Company Number 21487

AVIVA INTERNATIONAL INSURANCE LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS 2010

Directors' report

Directors
The directors present their Annual Report and audited Financial Statements for Aviva International Insurance Limited ("the Company") for the year ended 31 December 2010

The current directors, and those in office during the year, are as follows

M S Hodges
A J Moss
P G Scott (resigned 26 January 2010)
P C Regan (appointed 22 March 2010)
T W Harris (appointed 21 September 2010)
R L Spencer (appointed 25 November 2010)
D F M Côté (appointed 10 December 2010)
I M Mayer (appointed 25 February 2011)

Company secretary
K A Cooper

Auditor
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered office
St Helen's
1 Undershaft
London EC3P 3DQ

Company number
Registered in England & Wales no 21487

Other information
The Company is a member of the Association of British Insurers and the Financial Ombudsman Service and is authorised and regulated by the Financial Services Authority

The Company is a member of the Aviva plc group of companies ('the Group')

Principal activities
The Company transacts most classes of general insurance business and is the main reinsurer of UK general insurance risks ceded from UK subsidiary companies The Company also invests in securities, properties and loans

Business review
This business review is addressed to, and written for, the members of the Company with the aim of providing a fair review of the business development, performance during the period and position at the current time In providing this review, the aim is to present a view that is both balanced and comprehensive and is consistent with the size and complexity of the business

Financial position and performance
The financial position of the Company at 31 December 2010 is shown in the statement of financial position on page 18, with the trading results shown in the income statement on page 16 and the statement of cash flows on page 19

During 2010, Aviva plc's UK Life business and its UK General Insurance businesses have been brought together as one UK region to bring scale benefits and underpin future growth The UK region is overseen by a divisional Board which includes four non-executive directors

Legal entity governance is managed by the Company's board of directors

Directors' report continued

Profit before tax decreased from £1,556 million in 2009 to £204 million This is mainly due to a reduction in net investment income in 2010 and a one-off profit on disposal of subsidiaries of £454m in 2009

The Company remains principally the reinsurer of UK risks ceded from subsidiary companies Consequently, a significant part of its performance is driven by the underlying performance of those companies ("UKGI") as described below

In personal motor UKGI has seen rating increases of 25% in 2010 building on its early action in previous years to respond to rising bodily injury claims inflation

Commercial motor rates increased 7% in 2010 with higher increases during the second half of the year, as claims trends in personal motor had a favourable knock on impact on commercial motor In homeowner, rates increased 6% In commercial property and liability the Company has seen little change in overall rating reflecting continuing intense competition UKGI has protected profitability by selectively targeting rate increases by segment and case, careful risk selection resulting in reduced overall claims frequencies, and continuing excellence in claims management

The freezing conditions in January and December 2010 resulted in a significant increase in weather related claims in these months However, this was offset to a lesser degree by benign weather during the rest of the year, but still resulted in an overall adverse weather impact compared to the long-term average

Net written premiums in 2010 increased to £1,437 million from £1,190 million in 2009, an increase of 20 8% This performance has been driven by a combination of factors excellent levels of retention across all lines of business, substantial growth in our direct channel, and rolling out of direct prices to brokers

The net incurred claims ratio deteriorated to 77 8% (2009 66 9%) due largely to the increase in personal motor bodily injury claims

The Company's net written expenses ratio improved to 14 3% (2009 16 2%), reflecting the benefits from expense saving programmes and focus on cost control

Net investment income decreased in 2010 to £452 million (*2009 £1,177 million*) reflecting a reduction in dividends received from subsidiary companies to £468 million (*2009 £1,055 million*) and net investment expense of £16 million *(2009 £122 million income)*

For 2010, fair value unrealised losses on investments in subsidiary companies and joint ventures reflected in other comprehensive income are £166 million (2009 £280 million) These unrealised losses have been recognised in the revaluation reserve, resulting in a net surplus of £4,417 million (2009 £4,515 million) after impairment of £118 million (*2009 £1 million*)

Future Outlook

High level strategies are determined by Aviva plc and these are shown in the Group Report and Accounts and 2010 Preliminary Announcement The directors consider that the Company's principal activities will continue unchanged into the foreseeable future

For 2011, the Group general insurance businesses aim to deliver a 2011 general insurance Combined Operating Ratio ('COR') of 97% or better The Company's strategy is in line with this aim

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 30 to the financial statements

Risk factors beyond the Company's control, that could cause actual results to differ materially from those estimated include, but are not limited to

- Frequency and severity of significant natural hazards,
- UK domestic and international economic business conditions, including where the Company's underlying subsidiaries and joint ventures transact business,
- The impact of competition, inflation and deflation, and
- Change in discount rates

Directors' report continued

Key performance indicators
The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows

- Increase/(decrease) in net written premiums, and
- Combined operating ratio ("COR") - this comprises the sum of the following ratios
  - net incurred claims to net earned premiums ratio,
  - net written commissions to net written premiums ratio, and
  - net written expenses to net written premiums ratio

A summary of the KPIs is set out below

Measure	2010	2009
Increase/ (decrease) in net written premiums	**20 8%**	(47 3%)
Combined operating ratio	**107%**	99%
Net incurred claims ratio	**77 8%**	66 9%
Net written commissions ratio	**14 5%**	16 1%
Net written expenses ratio	**14 3%**	16 2%

The written expense ratio excludes corporate costs of £47 million (*2009 £76 million*), and £17 million (*2009 £1 million*) relating to the companies' restructuring costs

Dividend
The directors paid an interim dividend of £500 million (*2009 £nil*) during the year The directors do not recommend a final dividend for the year (2009 *£nil*)

Going concern
The Company's business activities, together with the factors likely to affect its future development, performance and position including the Business Review, are set out in this report In addition, the financial statements include notes on the Company's contingent liabilities and other risk factors (note 26), its capital structure (note 29), management of its major risks including market, credit and liquidity risk (note 30), and derivative financial instruments (note 31)

The Company and its ultimate holding company Aviva plc have 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 Company is well placed to manage its business risks successfully despite the current uncertain economic outlook After making enquiries, the directors have a reasonable expectation that the Company and its subsidiaries 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

The directors, having assessed the responses of the directors of the Company's parent, Aviva Group Holdings Limited, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability to continue with the current banking arrangements

Events since the statement of financial position date

The Aviva Group is currently undertaking a restructuring of its Asia Pacific regional entities which involves the transfer of most of the shareholdings in these entities from the Company and its indirect subsidiary, Aviva International Holdings Limited ("AIH"), to Aviva Asia Holdings Private Limited ('AAHPL'), a wholly-owned direct subsidiary of AIH, via its direct subsidiary, Aviva Insurance Limited ("AI")

On 1 January 2011, Aviva Asia Pte Limited was transferred from the Company to AI and subsequently to AAHPL, in exchange for ordinary shares issued by AI This transfer is not expected to have any significant impact on the results or the financial position of the Company

Overseas branches
During the year the Company had branch offices outside the UK in Canada, Isle of Man (closed during the year), Jersey, Malta, United States of America and Hong Kong

Financial instruments
The business of the Company includes the use of financial instruments Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 30 to the financial statements

Directors' report continued

Employees
The Group's UK staff are employed by a fellow subsidiary of Aviva plc, Aviva Employment Services Limited Disclosure relating to employees can be found in the Annual Report and Accounts of Aviva plc

Disclosure of information to the Auditor
Each person who was a director of the Company on the date that this report was approved confirms that so far as the director is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing their report, of which the auditor is unaware Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditor
It is the intention of the directors to reappoint the auditor under the deemed appointment rules of Section 487 of the Companies Act 2006

Directors' liabilities
Aviva plc, the ultimate parent, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 This indemnity was granted in 2004 and the provisions in the Company's Articles of Association constitute "qualifying third party indemnities" for the purposes of sections 309A to 309C of the Companies Act 1985 These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report by virtue of the transitional provisions to the Companies Act 2006

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

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements, on a going concern basis unless it is inappropriate to presume that the Company will continue in business,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance, and
- state that the Company has complied with applicable IFRS, subject to any material departures disclosed and explained in the financial statements

The directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy, the financial position of the Company at that time They are also ultimately responsible for the systems of internal control maintained, for safeguarding the assets of the Company, and for the prevention and detection of fraud and other irregularities

By order of the Board

K A Cooper
Company Secretary
30 March 2011

Registered Office St Helen's,
1 Undershaft, London EC3P 3DQ
Registered in England & Wales No 21487

