, we announced plans, subject to regulatory approval, to form an equal joint venture partnership with Astra International, Indonesia's largest publicly listed company, to sell and distribute life insurance products in Indonesia.

In Vietnam, through our 50% joint venture with Vietin Bank, we aim to grow our bancassurance business and diversify our distribution network over the next few years.

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.

Our businesses in Taiwan and Korea are held for sale.

Market
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. Insurance penetration (as measured as insurance premium as a proportion of GDP) in most Asian countries is typically less than 5%, and in China, Indonesia and Vietnam is 1.7%, 1.2% and 0.6% respectively[20].

The outlook for Asian economic growth in 2014 (ex-Japan) is projected to be 6.4%[21], with the potential for a 7% growth rate per annum over the next decade.[22]

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 Singapore. In China, our products are sold mainly through telemarketing, bancassurance and agents. In Indonesia, group business is sold through our direct sales force. In Vietnam, bancassurance is the main distribution channel. We are also investing in other channels such as direct marketing and online to differentiate ourselves from competitors.

Aviva Investors

Business overview and strategy
Aviva Investors offers a range of fund management services, operating in the UK, North America, Europe, and Asia Pacific and had £241 billion in assets under management as at 31 December 2013.

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 to be large pension funds and financial institutions such as insurance companies and banks.

Our strategy is to grow our share of higher-margin, external business, offering investment propositions which deliver predictable returns with low volatility. Our key objectives are to significantly improve profitability by focusing on capabilities and propositions that build on our heritage in managing long-term savings.

Products and distribution
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. These are promoted to investors via IFAs, fund platforms, fund supermarkets and discretionary asset managers. 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 the US we also have an asset management company called River Road Asset Management LLC, based in Louisville, Kentucky, which provides a value investing approach to equity portfolios.

We also have a range of specialist property funds. These funds are targeted at specialist real estate buyers and large institutions (mostly pension funds and local authorities), and provide real estate solutions to a wide range of risk appetites, ranging from secure income generating funds to leveraged growth funds.

We have six money market funds, domiciled in Ireland and France, addressing the sterling and euro money market segments. These funds are sold by a specialist sales team and target corporate treasury functions.

15 Latest available competitor results (2012).
16 The General Insurance Association of Singapore
17 APE data released by National Insurance Industry Communication Club.
18 http://www.irda.gov.in/ADMINCMS/cms/frmGeneral_List.aspx?DF=MBFL&mid=3.1.8.
19 OJK (Insurance regulator).
20 Swiss Re Sigma :Study (World Insurance in 2012)
21 www.focus-economics.com/en/economy/region-outlook/Asia.
22 "Asian Insurance Outlook" by Swiss Re Economic Research & Consulting, insurance regulators and association on March,2013.

Discontinued operations

United States

Business overview

In October 2013, the Group completed the sale of its United States life operations (US Life), consisting of the United States life and annuities business (Aviva USA) and the related asset management operations of Aviva Investors North America, to Athene Holding Ltd. The results of US Life for all periods are presented as a discontinued operation. See 'IFRS Financial statements – note 4 – Subsidiaries'.

Market

Aviva USA was a provider of fixed indexed life insurance and fixed indexed annuities in the USA. According to Wink's Sales & Market Report, as of 30 September 2013, Aviva USA was ranked ninth in the market for the sale of fixed indexed life products with a 4% market share, and fifth for the sale of fixed indexed annuities with a 6% market share.

Products

Aviva USA offered both protection and savings products, with traditional fixed as well as indexed accumulation options that pay interest based on the movement of a market index.

Aviva USA also offered a range of optional extras or 'riders' added to policies to meet customised individual needs.

In the savings market, Aviva USA's fixed annuity portfolio offered tax-advantaged savings opportunities and protection against the risk of outliving one's assets. Some of these products included a guaranteed lifetime withdrawal benefit that allows customers to make guaranteed minimum withdrawals from their annuity for the entirety of their lives.

Distribution

Aviva USA used a multi-channel distribution strategy, which included career marketing organisations, independent marketing organisations, brokerage general agents and personal producing agents. Its network covered all 50 states with agents largely contracted through key distribution partners.

Delta Lloyd

Delta Lloyd is a financial services provider in the Netherlands and Belgium.

The Group ceased to control Delta Lloyd on 6 May 2011 and its results for 2011 up to that date are presented as discontinued operations.

For the period from 7 May 2011 to 5 July 2012, the Group had an associate interest in Delta Lloyd. From 6 July 2012, following a further selldown, the Groups stake was treated as a financial investment. The Groups share of Delta Lloyd's results as an associate and its interest in Delta Lloyd as a financial investment are both included in the comparative periods presented in these financial statements in "other group activities" within continuing operations.

In January 2013, the Group sold its remaining stake in Delta Lloyd.

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, Canada 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 depending on our participation and the terms of each partnership agreement. For each property partnership accounted for as a subsidiary, joint venture, associate 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 or associate 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 2013 and 31 December 2012 are listed below:

2013	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	**3,564**	**5,648**	**239**	**9,451**	**—**	**9,451**
Loans	**471**	**5,535**	**17,873**	**23,879**	**—**	**23,879**
Financial investments						
Debt securities	**12,835**	**80,610**	**33,360**	**126,805**	**(2,420)**	**124,385**
Equity securities	**25,836**	**10,544**	**1,000**	**37,380**	**(54)**	**37,326**
Other investments	**26,563**	**3,880**	**1,008**	**31,451**	**(201)**	**31,250**
Total	**69,269**	**106,217**	**53,480**	**228,966**	**(2,675)**	**226,291**
Total %	**30.2%**	**46.4%**	**23.4%**	**100.0%**	**—**	**100.0%**
2012 Restated[1]	67,181	108,464	87,404	263,049	(39,830)	223,219
2012 Restated[1] %	25.6%	41.2%	33.2%	100.0%	—	100.0%

1 The 2012 figures have been restated following the adoption of IFRS 10 'Consolidated Financial Statements' – see 'IFRS Financial Statements – note 1' for details.

As the table indicates 23.4% 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 2013, approximately 98% of the Group's investment property, loans and financial 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 2013 are set out in the table below. Government and corporate debt securities are further analysed by type of issuer.

	Ratings						
2013 – Participating fund assets	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**Less than BBB £m**	**Non-rated £m**	**Total £m**
Government							
UK Government	**—**	**9,523**	**—**	**—**	**—**	**9**	**9,532**
Non-UK Government	**6,255**	**12,459**	**1,505**	**10,993**	**351**	**131**	**31,694**
Corporate							
Public utilities	**—**	**59**	**1,567**	**2,320**	**79**	**200**	**4,225**
Convertibles and bonds with warrants	**—**	**—**	**—**	**300**	**—**	**8**	**308**
Other corporate bonds	**2,972**	**5,374**	**9,399**	**8,676**	**1,119**	**2,748**	**30,288**
Certificate of deposits	**—**	**37**	**75**	**2**	**—**	**—**	**114**
Structured	**578**	**64**	**75**	**57**	**28**	**1**	**803**
Wrapped credit	**—**	**13**	**42**	**20**	**—**	**—**	**75**
Other	**431**	**267**	**1,070**	**921**	**844**	**38**	**3,571**
Total	**10,236**	**27,796**	**13,733**	**23,289**	**2,421**	**3,135**	**80,610**
Total %	**12.7%**	**34.5%**	**17.0%**	**28.9%**	**3.0%**	**3.9%**	**100.0%**
2012 Restated[1]	21,974	17,135	16,104	22,019	3,822	2,522	83,576
2012 Restated[1] %	26.3%	20.5%	19.3%	26.3%	4.6%	3.0%	100.0%

1 The 2012 figures have been restated following the adoption of IFRS 10 'Consolidated Financial Statements' – see 'IFRS Financial Statements – note 1' for details.

	Ratings						
2013 – Shareholder assets	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**Less than BBB £m**	**Non-rated £m**	**Total £m**
Government							
UK Government	**—**	**4,362**	**45**	**—**	**—**	**200**	**4,607**
Non-UK Government	**4,287**	**3,441**	**871**	**1,583**	**18**	**2**	**10,202**
Corporate							
Public utilities	**6**	**36**	**2,310**	**976**	**—**	**215**	**3,543**
Convertibles and bonds with warrants	**—**	**—**	**—**	**3**	**—**	**77**	**80**
Other corporate bonds	**982**	**1,335**	**5,129**	**3,348**	**291**	**2,219**	**13,304**
Certificate of deposits	**3**	**65**	**56**	**—**	**—**	**—**	**124**
Structured	**239**	**367**	**103**	**30**	**61**	**25**	**825**
Wrapped credit	**—**	**5**	**243**	**60**	**34**	**46**	**388**
Other	**34**	**22**	**85**	**74**	**68**	**4**	**287**
Total	**5,551**	**9,633**	**8,842**	**6,074**	**472**	**2,788**	**33,360**
Total %	**16.6%**	**28.9%**	**26.5%**	**18.2%**	**1.4%**	**8.4%**	**100.0%**
2012 Restated[1]	12,288	8,877	17,780	15,424	1,924	5,414	61,707
2012 Restated[1] %	19.9%	14.4%	28.8%	25.0%	3.1%	8.8%	100.0%

1 The 2012 figures have been restated following the adoption of IFRS 10 'Consolidated Financial Statements' – see 'IFRS Financial Statements – note 1' for details.