Independent auditor's report

To the members of Aviva International Insurance Limited

We have audited the financial statements of Aviva International Insurance Limited for the year ended 31 December 2010, which comprise the Accounting Policies, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows, and the related notes 1 to 32 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

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 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

Opinion on financial statements

In our opinion, the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Michael Purrington (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP (Statutory Auditor)
London
30 March 2011

Accounting policies

The Company is a limited liability company incorporated and domiciled in the United Kingdom ("UK") Its principal activity is the transaction of long-term and most classes of general insurance and health business through its subsidiaries, joint ventures and branches in the UK, Continental Europe, North America, Asia and other countries throughout the world The Company also invests in securities, properties, mortgages and loans and carries on the business of trading in property

The principal accounting policies adopted in the preparation of these financial statements are set out below

(A) Basis of presentation

The Company is exempt from preparing group financial statements by virtue of section 400 of the Companies Act 2006, as it is a subsidiary of an EEA parent and is included in consolidated financial statements for the Aviva Group at the same date These financial statements therefore present information about the Company as an individual entity

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, applicable at 31 December 2010 The date of transition to IFRS was 1 January 2004

In 2008, the IASB issued revised versions of IFRS 3, *Business Combinations*, and IAS 27, *Consolidated and Separate Financial Statements* The former introduced a number of changes in accounting for such transactions that impact the amount of goodwill recognised, the reported results in the period an acquisition occurs, and future reported results The latter now requires a change in the ownership interest of a subsidiary (without loss of control) to be accounted for as an equity transaction, rather than giving rise to goodwill or a gain or loss Consequential amendments were made to IAS 7, *Statement of Cash Flows*, IAS 12, *Income Taxes* and IAS 31, *Interests in Joint Ventures*

During 2008 and 2009, the IASB also issued amendments to IFRS 1, *First Time Adoption of IFRS*, IAS 39, *Financial Instruments Recognition and Measurement* and the results of its annual improvements project IFRIC interpretation 17, *Distributions of Non-cash Assets to Owners*, issued in 2008, has also been endorsed by the EU

These are all applicable for the first time in the current accounting period and are now reflected in the Company's financial reporting, with no material impact

Further amendments to IFRS 1, IAS 24, *Related Party Disclosures*, and IAS 32, *Financial Instruments – Presentation*, and the results of its next annual improvements project have been issued and endorsed by the EU, while other amendments to IFRS 1, IFRS 7, *Financial Instruments – Disclosures*, and IAS 12 have been issued but have not yet been so endorsed These are applicable prospectively for accounting periods commencing 1 February 2010 or later, and are therefore not applicable for the current accounting period On adoption, they will not have any material impact on the Company's financial reporting

In 2009, the IASB issued IFRS 9, *Financial Instruments – Classification and Measurement*, followed by additional requirements on accounting for financial liabilities in 2010 These are the first two parts of a replacement standard for IAS 39 They are applicable prospectively for accounting periods commencing 1 January 2013 or later, and are therefore not applicable for the current accounting period IFRS 9 has not yet been endorsed by the EU but, on adoption, will require us to review the classification of certain financial instruments while allowing us to retain fair value measurement as we deem necessary We have not yet completed our assessment of its impact

In accordance with IFRS 4, *Insurance Contracts*, the Company 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 policy E below

Items included in the financial statements of each of the Company's branches are measured in the currency of the primary economic environment in which that entity operates (functional currency) The Company's financial statements are stated in sterling, which is the Company's functional and presentation currency Unless otherwise noted, the amounts shown in these financial statements are in million of pound sterling (£m)

Accounting policies continued

(B) Critical accounting policies and the use of estimates
The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, Statement of financial position, other primary statements and notes to the financial statements

Critical accounting policies
The major areas of judgement on policy application are considered to be on product classification (set out in policy E), in the classification of financial investments (set out in policy O) and insurance contract liabilities (set out in policy I)

Use of estimates
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 can always 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
Fair value of investments in subsidiaries and joint ventures	C
Insurance contract liabilities	I
Impairment of financial investments	O
Fair value of derivative financial instruments	P
Deferred acquisition costs	S
Provisions and contingent liabilities	V
Deferred income taxes	W

(C) Subsidiaries and joint ventures
Subsidiaries are those entities (including special purpose entities) in which the Company, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits

Joint ventures are entities whereby the Company and other parties undertake an economic activity which is subject to joint control arising form a contractual agreement In a number of these, the Company'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

In the Statement of financial position, subsidiaries and joint ventures are stated at their fair values, estimated using applicable valuation models underpinned by Aviva plc's market capitalisation These investments are classified as available for sale ("AFS") financial assets, with changes in their fair value being recorded in a separate investment valuation reserve within equity

Where the cumulative changes recognised in equity represent an unrealised loss, the investments are reviewed to test whether an impairment exists Where there is objective evidence that such an asset is impaired, such as the financial difficulty of the entity or a significant or prolonged decline in its fair value below cost, the unrealised loss recorded in equity is reclassified and charged to the income statement

(D) Foreign currency transactions
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 and loss (FV) (see policy O) are included in foreign exchange gains and losses in the income statement Translation differences on non-monetary items, such as equities which are designated as FV, are reported as part of the fair value gain or loss, whereas such differences on AFS equities are included in the investment valuation reserve

Accounting policies continued

(E) Product classification
Insurance or service 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

As noted in policy A above, insurance 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 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 then the financial statements of that year will have disclosed the impacts accordingly

(F) Premiums earned
Premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies Written premiums include an estimate of pipeline premiums less a provision for anticipated lapses 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 Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written

(G) Fee and commission income
Fee and commission income consists primarily of reinsurance commissions receivable, which are deferred in the same way as acquisition costs as described in policy S All other fee and commission income is recognised as the services are provided

(H) 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 policy O) 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

The realised gain or loss on disposal of an investment 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

(I) Insurance contract liabilities
Claims
General insurance 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

Accounting policies continued

(I) Insurance contract liabilities continued

Insurance provisions
(i) Outstanding claims provisions
Insurance 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 Any estimate represents a determination within a range of possible outcomes Further details of estimation techniques are given in note 20

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 as a change in insurance liabilities The range of discount rates used is described in note 20(b)

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

(ii) 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 in order that revenue is recognised over the period of risk

(iii) Liability adequacy
At each reporting date, the Company 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 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 Company recognises the deficiency in the income statement by setting up a provision in the statement of financial position

Other assessments and levies
The Company 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 within insurance liabilities but are included under "other liabilities" in the statement of financial position

(J) Reinsurance
The Company 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 income statement and Statement of financial position as appropriate

Reinsurance assets primarily include balances due from reinsurance companies for ceded insurance liabilities Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract

Reinsurance contracts that principally transfer financial risk are accounted for directly through the Statement of financial position and are not included in reinsurance assets or liabilities 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

Accounting policies continued

(J) Reinsurance continued

If a reinsurance asset is impaired, the Company 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 Company may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer

(K) Property and equipment

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are 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

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 of 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 existing asset will flow to the Company and the renovation replaces an identifiable part of the asset Major renovations are depreciated over the remaining useful life of the related asset

(L) Investment property

Investment property is held for long-term rental yields and is not occupied by the Company Completed investment property is stated at its fair value, which is supported by market evidence, as assessed by qualified external valuers Changes in fair values are recorded in the income statement within net investment income

(M) 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 net selling price 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

(N) 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 Company 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, or

- The Company has transferred its rights to receive cash flows from the asset and 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

Accounting policies continued

(O) Financial investments
The Company classifies its investments as either financial assets at fair value through profit or loss ("FV") or financial assets available for sale ("AFS") The classification depends on the purpose for which the investments were acquired, and is determined by management at initial recognition The FV category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as FV (referred to in this accounting policy as "other than trading")

With the exception of investments in subsidiaries and joint ventures, the FV category is used as the Company's investment or risk management strategy is to manage its financial investments on a fair value basis All securities in the FV category are classified as other than trading

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values less transaction costs 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 other than trading are subsequently carried at fair value Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise

Fair values for listed equity securities are based on quoted bid prices or amounts derived from cash flow models Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer Equity securities, for which fair values cannot be measured reliably, are recognised at cost less impairment

Financial guarantees are recognised initially at their fair value and are subsequently amortised over the duration of the contract A liability is recognised for amounts payable under the guarantee if it is more likely than not that the guarantee will be called upon

Impairment
The Company reviews the carrying value of its investments on a regular basis 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

(P) Derivative financial instruments and hedging
Derivative financial instruments are foreign exchange contracts that derive their value mainly from underlying foreign exchange rates All derivatives are initially recognised in the Statement of financial position at their fair value, which usually represents their cost They are subsequently re-measured 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

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 31

Currency swaps
Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies Exposure to gain or loss on both types of swap 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

Accounting policies continued

(P) Derivative financial instruments and hedging continued

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

For a variety of reasons, the above derivative transactions, while providing effective economic hedges under the Company'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 other trading income

(Q) Loans
Loans with fixed maturities, including mortgage loans on investment property and collateral loans, are recognised when cash is advanced to borrowers The majority of these 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

To the extent that a loan is considered to be uncollectable, it is written off as impaired through the income statement Any subsequent recoveries are credited to the income statement

(R) Collateral
The Company 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 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 Company, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities Non-cash collateral received is not recognised in the statement of financial position unless the Company either sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability

Collateral pledged in the form of cash, which is legally segregated from the Company, is derecognised from the statement of financial position with a corresponding receivable for its return Non-cash collateral pledged is not derecognised from the statement of financial position unless the Company 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

(S) Deferred acquisition costs
The costs directly attributable to the acquisition of new business for insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on those contracts

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

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

(T) 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

Accounting policies continued

(T) Statement of cash flows continued

Cash and cash equivalents *continued*
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 loans and financial investments, and related investment income, are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims

(U) Leases
Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases Assets held for use in such leases are included in property and equipment, and are depreciated to their residual values over their estimate useful lives Rentals from such leases are credited to the income statement on a straight-line basis over the period of the relevant leases Payments made as lessee under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the relevant leases

(V) Provisions and contingent liabilities
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable 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 Where the Company 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 Company 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 reliably estimated

(W) 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 reserves 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 financial statements The rates enacted or substantively enacted at the balance sheet date are used to determine the deferred tax

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 Deferrred tax related to fair value re-measurement of available for sale investments, owner-occupied properties 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

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

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 tax is not provided on revaluations of investments in subsidiaries as under current tax legislation no tax is expected to arise on their disposal

(X) 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

Accounting policies continued

(Y) Equalisation provision
Equalisation provisions are established in accordance with UK company law These provisions are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the Statement of financial position date Under IFRS, the provisions are not reported in the Statement of financial position as no liability exists but are presented within retained earnings, net of attributable tax relief

Income statement
For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Income	1		
Gross written premiums		**1,453**	1,216
Premiums ceded to reinsurers		**(16)**	(26)
Premiums written net of reinsurance		**1,437**	1,190
Net change in provision for unearned premiums		**(26)**	376
Net earned premiums	F	**1,411**	1,566
Fee and commission income	G	**27**	17
Net investment income	H	**452**	1,177
Profit on the disposal of subsidiaries		**50**	454
Finance income		**4**	13
		1,944	3,227
Expenses	2		
Claims paid, net of recoveries from reinsurers		**(1,152)**	(1,371)
Change in insurance liabilities, net of reinsurance		**55**	323
Fee and commission expense		**(345)**	(427)
Other expenses		**(288)**	(187)
Finance costs		**(10)**	(9)
		(1,740)	(1,671)
Profit before tax		**204**	1,556
Tax credit	W&5	**35**	28
Profit for the year		**239**	1,584

The accounting policies (identified alphabetically) on pages 7 to 15 and notes (identified numerically) on pages 20 to 54 are an integral part of these financial statements

Statement of comprehensive income
For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Profit for the year		**239**	1,584
Other comprehensive income			
Subsidiaries and joint ventures			
Fair value gains transferred to profit on disposal	C,1&17	**(50)**	(454)
Fair value losses on investments in subsidiaries and joint ventures	C,7(a),7(d)&17	**(166)**	(280)
Impairment losses on investments previously revalued through other comprehensive income, now taken to the income statement	C,2&17	**118**	1
Other comprehensive income, net of tax		**(98)**	(733)
Total comprehensive income for the year		**141**	851

Statement of changes in equity
For the year ended 31 December 2010

	Ordinary share capital £m	Share premium £m	Owner-occupied properties reserve £m	Investment valuation reserve £m	Special reserve £m	Other reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2009	7,650	3,639	1	5,248	111	150	93	16,892
Profit for the year	-	-	-	-	-	-	1,584	1,584
Other comprehensive income	-	-	-	(733)	-	-	-	(733)
Total comprehensive income for the year	-	-	-	(733)	-	-	1,584	851
Reduction in share capital	-	(1,000)	-	-	-	-	1,000	-
Balance at 31 December 2009	7,650	2,639	1	4,515	111	150	2,677	17,743
Profit for the year	-	-	-	-	-	-	**239**	**239**
Other comprehensive income	-	-	-	**(98)**	-	-	-	**(98)**
Total comprehensive income for the year	-	-	-	**(98)**	-	-	**239**	**141**
Dividends (note 6)	-	-	-	-	-	-	**(500)**	**(500)**
Balance at 31 December 2010	**7,650**	**2,639**	**1**	**4,417**	**111**	**150**	**2,416**	**17,384**

The accounting policies (identified alphabetically) on pages 7 to 15 and notes (identified numerically) on pages 20 to 54 are an integral part of these financial statements

Statement of financial position
As at 31 December 2010

	Note	2010 £m	2009 £m
Assets			
Investments in subsidiaries	C&7(a)	**16,419**	16,541
Investments in joint ventures	C&8	**7**	8
Property and equipment	K&9	**3**	3
Investment property	L&10	**4**	48
Loans	Q&11	**127**	125
Financial investments	N,O,P,R&12	**981**	1,445
Reinsurance assets	J,19&21	**414**	489
Receivables	14	**2,660**	2,183
Deferred acquisition costs	S&15	**152**	158
Current tax asset	W&22	**24**	-
Group relief asset	W&22	**130**	202
Prepayments and accrued income	15	**25**	17
Cash and cash equivalents	T&28	**332**	686
Total assets		**21,278**	21,905
Equity			
Capital			
Ordinary share capital	16	**7,650**	7,650
Capital reserves			
Share premium	16	**2,639**	2,639
Other reserves	17	**4,679**	4,777
Retained earnings	18	**2,416**	2,677
Total equity		**17,384**	17,743
Liabilities			
Gross insurance liabilities	I,19&20	**2,549**	2,636
Provisions	V&23	**19**	21
Deferred tax liabilities	W&22	**-**	10
Current tax liabilities	W&22	**3**	19
Payables and other financial liabilities	N&24	**1,307**	1,456
Other liabilities	25	**16**	20
Total liabilities		**3,894**	4,162
Total equity and liabilities		**21,278**	21,905

Approved by the Board on 30 March 2011

P C Regan
Director

The accounting policies (identified alphabetically) on pages 7 to 15 and notes (identified numerically) on pages 20 to 54 are an integral part of these financial statements

Statement of cash flows
For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash used in operations	28(a)	**(355)**	(359)
Net cash used in operating activities		**(355)**	(359)
Net decrease in cash and cash equivalents		**(355)**	(359)
Cash and cash equivalents at 1 January		**686**	1,045
Effect of exchange rate changes on cash and cash equivalents		**1**	-
Cash and cash equivalents at 31 December	28(b)	**332**	686

The accounting policies (identified alphabetically) on pages 7 to 15 and notes (identified numerically) on pages 20 to 54 are an integral part of these financial statements

Notes to the financial statements
For the year ended 31 December 2010

1 Details of income

	Note	2010 £m	2009 £m
Gross written premiums		**1,453**	1,216
Less premiums ceded to reinsurers	21(c)(ii)	**(16)**	(26)
Net change in provision for unearned premiums	20(d)	**(26)**	376
Net earned premiums		**1,411**	1,566
Fee and commission income			
Reinsurance commissions receivable		**13**	17
Other fee income		**14**	-
		27	17
Total revenue		**1,438**	1,583
Net investment income			
Interest and similar income			
From investments designated as other than trading		**31**	24
Dividend income		**468**	1,055
Other income from investments designated as trading			
Realised losses		**(120)**	-
Unrealised gains	12(b)	**125**	6
		5	6
Other income from investments designated as other than trading			
Realised losses		**(122)**	(14)
Unrealised gains	12(b)	**67**	95
		(55)	81
Net income/ (expense) from investment properties			
Rent		**1**	3
Expenses relating to these properties		**(2)**	-
Profit on disposal		**4**	-
Fair value losses on investment properties	10	**(1)**	(8)
		2	(5)
Foreign exchange gains on investments other than trading		**2**	17
Other investment expense		**(1)**	(1)
Net investment income		**452**	1,177
Profit on the disposal of subsidiaries	7(b)	**50**	454
Finance income		**4**	13
Total income		**1,944**	3,227