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 2013, the proportion of our shareholder debt securities that are investment grade increased to 90.2% *(2012: 88.1%)*. The remaining 9.8% of shareholder debt securities that do not have an external rating of BBB or higher can be split as follows:

- 1.4% are debt securities that are rated as below investment grade; and
- 8.4% 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 £2.4 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.

	2013				2012			
	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%**	1	0.2%	—	0.0%
AA	**18**	**3.8%**	**18**	**3.8%**	269	48.3%	29	5.2%
A	**293**	**61.8%**	**184**	**38.8%**	94	16.8%	124	22.3%
BBB	**83**	**17.5%**	**107**	**22.6%**	104	18.7%	160	28.7%
Less than BBB	**34**	**7.2%**	**33**	**7.0%**	42	7.6%	43	7.7%
Non-rated	**46**	**9.7%**	**132**	**27.8%**	47	8.4%	186	33.4%
Not available without insurance guarantee	**—**	**0.0%**	**—**	**0.0%**	—	0.0%	15	2.7%
	474	**100.0%**	**474**	**100.0%**	557	100.0%	557	100.0%
RMBS agency								
AAA	**—**	**—**	**—**	**—**	907	100.0%	907	100.0%

Exposures to peripheral European countries

Included in our debt securities and other financial assets are exposures to peripheral European countries. All of these assets are valued on a mark to market basis under IAS 39, and therefore our statement of financial position and income statement already reflect any reduction in value between the date of purchase and the balance sheet date. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Net of non-controlling interests, our direct shareholder and participating fund asset exposure to the government (and local authorities and agencies) of Italy is £4.9 billion *(2012: £4.9 billion)*. Gross of non-controlling interests, 96% 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	
	2013 £bn	2012 £bn	**2013 £bn**	2012 £bn	**2013 £bn**	2012 £bn
Greece	**—**	—	**—**	—	**—**	—
Ireland	**0.4**	0.4	**—**	—	**0.4**	0.4
Portugal	**0.2**	0.3	**—**	—	**0.2**	0.3
Italy	**4.5**	4.5	**0.4**	0.4	**4.9**	4.9
Spain	**0.9**	0.9	**0.5**	0.5	**1.4**	1.4
Total Greece, Ireland, Portugal, Italy and Spain	**6.0**	6.1	**0.9**	0.9	**6.9**	7.0

Direct sovereign exposures to Greece, Ireland, Portugal, Italy and Spain (gross of non-controlling interests, excluding policyholder assets)

	Participating		Shareholder		Total	
	2013 £bn	2012 £bn	**2013 £bn**	2012 £bn	**2013 £bn**	2012 £bn
Greece	**—**	—	**—**	—	**—**	—
Ireland	**0.4**	0.4	**—**	—	**0.4**	0.4
Portugal	**0.2**	0.3	**—**	—	**0.2**	0.3
Italy	**8.5**	8.5	**0.6**	0.6	**9.1**	9.1
Spain	**1.4**	1.3	**0.9**	0.9	**2.3**	2.2
Total Greece, Ireland, Portugal, Italy and Spain	**10.5**	10.5	**1.5**	1.5	**12.0**	12.0

Equity securities

The table below analyses our investments in equity securities by sector.

2013	Policyholder £m	Participating £m	Shareholder £m	Total £m
Public utilities	**2,727**	**985**	**4**	**3,716**
Banks, trusts and insurance companies	**5,040**	**2,510**	**457**	**8,007**
Industrial, miscellaneous and all other	**17,969**	**7,035**	**256**	**25,260**
Non-redeemable preferred shares	**100**	**14**	**283**	**397**
Total	**25,836**	**10,544**	**1,000**	**37,380**
Total %	**69.1%**	**28.2%**	**2.7%**	**100.0%**
2012 Restated[1]	22,648	10,157	1,508	34,313
2012 Restated[1] %	66.0%	29.6%	4.4%	100.0%

1 The 2012 figures have been restated following the adoption of IFRS 10 'Consolidated Financial Statements' – see 'IFRS Financial Statements – note 1' for details.

At 31 December 2013, shareholder investment in equity securities amounted to £1,000 million. The investments include a strategic holding in Italian banks of £258 million (£132 million net of non-controlling interests).

Of our £8,007 million exposure to equity investments in banks, trusts and insurance companies, £457 million relates to shareholder investments, which includes our strategic holding as mentioned above.

Other investments

The table below analyses other investments by type.

2013	Policyholder £m	Participating £m	Shareholder £m	Total £m
Unit trusts and other investment vehicles	**25,824**	**2,411**	**371**	**28,606**
Derivative financial instruments	**25**	**686**	**347**	**1,058**
Deposits and credit institutions	**401**	**40**	**160**	**601**
Minority holdings in property management undertakings	**—**	**679**	**117**	**796**
Other	**313**	**64**	**13**	**390**
Total	**26,563**	**3,880**	**1,008**	**31,451**
Total %	**84.5%**	**12.3%**	**3.2%**	**100.0%**
2012 Restated[1]	23,261	3,638	2,169	29,068
2012 Restated[1] %	80.0%	12.5%	7.5%	100.0%

1 The 2012 figures have been restated following the adoption of IFRS 10 'Consolidated Financial Statements' – see 'IFRS Financial Statements – note 1' for details.

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;
- Canada: Scarborough, Ontario; and
- Europe: Paris, France; Dublin, Ireland; Madrid, Spain; Warsaw, Poland; and Milan, Italy.

As of 31 December 2013, we owned and occupied land and buildings for our own use with a total book value of £257 million *(2012: £245 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 £8,207 million at 31 December 2012 (*2012: £8,552 million)*.

Contractual obligations

Contractual obligations

Contractual obligations with specified payment dates at 31 December 2013 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]	**7,997**	**15,330**	**12,211**	**80,325**	**115,863**
– Investment contracts – non-linked[2]	**60,039**	**—**	**—**	**—**	**60,039**
– Linked business[2]	**73,458**	**—**	**—**	**—**	**73,458**
General Insurance[3]	**6,177**	**3,796**	**1,848**	**3,087**	**14,908**
	147,671	**19,126**	**14,059**	**83,412**	**264,268**
Other contractual obligations[4]					
Borrowings	**1,509**	**1,298**	**1,095**	**12,783**	**16,685**
Operating lease obligations	**111**	**192**	**165**	**575**	**1,043**
Capital commitments	**19**	**8**	**—**	**—**	**27**
Payables and other financial liabilities[5]	**8,674**	**259**	**140**	**927**	**10,000**
Net assets attributable to unit holders	**10,362**	**—**	**—**	**—**	**10,362**
Total	**168,346**	**20,883**	**15,459**	**97,697**	**302,385**

Reconciliation to the statement of financial position	£m
Total contractual obligations above	**302,385**
Effect of discounting contractual cash flows for insurance contracts	**(37,655)**
Contractual undiscounted interest payments[6]	**(8,395)**
Difference between carrying value of borrowings and undiscounted cash flows of principal	**(471)**
Contractual cash flows under operating leases and capital commitments	**(1,070)**
Difference between derivative liabilities contractual cash flows and carrying value	**(806)**
Liabilities of operations classified as held for sale	**3,023**
Unallocated divisible surplus[7]	**6,713**
Provisions[8]	**984**
Current and deferred tax liabilities	**679**
Other liabilities	**2,472**
Total liabilities per statement of financial position	**267,859**

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 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 'IFRS Financial statements – 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 £3,958 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 £73 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 PRA. 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 and capital management

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. 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

Financial market conditions during 2013 were more benign than recent years past, benefiting from the maintenance of expansionary monetary policies followed by central banks across a number of economies. While some but not all western economies are beginning 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 immediate future at least. There are, however, still several sources of macroeconomic and geopolitical uncertainty, which have the potential to depress economic growth and cause financial market volatility such as the potential for adverse consequences from the removal of quantitative easing, negotiations over the US debt ceiling and political impasse in the Eurozone.

During the year the Group was designated a Global Systemically Important Insurer (G-SII), which brings the Group within scope of the policy requirements issued by the International Association of Insurance Supervisors (IAIS), including the development by July 2014 of a Systemic Risk Management Plan, the development of recovery and resolution plans and additional loss absorbency capital requirements from January 2019, if the Group remains a G-SII.

It is now likely that Solvency II will be implemented on 1 January 2016, following political agreement in November 2013. Until all of the relevant Solvency II regulation is finalised, there remains some uncertainty over the final capital impact on the Group.

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, in particular credit risk exposure, successfully completing a number of management actions in progress at the 2012 year-end. These include the completion of the sale of the Group's US subsidiary and the continued net sell-down of exposures to Italian and Spanish sovereign debt and European financial institutions offset by an increase in market values. Restrictions on non-domestic investment in sovereign and corporate debt from Greece, Italy, Portugal and Spain remain in place and balance sheet volatility was further reduced through the sale of the Group's remaining stake in Delta Lloyd in January 2013. As described in note 58 a number of foreign exchange, credit and equity hedges are also in place. These actions have reduced the Group's credit and equity exposure, reflecting a broader move towards a more balanced risk profile, and enabling the Group to accept other credit risks offering better risk adjusted returns while remaining within appetite.