Notes to the financial statements continued

2 Details of expenses

	Note	2010 £m	2009 £m
Claims and benefits paid		**1,218**	1,402
Less Claim recoveries from reinsurers		**(66)**	(31)
Claims and benefits paid, net of recoveries from reinsurers		**1,152**	1,371
Change in insurance liabilities	20(b)	**(149)**	(364)
Less Change in reinsurance asset for insurance provisions	21(c)(i)	**94**	41
Change in insurance liabilities , net of reinsurance		**(55)**	(323)
Fee and commission expense, net of reinsurance			
Acquisition costs			
Commission expenses		**222**	209
Change in deferred acquisition costs		**6**	114
Other acquisition costs		**117**	104
		345	427
Other operating expenses			
Corporate costs		**47**	76
Restructuring costs		**17**	1
Impairment of investments in subsidiaries	7(d)&17	**118**	1
Net foreign exchange losses		**8**	9
Other expenses		**98**	100
		288	187
Finance costs			
Unwind of discount on claims provisions, net of reinsurance	20(b)&21(c)	**10**	9
		10	9
Total expenses		**1,740**	1,671

3 Directors and employees

All directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc The emoluments of these directors are recharged to operating companies as appropriate and it is not practical to calculate the exact charge borne by the Company

The Company has no employees

4 Auditor's remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, Ernst & Young LLP, in respect of the audit of these financial statements, is shown below

	2010 £'000	2009 £'000
Fees payable to Ernst & Young LLP for the statutory audit of the Company	**84**	93

Fees payable to the Company's auditor, Ernst & Young LLP, and its associates for services other than the statutory audit of the Company are not disclosed in the Company's financial statements since the consolidated financial statements of the ultimate parent, Aviva plc, disclose non-audit fees on a consolidated basis

Notes to the financial statements continued

5. Tax

(a) Tax credited to the income statement

(i) The total tax credit comprises

	2010 £m	2009 £m
Current tax		
For the year	**20**	(19)
Adjustment in respect of prior years	**5**	25
Total current tax	**25**	6
Deferred tax		
Origination and reversal of temporary differences (note 5(a)(iii))	**10**	22
Total deferred tax	**10**	22
Total tax credited to the income statement	**35**	28

(ii) Unrecognised tax losses and temporary differences of previous years were used to reduce current tax expense and deferred tax expense by £nil and £2 million, respectively (*2009 £nil and £nil respectively*)

(iii) Deferred tax credited to the income statement represents movements on the following items

	2010 £m	2009 £m
Technical provisions and other insurance items	**2**	(3)
Provisions and other timing differences	**4**	3
Accelerated capital allowances	**-**	1
Unused losses and tax credits	**4**	21
Total deferred tax credited to income statement	**10**	22

(b) Tax credited/(charged) to other comprehensive income

There was no tax credited or charged to other comprehensive income in either 2010 or 2009

(c) Tax reconciliation

The tax on the profit before tax differs from the theoretical amount that would arise using the tax rate in the United Kingdom as follows

	2010 £m	2009 £m
Net profit before tax	**204**	1,556
Tax calculated at standard UK corporation tax rate of 28% *(2009 28%)*	**(57)**	(436)
Adjustment to tax charge in respect of prior years	**13**	48
Non-assessable dividends	**131**	296
Non-taxable gain on sale of subsidiaries	**14**	127
Disallowable expenses	**(4)**	(1)
Deferred tax assets not recognised	**(29)**	-
Impairment on subsidiaries	**(33)**	-
Other	**-**	(6)
Total tax credited to income statement (note 5(a))	**35**	28

Legislation was introduced in Finance (No2) Act 2010 to reduce the main rate of corporation tax from 28% to 27% with effect from 1 April 2011 The effect of this reduction is reflected in the deferred tax assets and liabilities recorded on the statement of financial position On 23 March 2011, the UK government announced that the rate from 1 April 2011 would fall by a further 1% to 26% This change in rate has not been reflected in the value of the deferred tax assets and liabilities since the legislation introducing this rate has not been substantively enacted at the statement of financial position date

The UK government has also announced its intention to legislate to reduce the rate further by 1% per annum falling to 23% with effect from 1 April 2014 The directors estimate that the effect of these changes will be immaterial

Notes to the financial statements continued

6 Dividends

	2010 £m	2009 £m
Ordinary dividends declared and charged to equity in the year		
Interim 2010	**500**	-
	500	-

7 Investments in subsidiaries

(a) Movements in the Company's investments in its subsidiaries are as follows

	2010 £m	2009 £m
Fair value at 1 January	**16,541**	16,934
Additions	**97**	687
Transfers to subsidiary and fellow subsidiaries	**(54)**	(795)
Liquidations	-	(3)
Capital reductions and share buy-backs	-	(2)
Movement in fair value (note 17)	**(165)**	(280)
At 31 December	**16,419**	16,541

All investments in subsidiaries are recorded as Level 3 investments in the fair value hierarchy (see note 13(c))

(b) Material movements

Additions
On 25 November 2010, the Company transferred its shareholding in Aviva Limited to its direct subsidiary, Aviva Insurance Limited, at its fair value on the date of transfer, £54 million, in return for additional ordinary shares in that company As a result, the value of the Company's holding in Aviva Insurance Limited increased by £54 million The Company has recognised a non-distributable profit of £50 million on this transfer

During the year, the Company subscribed for cash additional ordinary shares totalling £43 million in Aviva Asia Pte Limited

Movement in fair value
The decline in the fair value of the Company's investment in subsidiaries reflects changes in the composition of the assets of the subsidiaries, partially offset by an increase in Aviva plc's market capitalisation

(c) Principal subsidiaries

The principal subsidiaries of the Company at 31 December 2010 are listed below These subsidiaries are all directly wholly-owned and transact insurance or reinsurance business, fund management or services in connection therewith

United Kingdom
Aviva Insurance Limited
Gresham Insurance Company Limited
RAC plc

Singapore
Aviva Asia Pte Limited

The Company has taken advantage of section 410 of the Companies Act 2006 which permits it to disclose information only in respect of those undertakings whose results, or financial position, in the opinion of the directors, principally affected the figures shown in the Company's annual accounts Full information (both that which is disclosed in the annual accounts and that which is not) will be annexed to the Company's next Annual Return delivered to the registrar of companies

Notes to the financial statements continued

7 Investments in subsidiaries

(d) Restructuring and impairments

The Aviva Group is currently undertaking a restructuring of its Asia Pacific regional entities which involves the transfer of most of the shareholdings in these entities from the Company and its indirect subsidiary, Aviva International Holdings Limited ("AIH"), to Aviva Asia Holdings Private Limited ('AAHPL'), a wholly-owned direct subsidiary of AIH, via its direct subsidiary, Aviva Insurance Limited ("AI")

On 1 January 2011, the Company transferred its entire shareholding in Aviva Asia Pte Limited to AI and subsequently to AAHPL for £28 million, in exchange for ordinary shares of the same value issued by AI The cost of these shares was £79 million and the loss arising on transfer of £51 million has been recognised as an impairment in these financial statements

Further impairments totalling £67 million have been recognised on several of the Company's other subsidiaries

8 Investments in joint ventures

	2010 £m	2009 £m
Fair value at 1 January	**8**	8
Movement in fair value (note 17)	**(1)**	-
At 31 December	**7**	8

The investments comprise two 50% joint venture partnerships with Bank Zachodni WBK in Poland for life and general insurance businesses

9 Property and equipment

	Owner-occupied properties £m	**Total £m**
Cost or valuation		
At 1 January 2009	3	3
At 31 December 2009 and 31 December 2010	**3**	**3**
Carrying amount		
At 1 January 2009, 31 December 2009 and 31 December 2010	**3**	**3**

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers or by local qualified staff of the Group in overseas operations, all with recent relevant experience 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, on the basis of Existing Use Value and in accordance with UK Practice Statement 1 3, 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, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, *Property, Plant and Equipment*

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £2 million (*2009 £2 million*)

Notes to the financial statements continued

10 Investment property

	2010 £m	2009 £m
Carrying value		
At 1 January	48	56
Disposal	(43)	-
Fair value losses (note 1)	(1)	(8)
At 31 December	4	48

All investment properties are freehold Investment properties are stated at their market values as assessed by qualified external valuers Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, assuming no growth in rental income thereafter This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties The fair value of investment properties leased to third parties under operating leases was £2 million (*2009 £45 million*) Future contractual aggregate minimum lease rentals receivable under the non-cancellable portion of these leases are given in note 27

11 Loans

	2010 £m	2009 £m
Carrying value		
At 1 January	125	-
Increase during the year	2	125
At 31 December	127	125

The rate of interest on the existing loan is fixed at 9 3725% and the maturity date is 31 March 2019 The new loan taken out during the year is fixed at 7 362% and the maturity date is 9 March 2015

12 Financial investments

(a) Carrying amount

Financial investments comprise

			2010
	At fair value through profit or loss		
	Trading £m	Other than trading £m	Total £m
Debt securities			
UK government	-	171	171
Non-UK government	-	25	25
Corporate – Non-UK	-	582	582
Other	-	128	128
	-	906	906
Equity securities			
Corporate – UK	-	-	-
Corporate – Non-UK	-	1	1
	-	1	1
Other investments			
Derivative financial instruments (note 31)	62	-	62
Unit trusts and specialised investment vehicles	-	12	12
	62	12	74
Total financial investments	62	919	981

Notes to the financial statements continued

12 Financial investments continued

	At fair value through profit or loss		2009
	Trading	Other than trading	Total
	£m	£m	£m
Debt securities			
UK government	-	1,036	1,036
Non-UK government	-	17	17
Corporate – Non-UK	-	73	73
Other	-	43	43
	-	1,169	1,169
Equity securities			
Corporate – UK	-	13	13
Corporate – Non-UK	-	230	230
	-	243	243
Other investments			
Derivative financial instruments	33	-	33
Total financial investments	33	1,412	1,445

Of the above total, £864 million (*2009 £1,422 million*) is expected to be recovered more than one year after the statement of financial position date

(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

				2010
	Cost/ amortised cost	**Unrealised gains**	**Unrealised losses and impairments**	**Fair value**
	£m	**£m**	**£m**	**£m**
Debt securities	**916**	**2**	**(12)**	**906**
Equity securities	**95**	**1**	**(95)**	**1**
Other securities				
Derivative financial instruments	**42**	**20**	**-**	**62**
Deposits with credit institutions	**5**	**-**	**(5)**	**-**
Unit trusts and specialised investment vehicles	**16**	**2**	**(6)**	**12**
	1,074	**25**	**(118)**	**981**

				2009
	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value
	£m	£m	£m	£m
Debt securities	1,173	2	(6)	1,169
Equity securities	300	-	(57)	243
Other securities				
Derivative financial instruments	33	-	-	33
Deposits with credit institutions	4	-	(4)	-
Unit trusts and specialised investment vehicles	2	-	(2)	-
	1,512	2	(69)	1,445

Notes to the financial statements continued

12 Financial investments continued
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

Unrealised gains and losses on financial investments classified as at fair value through profit or loss recognised in the income statement in the year were a net gain of £192 million (*2009 £101 million*)

(c) Stock lending

The Company has entered into stock lending arrangements in the UK during the year in accordance with established market conventions Investments are lent to locally domiciled counterparties and governed by agreements written under English and Welsh law

It is not the Company's practice to enter into stock lending or repurchase agreements which result in the derecognition of financial assets from its balance sheet Financial assets subject to such agreements are sold to be repurchased at a fixed price, usually market price on execution, or loaned for a fee The Company therefore retains exposure to the market risk of the transferred securities Because, as transferor, it has retained substantially all the risks and rewards of ownership of the transferred securities, they remain on balance sheet

The Company receives collateral in order to reduce the credit risk of these arrangements The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Company's risk exposure In certain markets, the Company or the Company's appointed stocklending managers obtain legal ownership of the collateral received and can re-pledge it as collateral elsewhere or sell outright in the absence of default Collateral must be in a readily realisable form such as listed securities and is held in segregated accounts Transfer of title always occurs for the collateral received, although no market risk or economic benefit is taken The carrying amounts of financial assets received and pledged in this manner at 31 December 2010 were £18 million and £17 million respectively (*2009 £100 million* and *£nil* respectively) No collateral was actually sold or re-pledged in the absence of default in either 2010 or 2009

13 Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

For financial assets and liabilities carried at fair value, the Company has categorised the measurement basis into a 'fair value hierarchy' as follows

Quoted market prices in active markets – ("Level 1")
Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities An active market is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets

Modelled with significant observable market inputs – ("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

Level 2 inputs include the following

- quoted prices for similar (i e not identical) 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, volatilities, prepayment speeds, loss severities, credit risks, and default rates), and
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs)

Notes to the financial statements continued

13. Fair value methodology continued
Examples of these are securities measured using discounted cash flow models based on market observable swap yields, listed debt or equity securities in a market that is inactive, and investments in subsidiaries valued using applicable models underpinned by Aviva plc's market capitalisation Valuations, whether sourced from internal models or third parties, incorporate credit risk by adjusting the spread above the yield curve for government treasury securities for the appropriate amount of credit risk for each issuer, based on observed market transactions To the extent observed market spreads are either not used in valuing a security, or do not fully reflect liquidity risk, our valuation methodology, whether sourced from internal models or third parties, reflects a liquidity premium

Where we use broker quotes and no information as to the observability of inputs is provided by the broker, we generally validate the price quoted by the broker by using internal models with observable inputs When the price obtained from the broker and internal model are similar, we look to the inputs used in our internal model to understand the observability of the inputs used by the broker In circumstances where internal models are not used to validate broker prices, and the observability of inputs used by brokers is unavailable, the investment is classified as Level 3 Broker quotes are usually non-binding

Modelled with significant unobservable market inputs – ("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 (or market information for the inputs to any valuation models) As such, unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset Examples are certain private equity investments and private placements, and investments in subsidiaries valued at net asset value

(b) Fair value hierarchy
The majority of the Company's financial assets and certain financial liabilities are valued based on quoted market information or observable market data A small percentage (less than 1%) of total assets recorded at fair value, are based on estimates and recorded as Level 3 investments 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 Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly An analysis of financial assets and liabilities according to fair value hierarchy is given below

				2010
	Fair value hierarchy			**Statement of financial position total**
	Level 1	**Level 2**	**Level 3**	
	£m	**£m**	**£m**	**£m**
Financial investments				
Debt securities	**906**	**-**	**-**	**906**
Equity securities	**-**	**-**	**1**	**1**
Other investments	**11**	**51**	**12**	**74**
	917	**51**	**13**	**981**

				2009
	Fair value hierarchy			Statement of financial position total
	Level 1	Level 2	Level 3	
	£m	£m	£m	£m
Financial investments				
Debt securities	1,169	-	-	1,169
Equity securities	230	-	13	243
Other Investments	-	33	-	33
	1,399	33	13	1,445

Notes to the financial statements continued

13 Fair value methodology continued

(c) The table below shows movements in the assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3 only)

	Equity securities £m	Other Investments £m	Total £m
Total Funds			
Balance at 1 January 2010	13	-	13
Transfers into Level 3	-	12	12
Disposals	(12)	-	(12)
Balance at 31 December 2010	1	12	13

In addition to the above, all investments in subsidiaries are considered to be Level 3 investments (Note 7) The unobservable inputs to the fair value relate to assumptions made to individual subsidiary net assets or embedded values, all of which are underpinned by the market capitalisation of Aviva plc

Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternatives assumptions would not change the fair value significantly

14 Receivables

	2010 £m	2009 £m
Amounts due from intermediaries	5	11
Amounts due from reinsurers	14	125
Amounts due from holding company (note 32(b)(ii))	2,326	1,526
Amounts due from subsidiaries (note 32(b)(ii))	275	72
Amounts due from other Aviva Group companies (note 32(b)(ii))	16	56
Other receivables	24	393
	2,660	2,183
Expected to be recovered in less than one year	2,660	2,041
Expected to be recovered in more than one year	-	142
	2,660	2,183

Concentrations of credit risk with respect to receivables are limited due to the size and spread of the Company's trading base No further credit risk provision is therefore required in excess of the normal provision for doubtful receivables