In February 2013, the Group took action to improve its access to dividends from the Group's insurance and asset management businesses by undertaking a corporate restructuring whereby Aviva Group Holdings (AGH) has purchased from Aviva Insurance Limited (AIL) its interest in the majority of its overseas businesses. This resulted in an inter-company loan of £5.8 billion from AIL to AGH to fund the purchase. At 31 December 2013 the loan balance had been reduced by £1.0 billion to £4.8 billion. At the end of February 2014, the balance of the loan stood at £4.1 billion.

We have agreed with the Board of the UK General Insurance Company (AIL) an appropriate target for the long term level of the internal loan between a Group Holding Company (AGH) and AIL. That level has been set such that AIL places no reliance on the loan to meet its stressed insurance liabilities assessed on a 1:200 basis. Our prudential regulators, PRA, agree with this approach. The effect of this would be to reduce the internal loan balance from its current level of £4.1 billion to approximately £2.2 billion. We will complete this reduction by the end of 2015.

In 2013 the Group made significant progress in completing its strategy set out in 2012 of focusing on fewer businesses, as a result of the successful completion of the sales of our US business, the Romanian pensions business, Aviva Russia, and our stake in the Malaysian joint venture CIMB and the agreed sale pending regulatory approval of our stake in Eurovita. The process of exiting these non-core businesses has reduced the amount of the Group's capital employed in less economically profitable areas, decreased balance sheet volatility and required capital, and will allow capital to be re-employed in businesses that enhance the Group's return on risk based capital.

As a result of the sale of businesses (in particular the US), the Group's future earnings have been reduced and the tangible net asset value of the Group has fallen, resulting in an IFRS leverage ratio[23] of close to 50%. We have plans in place to improve earnings through managing the deployment of capital to maximise return and expense reduction (though clearly execution risk remains). These additional earnings, combined with higher retained profits, should enable us to reduce our external IFRS leverage ratio to 40% in the medium term and reduce internal leverage.

23 IFRS tangible capital employed / External debt including preference shares and direct capital instruments (DCI)

Low interest rate environment

We are required to disclose the impact of the continued low interest rate environment on our operations.

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. Although we think it is reasonably likely that interest rates will rise, we still anticipate that they may remain below historical averages for some time. 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 of the IFRS financial statements. In addition, the following table, which includes amounts held for sale, summarises the weighted average minimum guaranteed crediting rates and weighted average book value yields on assets as at 31 December 2013 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	0.78%	3.99%	63,407
Italy	2.21%	3.80%	11,246
Other[1]	N/A	N/A	41,073
Total	N/A	N/A	115,726

1 "Other" includes UK participating business

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
2011	3.9%	18,978
2012	3.7%	18,802
2013	3.1%	18,352

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.

Further information on the Group's sensitivity to a reduction in interest rates is included in the sensitivity analysis in note 58 of the IFRS Financial Statements. 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 would result in lower net investment income.

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;
- manage 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 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 and its conversion to cash is a key management focus. Operating capital generation, which measures net capital generated after taking into account capital invested in new business (before the impact of non-operating items) is a core regulatory capital based management

performance metric used across the Group. This is embedded in the Group's business planning process and other primary internal performance and management information processes.

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.

	2013 £m	2012 £m
Long-term savings	**11,224**	11,429
General insurance and health	**5,986**	5,949
Fund management	**237**	225
Corporate and Other business[1]	**(1,305)**	(1,471)
United States	**—**	367
Total capital employed	**16,142**	16,499
Financed by:		
Equity shareholders' funds	**7,964**	8,204
Non-controlling interests	**1,471**	1,574
Direct capital instruments and fixed rate tier 1 notes	**1,382**	1,382
Preference shares	**200**	200
Subordinated debt	**4,370**	4,337
External debt	**755**	802
Total capital employed	**16,142**	16,499

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).
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 standalone 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 2013 we had £16.1 billion *(2012: £16.5 billion)* of total capital employed in our trading operations measured on an IFRS basis.

In July 2013 we issued €650 million of Lower Tier 2 subordinated debt callable in 2023. This was used to repay a €650 million Lower Tier 2 subordinated debt instrument at its first call date, in October 2013. On a net basis, these transactions did not impact on Group IGD Solvency and Economic Capital measures.

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	2013 £bn	2012 £bn
Insurance Groups Directive (IGD) capital resources	5.8	8.6	14.4	14.4
Less: capital resources requirement	(5.8)	(5.0)	(10.8)	(10.6)
Insurance Group Directive (IGD) excess solvency	—	3.6	3.6	3.8
Cover over EU minimum (calculated excluding UK life funds)			1.7 times	1.7 times

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has decreased by £0.2 billion since 31 December 2012 to £3.6 billion. The key movements over the period are set out in the following table:

	£bn
IGD solvency surplus at 31 December 2012	**3.8**
Operating profits net of other income and expenses	**1.2**
Dividends and appropriations	**(0.5)**
Market movements including foreign exchange[1]	**(0.4)**
Pension scheme funding	**(0.1)**
Disposals	**0.2**
Poland pension legislative changes	**(0.3)**
Increase in capital resources requirement	**(0.1)**
Other regulatory adjustments	**(0.2)**
Estimated IGD solvency surplus at 31 December 2013	**3.6**

1 Market movements include the impact of equity, credit spread, interest rate and foreign exchange movements net of the effect of hedging instruments.

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 2013 and 31 December 2012.

	Estimated realistic assets £bn	Estimated realistic liabilities[1] £bn	Estimated realistic inherited estate[2] £bn	Capital support arrange-ment[3] £bn	Estimated risk capital margin £bn	2013 Estimated excess available capital £bn	2012 Estimated excess available capital £bn
NWPSF	**15.6**	**(15.6)**	**—**	**1.1**	**(0.2)**	**0.9**	**0.3**
OWPSF	**2.8**	**(2.4)**	**0.4**	**—**	**(0.1)**	**0.3**	**0.2**
WPSF[4]	**16.9**	**(15.4)**	**1.5**	**—**	**(0.3)**	**1.2**	**1.3**
Aggregate	**35.3**	**(33.4)**	**1.9**	**1.1**	**(0.6)**	**2.4**	**1.8**

1 These realistic liabilities include the shareholders' share of accrued bonuses of £0.1 billion *(31 December 2012: £0.3 billion)*. Realistic liabilities adjusted to eliminate the shareholders' share of accrued bonuses are £33.4 billion *(31 December 2012: £36.0 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, £0.2 billion and £2.5 billion for NWPSF, OWPSF and WPSF respectively *(31 December 2012: £1.8 billion, £0.3 billion and £3.5 billion for NWPSF, OWPSF and WPSF respectively)*.
2 Estimated realistic inherited estate at 31 December 2012 was £nil, £0.3 billion and £1.8 billion for NWPSF, OWPSF and WPSF respectively.
3 This support arrangement represents the reattributed estate (RIEESA) of £1.1 billion at 31 December 2013 *(31 December 2012: £0.7 billion)* held within NPSF1 (a non-profit fund within UKLAP included within other UK life operations).
4 The WPSF fund includes the Provident Mutual (PM) fund, which has realistic assets and liabilities of £1.5 billion and therefore does not impact the realistic inherited estate.

Investment mix

The aggregate investment mix of the assets in the three main with-profits funds at 31 December 2013 was:

	2013 %	2012 %
Equity	**29%**	23%
Property	**12%**	16%
Fixed interest	**49%**	51%
Other	**10%**	10%

The equity backing ratios, including property, supporting with-profit asset shares are 70% in NWPSF and OWPSF, and 73% 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

Following the provisional agreement between the European Parliament, European Council and European Commission in November 2013 on the Omnibus II Directive, there is now a widespread expectation that Solvency II will come into effect on 1 January 2016, based on the European Commission's Directive – also in November 2013 – that postpones the implementation to that date.

Aviva continues to actively participate in the development of the Level 2 and Level 3 text that will establish the technical requirements governing the practical application of Solvency II through the key European industry working groups, and by engaging with the PRA and HM Treasury throughout. This includes consideration of the role of transitional arrangements 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, leverage, liquidity 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 from Moody's; and A (excellent) with a Stable outlook from A.M. Best.

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 £1.3 billion, the majority of which was held within Aviva Group Holdings Limited at the 2013 year end, the Group also has access to unutilised committed credit facilities of £1.5 billion provided by a range of leading international banks.

Capital generation and utilisation

The active management of the generation and utilisation of capital is a primary Group focus, with the balancing of new business investment and shareholder distribution with operating capital generation a key financial priority.

For continuing operations excluding US and Delta Lloyd, operating capital generation for 2013 was £1.8 billion *(2012: £1.9 billion)*. In-force life business generated £1.5 billion of capital *(2012: £1.7 billion)*, with a further £0.6 billion *(2012: £0.5 billion)* generated by the general insurance and fund management businesses and other operations. The £0.3 billion *(2012: £0.3 billion)* of capital investment is primarily in life new business.