15 Deferred acquisition costs, prepayments and accrued income

(a) The carrying amount comprises

	2010 £m	2009 £m
Deferred acquisition costs in respect of insurance contracts	152	158
Total	152	158

(b) The movements in deferred acquisition costs during the year are

	2010 £m	2009 £m
Carrying amount at 1 January	158	272
Acquisition costs written during the year, gross of reinsurance	338	313
Amortisation	(344)	(427)
Carrying amount at 31 December	152	158

Deferred acquisition costs are generally recoverable within one year of the statement of financial position date

Notes to the financial statements continued

15. Deferred acquisition costs, prepayments and accrued income continued

(c) Prepayments and accrued income
Prepayments and accrued income are expected to be recovered within one year after the statement of financial position date

16 Ordinary share capital

(a) Details of the Company's ordinary share capital are as follows

	2010	2009
Allotted, called up and fully paid		
765,042 *(2009 765,042)* ordinary shares of £10,000 each	**7,650**	7,650

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the articles of association adopted by the Company on 22 January 2010 reflect this Directors will still be limited as to the number of shares they can at any time allot as allotment authority continues to be required under the Act 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

(b) Movements in the year comprise

	Number of shares	**Share capital £m**	**Share Premium £m**
At 31 December 2010 and 31 December 2009	**765,042**	**7,650**	**2,639**

17 Other reserves

	Owner-occupied properties reserve (see accounting policy K) £m	**Investment valuation reserve (see accounting policy L) £m**	**Special reserve £m**	**Other reserves £m**	**Total £m**
Balance at 1 January 2009	1	5,248	111	150	5,510
Arising in the year					
Fair value gains transferred to profit on disposal of subsidiaries (note 1)	-	(454)	-	-	(454)
Fair value losses in subsidiaries and joint ventures (note 7(a))	-	(280)	-	-	(280)
Impairments charged to income statement (note 2)	-	1	-	-	1
Balance at 31 December 2009	1	**4,515**	**111**	**150**	**4,777**
Arising in the year					
Fair value gains transferred to profit on disposal of subsidiaries (note 1)	-	**(50)**	-	-	**(50)**
Fair value losses in subsidiaries and joint ventures (note 7(a) & note 8)	-	**(166)**	-	-	**(166)**
Impairments charged to income statement (note 2)	-	**118**	-	-	**118**
Balance at 31 December 2010	1	**4,417**	**111**	**150**	**4,679**

Special reserve
As part of the ongoing Aviva Group restructuring, the Company's parent, Aviva Group Holdings Limited ("AGH") transferred its entire shareholding in Aviva Insurance UK Limited at its fair value of £1,348 million to the Company on 31 December 2007 The consideration was satisfied by the issue of new shares in the Company with the nominal value of £1,237 million to AGH, and the establishment of a special reserve of £111 million under the group reconstruction relief provisions of section 132 of the Companies Act 1985

Notes to the financial statements continued

18 Retained earnings

	2010 £m	2009 £m
Balance at 1 January	**2,677**	93
Profit for the year	**239**	1,584
Dividends (note 6)	**(500)**	-
Reduction in share capital	**-**	1,000
Balance at 31 December	**2,416**	2,677
Distributable	**2,004**	2,330
Non-distributable	**412**	347
Balance at 31 December	**2,416**	2,677

19 Insurance contract liabilities and associated reinsurance

The following is a summary of the reinsurance assets and related insurance provisions as at 31 December

	Gross insurance provisions £m	Reinsurance assets £m	2010 Net £m	Gross insurance provisions £m	Reinsurance assets £m	2009 Net £m
Outstanding claims provisions	**(1,269)**	**239**	**(1,030)**	(1,420)	285	(1,135)
Provisions for claims incurred but not reported	**(560)**	**175**	**(385)**	(522)	204	(318)
	(1,829)	**414**	**(1,415)**	(1,942)	489	(1,453)
Provision for unearned premiums	**(720)**	**-**	**(720)**	(694)	-	(694)
Totals	**(2,549)**	**414**	**(2,135)**	(2,636)	489	(2,147)

20 Insurance liabilities

(a) Carrying amount
Insurance liabilities at 31 December comprise

	2010 £m	2009 £m
Outstanding claims provisions	**1,269**	1,420
Provision for claims incurred but not reported	**560**	522
	1,829	1,942
Provision for unearned premiums	**720**	694
Total	**2,549**	2,636

(b) General insurance liabilities
Provisions for outstanding claims
Significant 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 finacial position date The reserves for general insurance 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

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	**2010**	2009	**2010**	2009
Reinsured London Market business	**3 3%**	4 0%	**12 years**	10 years
Latent claims	**0 88% to 4 17%**	1 02% to 4 58%	**15 years**	15 years
Structured settlements	**3 2%**	3 3%	**35 years**	35 years

Notes to the financial statements continued

20 Insurance liabilities continued

(b) General insurance liabilities continued
The gross outstanding claims provision before discounting was £2,148 million (*2009 £2,302 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 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 estimated to be 15 years

During 2010, across the UKGI group, we have experienced an increase in the number of bodily injury claims settled by periodic payment orders (PPOs) or structured settlements, which are reserved for on a discounted basis

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 Ogden discount rate is currently under review by the Lord Chancellor The outcome of this review is expected to be announced in 2011 but it is still not clear whether or by how much the rate will change A reduction in the Ogden discount rate will increase lump sum payments to UK bodily injury claimants

Assumptions
Claims provisions are estimated based on known facts at the date of estimation Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, taking 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 authorisation No adjustments are made to the claims technicians' case estimates included in booked claims provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim 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

Claims development is separately analysed for 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 assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at the estimated ultimate cost of claims that represents the most likely outcome, from the 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

Notes to the financial statements continued

20 Insurance liabilities continued

(b) General insurance liabilities continued

Movements
The following changes have occurred in the claims provisions during the year

	2010 £m	2009 £m
Carrying amount at 1 January	**1,942**	2,282
Impact of changes in assumptions	**33**	(41)
Claim losses and expenses incurred in the current year	**1,061**	1,161
Decrease in estimated claim losses and expenses incurred in prior year	**(25)**	(82)
Incurred claims losses and expenses	**1,069**	1,038
Less		
Payments made on claims incurred in the current year	**(628)**	(720)
Payments made on claims incurred in prior years	**(590)**	(682)
Claims payments made in the year	**(1,218)**	(1,402)
Unwinding of discounting	**19**	17
Changes in claims reserve recognised as an income	**(130)**	(347)
Foreign exchange movement	**17**	7
Carrying amount at 31 December	**1,829**	1,942

The net deterioration in claims from prior accident years is mainly due to unfavourable development on Employers' Liability and inwards quota-share reinsurance

(c) Loss development tables
(i) The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the accident years 2001 to 2010 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 2001, by the end of 2010 £862 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 £878 million was re-estimated to be £905 million at 31 December 2010 This increase from the original estimate is due to the combination of a number of factors The original estimates will also be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity

The Company aims to maintain strong reserves in respect of its general insurance 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 then result in a release of reserves from earlier accident years, as shown in the loss development tables below However, in order to maintain overall reserve adequacy, the Company establishes strong reserves in respect of the current accident year (2010) where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims

Notes to the financial statements continued

20 Insurance liabilities continued

(c) Loss development tables continued

(ii) Before the effect of reinsurance, the loss development table is

Accident year	**All prior years £m**	**2001 £m**	**2002 £m**	**2003 £m**	**2004 £m**	**2005 £m**	**2006 £m**	**2007 £m**	**2008 £m**	**2009 £m**	**2010 £m**	**Total £m**
Gross cumulative claim payments												
At end of accident year		(393)	(622)	(600)	(623)	(643)	(801)	(970)	(980)	(720)	(628)	
One year later		(626)	(973)	(865)	(1,021)	(991)	(1,188)	(1,428)	(1,344)	(973)		
Two years later		(708)	(1,064)	(964)	(1 102)	(1,071)	(1,302)	(1,528)	(1,433)			
Three years later		(780)	(1,131)	(1,048)	(1,157)	(1,149)	(1,359)	(1,582)				
Four years later		(825)	(1,182)	(1,107)	(1,187)	(1,195)	(1,413)					
Five years later		(839)	(1,210)	(1,145)	(1,221)	(1,223)						
Six years later		(846)	(1,228)	(1,161)	(1,241)							
Seven years later		(853)	(1,231)	(1,176)								
Eight years later		(857)	(1,237)									
Nine years later		(862)										
Estimate of gross ultimate claims												
At end of accident year		878	1,317	1 301	1,362	1,292	1,448	1,585	1,622	1,161	1,061	
One year later		879	1 304	1,300	1,398	1,304	1,485	1,674	1,608	1,152		
Two years later		897	1,306	1,288	1,347	1,277	1,493	1,673	1,628			
Three years later		907	1,298	1,246	1,285	1,259	1,473	1,688				
Four years later		891	1,287	1,219	1,249	1,251	1,481					
Five years later		883	1,260	1,195	1,253	1,252						
Six years later		882	1,268	1,187	1 254							
Seven years later		909	1,261	1,187								
Eight years later		907	1,260									
Nine years later		905										
Estimate of gross ultimate claims		905	1,260	1,187	1,254	1,252	1,481	1,688	1,628	1 152	1,061	
Cumulative payments		(862)	(1,237)	(1,176)	(1,241)	(1,223)	(1,413)	(1,582)	(1,433)	(973)	(628)	
	1,035	43	23	11	13	29	68	106	195	179	433	**2,135**
Effect of discounting	(319)	-	-	-	-	-	-	-	-	-	-	**(319)**
Present value	716	43	23	11	13	29	68	106	195	179	433	**1,816**
Effect of portfolio transfer	-	-	-	2	3	3	5	-	-	-	-	**13**
Present value recognised in the statement of financial position	**716**	**43**	**23**	**13**	**16**	**32**	**73**	**106**	**195**	**179**	**433**	**1,829**

Notes to the financial statements continued

20 Insurance liabilities continued

(c) Loss development tables continued

(iii) After the effect of reinsurance, the loss development table is

Accident year	All prior years £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Total £m
Net cumulative claim payments												
At end of accident year		(385)	(586)	(572)	(621)	(637)	(798)	(968)	(977)	(717)	(626)	
One year later		(613)	(938)	(845)	(961)	(985)	(1,184)	(1,425)	(1,341)	(970)		
Two years later		(704)	(1,026)	(941)	(1,058)	(1,066)	(1,298)	(1,524)	(1,431)			
Three years later		(771)	(1,092)	(1,029)	(1,112)	(1 143)	(1,355)	(1,577)				
Four years later		(812)	(1,145)	(1,086)	(1,142)	(1,189)	(1,409)					
Five years later		(828)	(1,173)	(1,122)	(1,176)	(1,218)						
Six years later		(829)	(1,181)	(1,138)	(1,196)							
Seven years later		(829)	(1,183)	(1,145)								
Eight years later		(830)	(1,187)									
Nine years later		(830)										
Estimate of net ultimate claims												
At end of accident year		806	1,298	1,297	1,338	1,290	1,448	1,575	1,620	1,158	1 059	
One year later		802	1,292	1,285	1,353	1,299	1,481	1,662	1,605	1,149		
Two years later		805	1,269	1,248	1,302	1,272	1,489	1,665	1,625			
Three years later		833	1,261	1,224	1,240	1,253	1,469	1,681				
Four years later		829	1,250	1,198	1,204	1,246	1,477					
Five years later		831	1,224	1,165	1,208	1,246						
Six years later		831	1,204	1,156	1,209							
Seven years later		830	1,197	1,156								
Eight years later		831	1,197									
Nine years later		831										
Estimate of ultimate claims		831	1,197	1,156	1,209	1,246	1,477	1,681	1,625	1,149	1,059	
Cumulative payments		(830)	(1,187)	(1,145)	(1,196)	(1,218)	(1,409)	(1,577)	(1,431)	(970)	(626)	
	558	1	10	11	13	28	68	104	194	179	433	**1,599**
Effect of discounting	(184)	-	-	-	-	-	-	-	-	-	-	**(184)**
Present value recognised in the statement of financial position	**374**	**1**	**10**	**11**	**13**	**28**	**68**	**104**	**194**	**179**	**433**	**1,415**

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 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 include information on asbestos and environmental pollution claims provisions from business written before 2001 The undiscounted claim provisions, net of reinsurance, in respect of this business were £427 million at 31 December 2010 (*2009 £434 million*)

(d) Provision for unearned premiums

Movements
The following changes have occurred in the provision for unearned premiums (UPR) during the year

	2010 £m	2009 £m
Carrying amount at 1 January	**694**	1,070
Premiums written during the year	**1,453**	1,216
Less Premiums earned during the year	**(1,427)**	(1,592)
Changes in UPR recognised as expense/(income) (note 1)	**26**	(376)
Carrying amount at 31 December	**720**	694

Notes to the financial statements continued

21 Reinsurance assets

(a) Carrying amounts

The following is a summary of the reinsurance assets and as at 31 December

	2010 £m	2009 £m
Outstanding claim provisions	**239**	285
Provisions for claims incurred but not reported	**175**	204
Total	**414**	489

Of the above reinsurance assets, £374 million *(2009 £392 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 any provisions for their recoverability

(c) Movements

The following movements have occurred in the reinsurance asset during the year

(i) Outstanding claims provisions and IBNR

	2010 £m	2009 £m
Carrying amount at 1 January	**489**	524
Impact of changes in assumptions	**6**	(13)
Reinsurers' share of claim losses and expenses incurred in current year	**2**	3
Reinsurers' share of claim losses and expenses incurred in prior years	**(36)**	-
Reinsurers' share of incurred claim losses and expenses	**(34)**	3
Less		
Reinsurance recoveries received on claims incurred in current year	**(2)**	(3)
Reinsurance recoveries received on claims incurred in prior years	**(64)**	(28)
Reinsurance recoveries received in the year	**(66)**	(31)
Unwinding of discount	**9**	8
Change in reinsurance asset recognised as expense	**(85)**	(33)
Foreign exchange movement	**10**	(2)
Carrying amount at 31 December	**414**	489

(ii) Reinsurers' share of the provision for unearned premiums (UPR)

	2010 £m	2009 £m
Carrying amount at 1 January	**-**	-
Premiums ceded to reinsurers in the year	**16**	26
Less		
Reinsurers' share of premiums earned during the year (note 1)	**(16)**	(26)
Carrying amount at 31 December	**-**	-

Notes to the financial statements continued

22 Tax assets and liabilities

(a) Current tax

	2010 £m	2009 £m
(i) Tax asset		
Expected to be recoverable in more than one year	24	-
Tax asset recognised in statement of financial position	24	-
(ii) Tax liability		
Expected to be payable in more than one year	(3)	(19)
Tax liability recognised in statement of financial position	(3)	(19)

The tax asset for prior years tax settled by Group relief of £130 million (*2009 £202 million*) is included within receivables (note 14) and within the related party transactions (note 32) The whole amount is recoverable in less than one year

(b) Deferred tax

	2010 £m	2009 £m
(i) The balance at the year end comprises		
Deferred tax liabilities	-	(10)
Net deferred tax liability	-	(10)
(ii) The net deferred tax liability arises on the following items		
Temporary differences arising on insurance items	**(33)**	(35)
Unused losses and tax credits	**25**	21
Accelerated capital allowances	**2**	2
Provisions and other timing differences	**6**	2
Net deferred tax liability	-	(10)
(iii) The movement in the net deferred tax liability was as follows		
Net liability at 1 January	**(10)**	(32)
Amounts credited to profit (note 5)	**10**	22
Net liability at 31 December	-	(10)

(b) Deferred tax
The Company has unrecognised temporary differences of £103 million (*2009 £6 million*) to carry forward indefinitely against future taxable income In addition, the Company has an unrecognised capital loss of £nil (*2009 £1 million*)

23 Provisions

(a) Carrying amounts

	2010 £m	2009 £m
Restructuring provision	-	1
Other provisions	**19**	20
At 31 December	**19**	21

Of the total, £7 million (*2009 £7 million*) is expected to be settled more than one year after the statement of financial position date

Notes to the financial statements continued

23 Provisions continued

(b) Movements during the year on restructuring and other provisions

	Restructuring provision £m	Other provisions £m	Total £m
At 1 January 2009	1	26	27
Additional provisions	1	-	1
Utilised during the year	(1)	(6)	(7)
At 31 December 2009	**1**	**20**	**21**
Additional provisions	**17**	-	**17**
Utilised during the year	**(18)**	**(1)**	**(19)**
At 31 December 2010	**-**	**19**	**19**

Other provisions comprise provisions for obligations such as costs of compensation, litigation and reorganisation