	2013 £bn	2012 £bn
Operating capital generation:		
Life in-force profits[1]	**1.5**	1.7
General insurance, fund management and non-insurance profits	**0.6**	0.5
Operating capital generation before investment in new business – continuing operations (excluding Delta Lloyd)	**2.1**	2.2
Capital invested in new business	**(0.3)**	(0.3)
Operating capital generation after investment in new business – continuing operations (excluding Delta Lloyd)	**1.8**	1.9
United States and Delta Lloyd	**0.2**	0.1
Group (as reported)	**2.0**	2.0

1 The Life in-force profits in 2012 exclude the negative impact of a true up relating to a prior estimate of required capital, which is included in the MCEV Free Surplus Emergence, as this does not impact the actual capital generated in 2012.

Operating capital generation comprises the following components:
– Operating Free surplus emergence, including release of required capital, for the life in-force business (net of tax and non-controlling interests);
– Operating profits for the general insurance and non-life businesses (net of tax and non-controlling interests) from non-covered business only, where non-covered business is that which is outside the scope of life MCEV methodology;
– Capital invested in new business. For life business this is the impact of initial and required capital on free surplus. For general insurance business this reflects the movement in required capital, which has been assumed to equal the regulatory minimum multiplied by the local management target level. Where appropriate movements in capital requirements exclude the impact of foreign exchange and other movements deemed to be non-operating in nature.
– Post deconsolidation on 6 May 2011, all Delta Lloyd business (including its life, general insurance, fund management and non-insurance segments) has been included in OCG on an IFRS basis (net of taxation and non-controlling interests).
– Post classification as held for sale in Q4 2012, US Life was no longer managed on a MCEV basis so it has been included in OCG on an IFRS basis (net of taxation).

The amount of operating capital remitted to Group is dependent upon a number of factors including non-operating items and local regulatory requirements.

As well as financing new business investment, the operating capital generated is used to finance corporate costs, service the Group's debt capital and to finance shareholder dividend distributions. After taking these items into account the net operating capital generated after financing is £0.8 billion *(2012: £0.6 billion)*.

	2013 £bn	2012 £bn
Operating capital generation after investment in new business	**2.0**	2.0
Interest, corporate and other costs	**(0.6)**	(0.7)
External dividend net of scrip	**(0.6)**	(0.7)
Net operating capital generation after financing	**0.8**	0.6

Corporate responsibility key performance indicators

Key indicators

Indicator	2010	2011	2012	**2013**	2013 target
Trust and Transparency					
Ⓐ% of employees who read, understand and accept the Business Ethics Code annually; and all employees in Aviva France who agree to comply with the Business Ethics Code as a term of their employment when they join the Company.	32%	89%	88%	**95%**	100% of employees
Ⓐ% of employees completing the Bribery and Corruption training – UK	n/a	89%	88%	**95%**	100% of employees
Ⓐ% of businesses that are in or above the upper quartile relative to the local market average (NPS score)	50%	52%	39%	**31%**	Maintain or improve past performance
% employees who believe our commitment to CR is genuine	74%	79%	75%	**75%**	Maintain or improve past performance
Ⓐ% of employees who rate us favourably on the customer index	69%	73%	75%	**74%**	Maintain or improve past performance
Climate change and environment					
Ⓐ% of remaining CO_2e emissions offset annually	100%	100%	100%	**100%**	Offset remaining CO_2e emissions at Group level
Ⓐ CO_2e emissions (tonnes) – absolute	127,685	165,115	126,502	**115,889**	
Ⓐ CO_2e emissions (tonnes) – relative	n/a	n/a	125,327	**115,889**	Reduce relative CO_2e emissions by 5%
Ⓐ Water consumption (m^3) – absolute	690,369	509,657	529,960	**459,634**	Reduce water use by 4%
Ⓐ Waste generated (tonnes) – absolute	12,042	8,645	11,468	**11,481**	Reduce waste generated by 4%
Ⓐ Proportion of recycled waste	75%	73%	69%	**70%**	80% or above
Ⓐ% of employees who feel that Aviva is an environmentally responsible organisation	71%	76%	76%	**77%**	Meet/exceed GFS benchmark (2013: 69%)
People					
Ⓐ% of employees who feel that Aviva does a good job at retaining its most talented people	New KPI	New KPI	42%	**31%**	Meet/exceed GFS benchmark (2013: 42%)
Ⓐ% of employees who feel we have created an environment where people with diverse backgrounds can succeed	73%	78%	76%	**75%**	Meet/exceed GFS benchmark (2013: 80%)
Ⓐ% of employees who rate us favourably on enablement index	New KPI	New KPI	New KPI	**64%**	Meet/exceed GFS benchmark (2013: 70%)
Ⓐ% of employees who rate us favourably on engagement index*	63%	68%	68%	**56%**	Meet/exceed GFS benchmark (2013: 73%)
Suppliers					
Ⓐ% of "Managed Supply" spend where supplier accepted Code of Behaviour	New KPI	31%	30%	**28%**	Increase % from previous year
Ⓐ% of "Managed Supply" spend where supplier has successfully completed the CR element of the Supplier process	New KPI	New KPI	71%	**63%**	Increase from previous year
ⒶNumber of business units that use the 'Supplier Hospitality register' and 'Register of Interests'	15	19	19	**22**	Increase from previous year
Developing communities					
Ⓐ Amount of community investment	£11.4m	£12.4m	£11m	**£6.2m**	Total community investment at/above previous year
% of employees participating in volunteering	17%	20%	18%	**27%**	Increase the % of employee participation in volunteering
Number of employee hours spent volunteering	57,250	60,390	56,357	**41,223**	Increase the number of employee volunteering hours
Ⓐ% of investment in Aviva 'Street to School'	52%	54%	58%	**52%**	50% of cash donations
Ⓐ% of employees who feel that Aviva does a good job of contributing to the communities in which we live and work	66%	76%	76%	**75%**	Increase from previous year

Ⓐ Denotes that this KPI has been assured by PricewaterhouseCoopers LLP

Change	Met target	2014 target	Notes
7%	X	100% of employees	Business ethics: All employees are required to complete annual training of the Code except in France where the requirement is included in 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.
7%	X		
(8)%	X	Improve past performance	Customers: Using NPS methodology we calculate the performance of businesses relative to their local market. Following changes to our overall business structure, the number of markets now ranked within the upper quartile is 31%. Following changes in our overall business structure there are four 4 fewer businesses surveyed in 2013 compared to the previous year.
0	=		
(1)%	X	Improve past performance	
0	=	Offset 100% remaining CO_2 emissions at Group level	Absolute CO_2e data – CO_2e data includes emissions from our buildings, business travel, outsourced data centres, water and waste to landfill.
(8)%	✓	Reduce relative CO_2 emissions by 5%	Relative CO_2e data – The relative comparison uses the 2013 basis for reporting (as above), and the adjusted relative data for 2012 encompassing structural changes that occurred in 2012. Our 2010 baseline, which we use to understand our progress on a long term basis is 132,244 CO2e. Our long term reduction target remains at 20% reduction by 2020, from this restated baseline. We have restated waste for 2012 due to an error in our China waste figure and to include Solus for the first time. Water consumption – We have restated our water consumption for 2012 after an overstatement was found in the China data. GFS stands for the Global Financial Services benchmark. This is a tough external benchmark that we use as a stretch target. In the equivalent regional benchmarks we are consistently performing above the benchmark.
(7.5)%	✓		
(13)%	✓	Reduce water use by 4%	
0.1%	X	Reduce waste generated by 4%	
1%	X	80% or above	
1%		Meet/exceed GFS benchmark	
(11)%	X	Meet/exceed GFS benchmark	People: The data reflected here are from our annual employee survey. The results reflect the wider organisational change of our business. Our targets are external benchmarks which we are working towards.
(1)%	X	Meet/exceed GFS benchmark	
n/a		Meet/exceed GFS benchmark	
(12)%	X	Meet/exceed GFS benchmark	* Engagement index – this question set has changed this year to include an additional question. A relative comparison to 2012 would result in an engagement score of 58%.
n/a		Increase 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 (some of which adopted the model in the second half of 2013). The data is based on a total managed supply population year end 2013 of 269 suppliers.
n/a		Increase from previous year	
3	✓	Increase from previous year	Hospitality register: this figure has remained static however, more Aviva businesses are now compliant with this KPI, and we have removed those businesses we have divested.
(44)%	X	Total community investment at/above previous year	Decrease in community investment: The decrease in total community investment is due to the completion of our UK Athletics sponsorship, which represented over 33% of our total KPI in 2012. Additionally, this year's reporting does not include the US business (sold in 2013) which contributed over 10% to this KPI in 2012. Increase in employee volunteering and decrease in volunteering hours: The increase in the % of employees volunteering a consequence of our focus on driving employee participation. The reduction in total volunteering hours is due to our increased focus on individual skills based volunteering, rather than team events, and also a significant reduction in overall headcount.
9%	✓	Increase the % of employee participation in volunteering	
(27)%	X	Increase the number of employee volunteering hours	
(6)%	✓		
(1)%	X	Increase from previous year	

Corporate responsibility assurance statement

PwC Independent Limited Assurance Report to the Directors of Aviva plc

The Directors of Aviva plc ("Aviva") engaged us to provide limited assurance on the information described in Aviva's Annual Report and Accounts for the year ending 31 December 2013.

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 2013 has not been prepared, in all material respects, with the Reporting Criteria.

This conclusion is to be read in the context of what we say below.

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 2013 (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 Annual Report and Accounts 2013.

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 or Review of Historical Financial Information' (ISAE 3000) and, in respect of CO_2 emissions, the International Standard on Assurance Engagements 3410 – 'Assurance engagements on greenhouse gas statements' (ISAE 3410) 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 apply International Standard on Quality Control (UK&I) 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. 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. The nature, methods and precision used to determine non-financial information can result in materially different measurements, affecting comparability between entities and over time. The Reporting Criteria used for the reporting of the Selected Information are at 31 December 2013.

Work done

Considering the risk of material misstatement of the Selected Information, 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 countries out of seventeen countries, selected on the basis of their inherent risk and materiality to the group, to understand the key processes 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
- assessed 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 Aviva's performance based on the Reporting Criteria; and
- the content of the Annual Report and Accounts 2013.

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 Directors of Aviva as a body 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 ending 31 December 2013, to enable the Directors to show they have addressed 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 Directors as a body and Aviva for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP,
Chartered Accountants, London
5 March 2014

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

This page is intentionally left blank.

Other information
Shareholder information

In this section

Company address	286
Share capital	286
Related party disclosures	288
Dividend data	288
Guarantees, securitised assets and off-balance sheet arrangements	289
Liquidity and capital resources	289
Regulation	293
Risks relating to our business	299

Shareholder information

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 four classes of shares:

- 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;
- Sterling new preference shares of £1 each, which have such rights and terms (including terms related to the redemption of shares, ranking and entitlement to dividend and capital) as the Board determines; and
- Euro new preference shares of €1 each, which have such rights and terms (including terms related to the redemption of such shares, ranking and entitlement to dividend and capital) as the Board determines.

Issued share capital

The Company had an aggregate issued and outstanding ordinary share capital of £736 million as of 31 December 2013. The following table sets out information about the issued and outstanding classes of equity as of 31 December 2013.

	Shares issued and outstanding			Shares covered by outstanding options		
Share class	**2013 Million**	2012 Million	2011 Million	**2013 Million**	2012 Million	2011 Million
Ordinary shares, nominal value 25p	**2,947**	2,946	2,905	**20**	25	30
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 these schemes are set out in 'IFRS Financial statements – note 32 – Group's share plans'.

The Matching Share Plan

Under the all employee share ownership plan (AESOP), eligible employees can invest up to statutory limits, currently £125 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. From May 2013 participants were also eligible to receive dividend shares through the AESOP.

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 HMRC-approved savings contract, subject to a statutory savings limit, currently £250 per month. From 2012, only 3 and 5 year contracts have been offered.

Shares to satisfy options and awards

Since July 2008, it has been 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 make it necessary to issue new shares.

At 31 December 2013, 8,561,382 shares were held by the employee share trusts as compared to 10,053,515 at 31 December 2012, in both instances following the share purchases and distributions to individual employees throughout the year. These shares have an aggregate nominal value of £2,140,346 and market value of £38,500,535 as of 31 December 2013, compared to £2,513,379 and £37,499,611 at 31 December 2012, 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.'

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 2011	**2,820,148,642**
Shares issued under the Group's Employee and Executive Share Option Schemes[1]	1,574,706
Shares issued in lieu of dividends[2]	83,989,590
At 31 December 2011	**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**

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 2011, 2012 and 2013, 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 2011, 2012 and 2013. In addition, at the Company's general meetings in 2011, 2012 and 2013, 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:

	2013 £m	2012 £m	2011 £m
Salary and other short-term benefits	**5.3**	4.7	6.7
Post-employment benefits	**1.1**	1.9	1.7
Equity compensation plans	**3.3**	4.8	5.9
Termination benefits	**1.1**	1.5	0.7
Other long term benefits	**1.6**	0.4	2.8
Total	**12.4**	13.3	17.8

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

	2013			2012[1]	2011
	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
Associates	**3**	**11**	—	9	—
Joint ventures	**51**	**56**	23	54	23
Employee pension schemes	**12**	**9**	12	6	13
	66	**76**	35	69	36

1 Comprises the impact of the adoption of IFRS 10 on the prior year comparative and the resulting consolidation and deconsolidation of entities based on the revised definition and criteria of control outlined in accounting Policy (D). See 'IFRS Financial statements – note 1' for further details.

In addition to the amounts disclosed for associates and joint ventures above, at 31 December 2013 amounts payable at year-end were £nil *(2012: £nil)*, and expenses incurred during the period were £3 million *(2012: £5 million)*.

Transactions with joint ventures in the UK relate to the property management undertakings, the principal ones of which are listed in note 19(a)(iii) of the IFRS Financial statements. 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) of the IFRS Financial statements.

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 'IFRS Financial statements – 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 'IFRS Financial statements – 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 2013 and 2012 are shown in the table below:

	2013 £m	2012[1] £m
Loans to joint ventures	**24**	43

1 Comprises the impact of the adoption of IFRS 10 on the prior year comparative and the resulting consolidation and deconsolidation of entities based on the revised definition and criteria of control outlined in accounting policy (D). See note 'IFRS Financial Statements – note 1' for further details.

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.

For the 2007 final dividend and previous final and interim dividends, shareholders on record were provided with the opportunity to elect to receive dividends in the form of newly issued ordinary shares through the Aviva Scrip Dividend Scheme. For the 2008 interim dividend, the Aviva Scrip Dividend Scheme was replaced by a dividend reinvestment plan (DRIP). For those shareholders participating in the DRIP, the Company paid a cash

dividend, which was then used to buy existing shares on the open market. For the 2008 final dividend, Aviva withdrew the DRIP and reintroduced the Aviva Scrip Dividend Scheme. For the 2012 final and subsequent dividends, the Aviva Scrip Dividend Scheme was withdrawn. The Company has decided to introduce a DRIP effective from dividend payable on 16 May 2014.

An interim dividend is generally paid in November of each year. A final dividend is proposed by the Company's Board after the end of the relevant year and generally paid in May. 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)
2007	11.90	24.37	21.10	41.31
2008	13.09	19.69	19.91	30.31
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**	**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. 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 'IFRS Financial statements – note 54(b)'.

It is standard business practice for our Group companies to give guarantees, indemnities and warranties in connection with disposals of subsidiaries and associates to third parties. As of 31 December 2013, 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.

The sale of the Aviva USA business completed on 2 October 2013. The final purchase price is subject to customary completion adjustments. The process to agree completion adjustments is ongoing and is expected to complete by mid-2014. Until the outcome of this process is known there remains uncertainty on the final determination of the consideration. Refer to 'IFRS Financial statements – note 4(b)' for further details.

Apart from the US disposal, there are a number of other outstanding claims on recent disposals, none of which are material. There are also open claim periods on other recent disposals on which we have neither received, nor expect to receive, any such claims. We believe that there is no material exposure in this respect.

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 'IFRS Financial statements – note 25'. 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 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. If a 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 greater than 50%, such PUTs and PLPs have been classified as joint ventures. Of the PLPs accounted for as joint ventures at 31 December 2013, the Group's economic interest exceeded 50% in respect of one partnership, The Mall Limited Partnership, in which the Group had a 50.52% economic interest.

IFRS Financial statements – note 19 provides a list of the principal PLPs accounted for as joint ventures, as well as summarised information on 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 2013, we had £140 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 and capital 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, 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 2013, total consolidated cash and cash equivalents net of bank overdrafts amounted to £24,857 million, an increase of £1,404 million over £23,453 million in 2012.

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, including issuing €650 million Lower Tier 2 hybrid debt in July 2013, and will 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 economic capital 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 2013, the Group had £16.1 billion *(31 December 2012: £16.5 billion)* of total capital employed in our trading operations which is financed by a combination of equity shareholders' funds, preference capital, direct capital instruments, subordinated debt and internal and external borrowings.

In addition to external funding sources, we have a number of internal debt arrangements in place. These have enabled us to deploy cash from some parts of the business to others in order to fund growth. Although intra-Group loans in nature, they are counted as part of the capital base for the purpose of capital management. 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 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 2013, we issued €650 million of Lower Tier 2 subordinated debt callable in 2023. In October 2013, we repaid a €650 million Lower Tier 2 subordinated debt instrument at its first call date.

At 31 December 2013, our total external borrowings, including subordinated debt and securitised mortgage loans, amounted to £7.8 billion *(2012: £8.3 billion).* Of the total borrowings, £5.1 billion *(2012: £5.1 billion)* are considered to be core borrowings and are included within the Group's capital employed. The balance of £2.7 billion *(2012: £3.2 billion)* represents operational debt issued by operating subsidiaries. We also have substantial committed credit facilities available for our use. At 31 December 2013, we had undrawn committed credit facilities expiring within one year of £0.4 billion *(2012: £0.4 billion)* and £1.1 billion in credit facilities expiring after more than one year *(2012: £1.7 billion)*. Of these facilities, £750 million was allocated in 2013 *(2012: £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. On 28 February 2014, the Company gave notice of its intention to redeem two subordinated debt instruments of £200 million and €50 million at their first call dates of 1 April and 30 April respectively.

The table below presents our debt position for the periods indicated:

	2013 £m	Restated[1] 2012 £m
Core structural borrowings		
Subordinated debt	**4,370**	4,337
Debenture loans	**199**	199
Commercial paper	**556**	603
	5,125	5,139
Operating borrowings		
Operational borrowings at amortised cost	**1,410**	1,853
Operational borrowings at fair value	**1,313**	1,332
	2,723	3,185
	7,848	8,324
Less: Amounts classified as held for sale	**(29)**	(145)
Total	**7,819**	8,179

1 Comprises the impact of the adoption of IFRS 10 on the prior year comparative and the resulting consolidation and deconsolidation of entities based on the revised definition and criteria of control outlined in accounting Policy (D). See 'IFRS Financial statements – note 1' for further details.

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 £1,313 million *(2012: £1,332 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 2013, we had £1.5 billion *(2012: £2.1 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:

	2013 £m	2012 £m
Expiring within one year	**400**	420
Expiring beyond one year	**1,100**	1,725
Total	**1,500**	2,145

Our committed central borrowing facilities have two financial covenants:

- Borrowings (excluding non-recourse indebtedness) may not exceed total shareholders' funds. At 31 December 2013, borrowings were 56% of total shareholders funds.
- Total shareholders' funds to exceed 32% of non-life net written premiums for the previous 12 months. At 31 December 2013, total shareholders funds were 150% 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 from operating companies, subsidiaries, associates and joint ventures in 2013. Cash remittances include amounts received from Aviva Insurance Limited in January 2014 in respect of 2013 activity.

Amounts received in respect of 2013 activity	**£m**
UK & Ireland life insurance	**370**
France	**235**
Poland	**85**
Spain	**51**
Italy	**12**
Other Europe	**5**
Canada	**130**
Asia	**20**
Other operations	**14**
	922
UK & Ireland general insurance[1]	**347**
Total	**1,269**

1 Includes amounts received in respect of 2013 activity.

During 2013, the Group took action to improve its access to dividends from the Group's insurance and asset management businesses by undertaking a corporate restructuring whereby Aviva Group Holdings ("AGH") purchased from Aviva Insurance Limited ("AIL") its interest in the majority of its overseas businesses.

Under UK company law, dividends can only be paid if a company has distributable reserves sufficient to cover the dividend. At 31 December 2013, Aviva plc itself had distributable reserves of £3,153 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 Groups 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 2013, outstanding debt issued under the guaranteed programme was £nil *(2012: £603 million)* while £556 million *(2012: £nil)* was unguaranteed. 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 2013, the outstanding debt issued under this programme was £2,626 million *(2012: £2,076 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 2013, 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 £538 million, compared with £720 million in 2012.

In 2013, our total interest costs on central borrowings were £328 million. This compared with £317 million of interest paid on central borrowings in 2012. Total corporate centre expenses in 2013 were £150 million compared with £136 million in 2012.

An additional application of our funds is the acquisition of businesses. In 2013, cash paid for the acquisition of subsidiaries, joint ventures and associates from continuing operations net of cash acquired amounted to £nil million, compared with cash paid of £129 million in 2012.

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 £157 million and £169 million in 2013 and 2012 respectively.

Consolidated cash flows

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 statement of financial position.

Year ended 31 December 2013

Net cash from operating activities

Total net cash from operating activities increased by £1,498 million to a £3,997 million inflow in 2013 (*2012: £2,499 million inflow*). The increase was primarily due to an increase in operating cash flows in discontinued operations (US Life) prior to disposal.

Net cash from investing activities

Net cash used in investing activities increased by £1,210 million to £1,225 million outflow (*2012: £15 million outflow*). The movement is mainly a result of the disposal of the US Life business.

Net cash used in 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 movement is mainly due to higher repayment of borrowings in 2013, and the one-off issue of fixed rate tier 1 notes in 2012, partly offset by a lower ordinary dividend payment in 2013.

Net cash and cash equivalents

At 31 December 2013, total consolidated net cash and cash equivalents, net of bank overdrafts, amounted to £24,857 million, an increase of £1,404 million over £23,453 million in 2012.

Currency

Our exposures to movements in exchange rates and the management of these exposures is detailed in 'Other information – Financial and operating performance – Exchange rate fluctuations'.

Year ended 31 December 2012[1]

Net cash from operating activities

Total net cash from operating activities increased by £2,841 million to a £2,499 million inflow in 2012 (*2011: £342 million outflow*). The increase was primarily due to an increase in flows from the net purchase/sale of operating assets.

Net cash used in investing activities

Net cash from investing activities decreased by £93 million to £15 million outflow (*2011: £78 million inflow*). The decrease is mainly a result of a decrease in cash inflows from disposal of subsidiaries, joint ventures and associates, partly offset by lower cash used in discontinued operations.

Net cash out flow on financing activities

Net cash used in financing activities decreased by £654 million to an outflow of £1,119 million (*2011: £1,773 million outflow*). The decrease is due to proceeds from the issuance of a Fixed Rate Tier 1 notes, and lower cash used in discontinued operations partly offset by higher dividend payments.

Net cash and cash equivalents

At 31 December 2012, total consolidated net cash and cash equivalents, net of bank overdrafts, amounted to £23,453 million, an increase of £1,052 million over £22,401 million in 2011.

Currency

Our exposures to movements in exchange rates and the management of these exposures is detailed in 'Other information – 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 2013 £bn	31 December 2012 £bn
Insurance Groups Directive (IGD) capital resources	**5.8**	**8.6**	**14.4**	14.4
Less: capital resources requirement	**(5.8)**	**(5.0)**	**(10.8)**	(10.6)
Insurance Group Directive (IGD) excess solvency	**—**	**3.6**	**3.6**	3.8
Cover over EU minimum (calculated excluding UK life funds)			**1.7 times**	1.7 times

The EU IGD regulatory capital solvency surplus has decreased by £0.2 billion since 31 December 2012 to £3.6 billion. The key movements over the period are set out in the following table:

	£bn
IGD solvency surplus at 31 December 2012	**3.8**
Operating profits net of other income and expenses	**1.2**
Dividends and appropriations	**(0.5)**
Market movements including foreign exchange[1]	**(0.4)**
Pension scheme funding	**(0.1)**
Disposals	**0.2**
Poland pension legislative changes	**(0.3)**
Increase in capital resources requirement	**(0.1)**
Other regulatory adjustments	**(0.2)**
Estimated IGD solvency surplus at 31 December 2013	**3.6**

1 Market movements include the impact of equity, credit spread, interest rate and foreign exchange movements net of the effect of hedging instruments.

1 The statement of cash flows has been restated following the adoption of IFRS 10 'Consolidated Financial Statements' – see IFRS Financial statements – Note 1 for further details.

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:

	2013 £m	2012 £m
Investment property	**3**	6
Property and equipment	**24**	36
Total	**27**	42

Contractual obligations for future repairs and maintenance on investment properties are £nil *(2012: £nil)*. We have capital commitments to joint ventures of £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, North America 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 set minimum standards for national legislatures to meet, with each legislature able to decide how they should be implemented. National governments may not pass laws which fail to meet the minimum standards set out in a directive, but are generally free to impose legal requirements which go beyond those required. Directives are written at a fairly high level, with more detail being provided at national level through legislation developed in accordance with the local legal system. 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:

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 requires 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 new 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.

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.

Solvency II
The Solvency II Level 1 Directive was published in November 2009. Solvency II represents a fundamental change in European regulation and will result in a more sophisticated economic risk based capital approach. Its objectives are to establish a solvency system that is better aligned to the true risks of insurers, and aims to enable supervisors to protect policyholder interests as effectively as possible in accordance with common principles across the EU. An amending directive (Omnibus II) was agreed in Trilogue between the EU Commission, Council and Parliament in November 2013 which is scheduled to be voted on by the EU Parliament on 11 March 2014. This will set the implementation date for Solvency II as 1 January 2016. The next steps in the development of Solvency II will be the completion of level 2 and 3 Delegated Acts, implementing technical standards and supervisory guidance.

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 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 International Association of Insurance Supervisors ("IAIS") is developing a Basic Capital Requirement (BCR) to provide a comparable foundation for the application of HLA to G-SIIs. The development phase of the BCR is planned to conclude during 2014. The IAIS will then develop its approach to HLA 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 has indicated that it will develop the ICS by 2016 for implementation in 2019 along with the rest of ComFrame.

Future EU developments
During 2013 the European Commission undertook a review of the European System of Financial Supervision (ESFS). The ESFS includes the three sector specific European Supervisory Authorities (ESAs) that have powers to make binding rules and drive supervisory consistency and convergence through a single rule book. It is anticipated that the Commission will publish its conclusions of its review during 2014.

There are a number of European dossiers that are expected to progress during 2014, including Packaged Retail Investment Products (PRIPs) that will introduce common product disclosure standards, the review of the Insurance Mediation Directive (IMD) and MiFID, and the Directive for Institutions of Occupations Retirement Provisions (IORP) that sets rules for occupational pension schemes.

The European Market Infrastructure Regulation (EMIR) that introduces central clearing of standard Over the Counter (OTC) derivatives came into force in 2013. This is subject to transitional provisions and actions that the European Securities and Markets Authority (ESMA) must complete before central clearing can commence later this year.

United Kingdom

The new 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 promoted 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 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 6 high level principles including maintenance of adequate systems and controls and financial prudence.

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 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).

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 new powers under the FS Act in relation to unregulated parent undertakings ("qualifying parent undertakings") that control and exert influence over regulated firms. The new 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.

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 Services UK Ltd
The Ocean Marine Insurance Company Ltd	Aviva Pension Trustees UK Ltd
	Aviva Wrap UK Ltd
	Orn Capital LLP

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. 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 file 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 the company has maintained the required minimum margin of solvency throughout the year. 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

During part of 2013 we wrote life and annuity business in the United States through Aviva USA Corporation (Aviva USA), which was a wholly owned subsidiary formed by the merger of Aviva Life Insurance Company of America with AmerUS which it acquired in July 2006. 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. Aviva plc reached agreement, in December 2012, to sell Aviva USA and the sale was completed in October 2013.

The US insurance industry is regulated primarily on a state-by-state basis. Individual states have authority to pass statutes, adopt regulation or issue directives to regulate insurance activities within their jurisdiction.

Consequently, life insurance companies are subject to regulation both in their domicile state as well as in each state in which they operate. State regulation can vary from state to state. All have laws and regulations covering the financial aspects of the insurance business, including standards of solvency, reserves, reinsurance and capital adequacy. In addition, most states have specific regulation governing licensing and the conduct of selling agents as well as the approval of products and associated product forms and literature.

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 2013 Aviva also operated businesses in China, India, Malaysia, Taiwan, 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. 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, 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 the Middle East and North Africa, together with a lack of a decisive political majority in a number of countries including the US and Italy, 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, 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. Any potential material adverse effect will also be dependent upon customer behaviour and confidence.

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 our products and services, the value of our investment portfolios and the credit quality of local counterparties.
We offer our products and services in Europe (including the 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, 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 European Union ("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 US 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. Recent political negotiations in the US over raising the US 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 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 credit worthiness of the issuer, 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 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 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 spreads, credit rating movements can also impact on our solvency and our 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 impact our asset and liability matching, which could adversely affect our results of operation and financial condition.

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 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 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 ongoing 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 ("RMBS") and commercial mortgage-backed securities ("CMBS") 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 2013, 60% 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 teams to deliver strong investment performance depends in large part on their 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, and is likely to increase as our assets under management increase, particularly if these increases occur very rapidly. 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 affect our ability to meet liquidity needs and to access 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 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 2013. 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 need to seek additional financing in the event internal resources are not sufficient to meet our needs. 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 may exert downward pressure on availability of liquidity and credit capacity for certain issuers and may limit our access to capital required to operate and grow our business. Such market conditions may limit our ability to replace, in a timely manner, maturing debt, satisfy statutory capital requirements and generate fee income and market-related revenue to meet liquidity needs.

As such, we may be forced to 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 on our operating subsidiaries to cover operating expenses and dividend payments.
As a holding company, Aviva plc has no substantial operations of our 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, which in some circumstances could limit our ability to pay dividends to shareholders. The inability of our subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have a material adverse impact on our business.

A requirement to pay intercompany indebtedness early could have negative consequences for our business and results of operations.
An intercompany loan was granted by Aviva Insurance Limited to Aviva Group Holdings Limited in February 2013 (the balance of which was £4.8 billion as at 31 December 2013). We have agreed with the Board of the UK General Insurance Company (AIL) an appropriate target for the long term level of the internal loan between the Group Holding Company (AGH) and AIL. That level has been set such that AIL places no reliance on the loan to meet its stressed insurance liabilities assessed on a 1:200 basis. Our prudential regulators, PRA, agree with this approach. The effect of this would be to reduce the internal loan balance from its level at the end of February 2014 of £4.1 billion to approximately £2.2 billion. We will complete this reduction by the end of 2015. A requirement to reduce the loan more rapidly or to a greater extent than planned 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 the Issuer.

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), the development of interest rates, persistency rates (the proportion of customers retaining existing policies up to their maturity dates) and future levels of expenses. These assumptions may turn out 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. 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 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 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 our 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, floods, windstorms, earthquakes, terrorism, riots, fires and explosions. 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 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.

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 mitigation strategies may prove less effective than anticipated.
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.

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. These arrangements involve certain risks that we do not face with our subsidiaries.
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. For example, 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. 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 and implement 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 cost efficiencies and may experience operational difficulties, increased costs and a loss of business. Failings in our outsource partners may also affect our reputation.

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 fulfill 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, retain and motivate key employees is dependent on a number of factors, including prevailing market conditions, our 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. The defined benefit section of the UK staff pension scheme was closed to new members from 1 April 2011, with entry into the defined contribution sections being offered to the staff members affected. Closure of the defined benefit scheme will remove the volatility associated with adding future accrual for active members.

There are inherent funding risks associated with the defined benefit schemes. Events could result in a material reduction in the funding position of such schemes and, in some cases, may result in a deficit between the pension scheme's assets and liabilities. The factors that affect the scheme's position include: poor investment performance of pension fund investments; greater life expectancy than assumed; adverse changes in interest rates or inflation; and other events occurring that increase the costs of past service benefit 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 result in 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 2013, 17% of total financial investments, loans and investment properties at fair value were classified as Level 3, amounting to £37,171 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 profit.

Moves to simplify the operating structure and activities of the Group increase the reliance placed on core businesses and are 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 benefit 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. 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. We could also incur higher administrative costs both from the processing of business and potentially remediating disputes.

Our acquisitions may divert management attention and other resources and involve risks of undisclosed liabilities and integration issues.
In past years, we have completed a number of acquisitions around the world. We may make 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.

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 are considered to be the most important for distribution in Canada, and a downgrade could lead to a significant loss of sales.

Similarly, a rating downgrade may increase our cost of borrowing or limit our access to some forms of financing.

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 adverse effect on our business, results of operations 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, fund management performance and historical bonus levels. In some of our markets, we face competitors that are larger, 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 potential to grow businesses as quickly as planned.

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 and Standard Life. 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 Aviva's business

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 self-regulatory agencies, including the PRA and 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 manages 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 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 insurance subsidiaries to meet minimum capital and surplus requirements could subject it to further examination or corrective action imposed by insurance regulators, including limitations on its 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 to us and could be a factor in causing rating agencies to downgrade the insurer's 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.

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.

Where larger groups or matters of public policy are concerned, the PRA and the FCA may intervene directly. 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 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 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.

A determination that we have failed to comply with applicable regulations 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 our product range, distribution channels, capital requirements, dividends payable by subsidiaries and, consequently, results and financing requirements.

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 ("Solvency II"), 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 Solvency II has been extended to January 2016. 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 these could lead to a significant increase in the capital required to support our business.

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 from November 2014. 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 Supervisors ("IAIS"), including: enhanced supervision requiring the development by July 2014 of a Systemic Risk Management Plan; the development of recovery and resolution plans; 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 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 the Issuer.

The IAIS has no direct legal powers *to* impose standards on either regional or national supervisors of the Group but, in the UK, the PRA is taking steps to discuss G-SII requirements with UK firms to whom the designation has been applied.

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 is expected in March 2014 and ComFrame, including the final ICS, is expected to be adopted at the end of 2018 to apply from 2019.

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 where we operate. These actions arise in various contexts, including in connection with our activities as an insurer, securities issuer, employer, investment adviser, investor and taxpayer. Certain of these lawsuits and investigations 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. 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 recent legislation passed in the United States.

In March 2010, the United States passed legislation that would require non-United States financial institutions to enter into agreements to provide information on United States account holders beginning in 2015. If this information is not provided in a form and with contents satisfactory to the United States tax authorities, a non-United States financial institution will have a 30% withholding tax applied to certain amounts derived from United States sources. Under the final United States Treasury regulations, no such withholding tax will be imposed on any payments made prior to 1 July 2014.

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 have announced that they intend to introduce similar measures.

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.

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 limits 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.

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

In this section

Glossary 312
Shareholder services 314

Glossary

Product definitions

Annuities
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 annuities
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.

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 the property of others.

Group pension
A pension plan that covers a group of people, which is typically purchased by a company and offered to their employees.

Health insurance
Provides cover against loss from illness or bodily injury. Can pay for medicine, visits to the doctor, hospital stays, other medical expenses and loss of earnings, depending on the conditions covered and the benefits and choices of treatment available on the policy.

Income drawdown
The policyholder can transfer money from any pension fund to an income drawdown plan from which they receive an income. The remainder of the pension fund continues to be invested, giving it the potential for growth.

Investment sales
Comprise retail sales of mutual fund-type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).

Individual savings account (ISAs)
Tax-efficient plans for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits.

Mortgage endowment
An insurance contract combining savings and protection elements which is designed to repay the principal of a loan or mortgage.

Mortgage life insurance
A protection contract designed to pay off the outstanding amount of a mortgage or loan in the event of death of the insured.

Open ended investment company (OEIC)
A collective investment fund structured as a limited company in which investors can buy and sell shares.

Pension
A means of providing income in retirement for an individual and possibly his/her dependants.

Personal pension
A pension plan tailored to the individual policyholder, which includes the options to stop, start or change their payments.

Protection
An insurance contract that protects the policyholder or his/her dependants against financial loss on death or ill-health.

Regular premium
A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract.

Collective investment scheme (SICAVs)
This is an open-ended investment fund, structured as a legally independent joint stock company, whose units are issued in the form of shares.

Single premium
A single lump sum is paid by the policyholder at commencement of the contract.

Stakeholder pensions
Low cost and flexible pension plans available in the UK, governed by specific regulations.

Term assurance
A simple form of life insurance, offering cover over a fixed number of years during which a lump sum will be paid out if the life insured dies.

Unit trusts
A form of open ended collective investment constituted under a trust deed, in which investors can buy and sell units.

Whole life
A protection policy that remains in force for the insured's whole life; a lump sum will be paid out on death. Traditional whole life contracts have fixed premium payments that typically cannot be missed without lapsing the policy. Flexible whole life contracts allow the policyholder to vary the premium and/or amount of life cover, within certain limits.

General terms

Annual premium equivalent (APE)
Used as a measure of annual sales, taking the annual premium of regular premium contracts plus 10% of single premium contracts.

Available for sale (AFS)
Securities that have been acquired neither for short-term sale nor to be held to maturity. These are shown at fair value on the statement of financial position and changes in value are taken straight to equity instead of the income statement.

Association of British Insurers (ABI)
A major trade association for UK insurance companies, established in July 1985.

Acquired value of in force (AVIF)
The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary.

Glossary continued

Bancassurance
An arrangement whereby banks and building societies sell insurance and investment products to their customers on behalf of other financial providers.

Combined operating ratio (COR)
COR is calculated as incurred claims expressed as a percentage of net earned premiums, plus written commissions and written expenses expressed as a percentage of net written premiums.

Deferred acquisition costs (DAC)
The costs directly attributable to the acquisition of new business for insurance and investment contracts may be deferred to the extent that they are expected to be recoverable out of future margins in revenue on these contracts.

Fair value
The amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Conduct Authority (FCA)
One of the two bodies (along with the PRA) which replaced the Financial Services Authority from 1 April 2013. The FCA is a company limited by guarantee and is independent of the Bank of England. It is responsible for the conduct business regulation of all firms (including those firms subject to prudential regulation by the PRA) and the prudential regulation of firms not regulated by the PRA. The FCA has three statutory objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting effective competition in the interests of consumers.

Funds under management
Represents all assets actively managed or administered by or on behalf of the Group including those funds managed by third parties.

Gross written premiums
The total earnings or revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period.

Independent Financial Advisers (IFAs)
A person or organisation, authorised under the FCA, to give advice on financial matters and to sell the products of all financial service providers.

Internal rate of return (IRR)
A discount rate used to measure profitability. The rate used is that which will bring a series of cash flows to a net present value of nil.

International financial reporting standards (IFRS)
These are accounting regulations designed to ensure comparable statement of financial position preparation and disclosure, and are the standards that all publicly listed companies in the European Union are required to use.

Operating profit
This is also referred to as adjusted operating profit or operating profit (IFRS basis). It is based on expected investment returns, and stated before tax and before non-operating items including, impairment of goodwill, exceptional and other items.

Inherited estate
In the UK, the assets of the long-term with-profit funds less the realistic reserves for non-profit policies written within the with-profit funds, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees.

Long-term and savings business
Collective term for life insurance, pensions, savings, investments and related business.

Net written premiums
Total gross written premiums for the given period, less premiums paid over or 'ceded' to reinsurers.

New business strain (NBS)
The name given to the initial impact on shareholders' net assets when an insurance contract is sold. This "strain" arises because, in addition to meeting costs associated with the sale of contracts, insurance companies must meet capital and reserving requirements at the outset of a contract that are often significantly higher than the premiums received.

Present value of new business (PVNBP)
Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine the value of new business under Market Consistent Embedded Value (MCEV) principles published by the CFO Forum.

Prudential Regulatory Authority (PRA)
One of the two bodies (along with the FCA) which replaced the Financial Services Authority from 1 April 2013. The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit taking institutions, insurers and major investment firms. The PRA has two statutory objectives: to promote the safety and soundness of these firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders.

Solvency II
These are insurance regulations designed to harmonise EU insurance regulation. Primarily this concerns the amount of capital that European insurance companies must hold under a measure of capital and risk. Solvency II is due to become effective from 1 January 2016.

Turnbull Guidance on Internal Control
The Turnbull Guidance sets out best practice on internal controls for UK listed companies, and provides additional guidance in applying certain sections of the UK Corporate Governance Code.

UK Corporate Governance Code
The code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice.

Value of new business (VNB)
VNB is the present value of future profits from new business written at the point of sale. It is calculated on a market consistent basis using economic assumptions set at the start of each quarter and the same operating assumptions 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 services

Shareholder profile as at 31 December 2013

By category of shareholder	Number of shareholders	%*	Number of shares	%*
Individual	548,969	97.03	264,080,246	8.96
Banks and nominee companies	14,031	2.48	2,631,081,144	89.28
Pension fund managers and insurance companies	221	0.04	1,107,028	0.04
Other corporate bodies	2,573	0.45	50,671,204	1.72
Total	**565,794**	**100**	**2,946,939,622**	**100**

By size of shareholding	Number of shareholders	%*	Number of shares	%*
1–1,000	510,676	90.26	141,776,379	4.81
1,001–5,000	48,894	8.64	93,490,932	3.17
5,001–10,000	3,524	0.62	24,602,884	0.84
10,001–250,000	2,166	0.38	89,126,377	3.02
250,001–500,000	144	0.03	52,216,902	1.77
500,001 and above	389	0.07	2,524,576,690	85.67
American Depositary Receipts (ADRs)+	1	0.00	21,149,458	0.72
Total	**565,794**	**100**	**2,946,939,622**	**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.

2014 financial calendar

Annual General Meeting	30 April 2014
Announcement of first quarter Interim Management Statement	15 May 2014
Announcement of unaudited half-year results	7 August 2014
Announcement of third quarter Interim Management Statement	30 October 2014

2013 final dividend dates – ordinary shares

Ex-dividend date	2 April 2014
Record date	4 April 2014
Last day for Dividend Reinvestment Plan election	24 April 2014
Dividend payment date*	16 May 2014

* Please note that the ADR local payment date will be approximately five business days after the proposed dividend date for ordinary shares.

Annual General Meeting (AGM)

- The 2014 AGM will be held at the QEII Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on Wednesday, 30 April 2014 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 2014 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, you can do so by sending a question to the group company secretary by email to aviva.shareholders@aviva.com. We will endeavour to provide you with a response as soon as possible.

AGM voting instructions

- Completed proxy instructions must be submitted to the Company's Registrar, Computershare Investor Services PLC (Computershare), as soon as possible, but in any event to arrive by no later than:
- Monday, 28 April 2014 at 11am for ordinary shareholders; and
- Friday, 25 April 2014 at 11am for members of the Aviva Share Account, participants in the Vested Share Account and the Aviva All Employee Share Ownership Plan.

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 2013 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 has decided to introduce a Dividend Reinvestment Plan. The plan 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/ecomms. Completed application forms should be sent to the Company's Registrar, Computershare, by no later than 5pm on Thursday, 24 April 2014.

Direct credit of dividend payments

- If you would like to have your cash dividends paid directly into your bank or building society account, or if you would like 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 by visiting 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.

Shareholders can also elect to receive electronic communications by registering their email address online, or by contacting Computershare directly. Making this election will save on printing and distribution costs and has environmental benefits.

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

Shareholders who do not require the full Aviva plc Annual report and accounts can instead request to receive the Strategic report which, as well as forming part of the full report (on pages 2 to 66) is produced by the Company as a stand-alone document including supplementary material. If you would prefer to receive a hard copy of the Strategic report instead of the full report, please contact Computershare. You can view the full Aviva plc Strategic report online at: www.aviva.com/2013ar

Contact details

Ordinary and preference shares – Computershare

For any queries regarding your shareholding, or to advise of changes to your personal details, please contact our Registrar, Computershare:

By telephone: 0871 495 0105
Lines are open from 8.30am to 5pm (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. Boiler rooms use increasingly sophisticated means to approach investors and often leave their victims out of pocket. The Financial Conduct Authority (FCA) has found most share fraud victims are experienced investors who lose an average of £20,000. The FCA has provided tips on how to protect your savings which you can find at www.fca.org.uk/consumers/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 and firm contacting you and hang up.

For more information please visit the warning to shareholders page at:
www.aviva.com/shareholderservices.

Cautionary statement

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", "estimates" 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 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 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 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; the impact of catastrophic events on our business activities and results of operations; 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 inforce 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; 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 simplifying our operating structure and activities; the effect of a decline in any of our ratings by rating agencies on our standing among customers, brokerdealers, 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; 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 and other uncertainties relating to announced acquisitions and pending disposals and relating to future acquisitions, combinations or disposals within relevant industries. 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. 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 document is printed on Cocoon Silk which is a recycled grade containing 100% post consumer waste and manufactured using a totally chlorine free process. This document was printed by Butler Tanner and Dennis who are FSC and ISO14001 accredited.

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.

To find out more, view our video at **www.aviva.com**

Designed by **SASLondon** (part of MSL Group)
Customer portraits by **Alun Callender**

Aviva plc
St Helen's, 1 Undershaft
London EC3P 3DQ
+44 (0)20 7283 2000
www.aviva.com

Registered in England
Number 2468686