24 Payables and other financial liabilities

	2010 £m	2009 £m
Payables arising out of direct insurance and assumed reinsurance	**186**	154
Amounts due to holding companies (note 32(b)(iii))	**21**	23
Amounts due to subsidiaries (note 32(b)(iii))	**428**	894
Amounts due to other Aviva Group companies (note 32(b)(iii))	**10**	3
Loans due to subsidiaries (note 32(b)(i))	**437**	233
Loans due to other Aviva Group companies (note 32 (b)(i))	**115**	115
Derivative liabilities (note 31)	**103**	30
Other financial liabilities	**7**	4
Total	**1,307**	1,456
Expected to be settled within one year	**755**	1,108
Expected to be settled in more than one year	**552**	348
	1,307	1,456

25 Other liabilities

	2010 £m	2009 £m
Accruals	**1**	2
Other liabilities	**15**	18
	16	20
Expected to be settled within one year	**8**	12
Expected to be settled in more than one year	**8**	8
	16	20

26 Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions

Note 20 gives details of the estimation techniques used in determining the general business outstanding claims provisions, which are designed to allow for prudence These are estimated to give a result within the normal range of outcomes To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed, or future general business claims inflation differs from that expected, there is uncertainty in respect of this liability

Notes to the financial statements continued

26 Contingent liabilities and other risk factors continued

(b) Asbestos, pollution and social environmental hazards
In the course of conducting insurance business, the Company receives general insurance liability claims, and becomes involved in actual or threatened 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 the United Kingdom 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, the Company's net exposure to such liabilities is not significant and, on the basis of current information and having regard to the level of provisions made for general insurance claims, the directors consider that any costs arising are not likely to have a material impact on the financial position of the Company

(c) Regulatory
The Financial Services Authority (FSA) regulates the Company's UK business and in addition monitors the financial resources and organisation of the Company as a whole The FSA has 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 Company's regulators outside the UK typically have similar powers but in some cases they operate a system of "prior product approval" and hence place less emphasis than the FSA on regulating sales and marketing practices

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted However, all regulated financial services companies face the risk that the 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 could have a negative impact on the Company's reported results or on its relations with current or potential customers Regulatory action against the Company could result in adverse publicity for, or negative perceptions regarding, the Company, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business

With the approval of the Financial Services Authority, the Company and certain of its United Kingdom insurance subsidiaries transacting general insurance business have mutually guaranteed to discharge all liabilities attaching to their respective insurance policies The guarantee enables a participating company, if it is unable to pay policyholder claims, to seek financial support from one of the guarantors The guarantors are not obliged to make the payment if they cannot do so without seeking recourse to their funds where applicable If any payments are made under the guarantee, the guarantors are entitled to seek repayment from the company benefiting from the guarantee The guarantee cannot be relied upon by any other person, including without limitation the holder of any contracts of insurance issued by a party to the guarantee There is no maximum amount the Company would have to pay under the guarantee but, in the opinion of the directors, the fair value of the guarantee above is not material and no material loss is expected to arise therefrom

(d) European legislative change
In 2010, a test case was taken to the European Court of Justice to rule in the current law and practice whereby insurers may take into account a person's gender in the assessment of risk and consequently the pricing of insurance products, the ruling for which was issued on 1 March 2011 We are currently unable to quantify the impact on our existing insurance provisions

(e) Other
The Company has guaranteed the overdrafts and borrowings of certain other Group companies The maximum exposure of the Company is £1,704 million *(2009 £1,748 million)* In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities

In addition, in line with standard business practice, the Company has 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

Notes to the financial statements continued

27 Commitments

Operating lease commitments

(i) Future contractual aggregate minimum lease rentals receivable under non-cancellable operating leases are as follows

	2010 £m	2009 £m
Within one year	-	4
Later than one year and not later than five years	1	10
Later than five years	1	5
	2	19

(ii) Future contractual aggregate minimum lease payments under non-cancellable operating leases are as follows

	2010 £m	2009 £m
Within one year	24	26
Later than one year and not later than five years	82	87
Later than five years	146	160
	252	273
The total of future minimum sublease payments expected to be received under non-cancellable subleases	33	48

The Company has no capital commitments which have not been recognised in the financial statements

Notes to the financial statements continued

28 Statement of cash flows

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is

	2010 £m	2009 £m
Profit before tax	**204**	1,556
Adjustments for		
(Profit)/loss on sale or share buy-back of		
Investment Property	**(4)**	-
Subsidiaries	**(50)**	(454)
Investments	**242**	14
	188	(440)
Fair value losses/(gains) on		
Investment property	**1**	8
Investments	**(192)**	(101)
	(191)	(93)
Impairment of investments in subsidiaries	**118**	1
Amortisation of		
Premium or discount on debt securities	**17**	2
Financial Instruments	**1**	-
	18	2
Unwinding of discount on claims provisions, net of reinsurance	**10**	9
Foreign currency exchange losses/ (gains)	**6**	(8)
Changes in working capital		
Decrease in reinsurance assets	**75**	35
Decrease in deferred acquisition costs	**6**	114
Decrease in insurance liabilities	**(87)**	(716)
(Decrease) /Increase in other assets and liabilities	**(1,043)**	200
	(1,049)	(367)
Net sales of operating assets		
Proceeds on sale of investment property	**47**	-
Net sales/(purchases) of financial investments	**294**	(1,019)
	341	(1,019)
Cash used in operations	**(355)**	(359)

Purchases and sales of investment property, loans and financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims

(b) Cash and cash equivalents in the Statement of Cash flows statement at 31 December comprised

	2010 £m	2009 £m
Cash at bank and in hand	**168**	229
Cash equivalents	**164**	457
	332	686

29 Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business This note describes the way the Company manages capital and shows how this is structured

(a) General
IFRS underpins the Company's capital structure and accordingly, the capital structure is analysed on this basis The Company also uses an individual capital assessment ('ICA') measure to assess its own internal economic capital requirements

Notes to the financial statements continued

29 Capital structure continued

(b) Capital management
In managing its capital, the Company seeks to

(i) match the profile of its assets and liabilities, taking account of the risks inherent in the business,
(ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders and regulators,
(iii) retain financial flexibility by maintaining strong liquidity, and
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate

The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital

(c) Different measures of capital
The Company measures its capital on a number of different bases These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business The measures which the Company uses are

(i) Accounting basis
The Company is required to report its results on an IFRS basis

(ii) Regulatory basis
Relevant capital and solvency regulations are used to measure and report the Company's financial strength These measures are based on the FSA's regulatory requirements under Solvency I and the ICA regime The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a series of prudent assumptions about the type of business that is underwritten

The Company fully complied with these regulatory requirements during the year

(iii) Economic basis
The Company also measures its capital using a risk based capital model to assess economic capital requirements and to aid in risk and capital management This model is used to support reporting under the ICA regime The risk management note (Note 30), gives further details

(d) Company capital structure

	2010 £m	2009 £m
Total capital employed	**17,384**	17,743
Financed by		
Equity shareholders' funds	**17,384**	17,743

30 Risk management

The ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates (collectively known as "the Aviva Group"), operate a risk management framework with the primary objective of protecting the Aviva Group, including the Company, from events that hinder the sustainable achievement of performance objectives, including failing to exploit opportunities

Risk is categorised as follows

- Financial risks, which cover market, credit, general insurance and liquidity risks,
- Strategic risks, which include issues such as customer, products and markets as well as any risks to the Company's business model arising from changes in the market, and risks arising from mergers and acquisitions, and
- Operational risks, which arise from inadequately controlled processes or systems, human error or non-compliance as well as from external events Operational risks include reputation and regulatory risks, such as compliance

Notes to the financial statements continued

30 Risk management continued
The Aviva Group monitors risk on an ongoing basis and prepares quarterly reports identifying all material risks, along with information on likelihood, severity and mitigating actions taken or planned This enables the Aviva Group to assess its overall risk exposure against local and global risk appetites, identify any concentrations of risk that may exist, and to identify where risks lie outside risk appetite and mitigating action is required or risk appetite requires revision in light of changing market conditions Impact assessments are considered against financial, operational and reputational criteria and take into account underlying factors such as economic conditions, for example, UK economic growth and inflation

The Aviva Group risk management framework is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable assurance against material financial misstatement or loss New risks or risks currently considered immaterial may also impair the future achievement of business objectives

The Aviva Group recognises the critical importance of having an efficient and effective risk management framework in place To this end, the Aviva Group has an established governance framework, which has the following key elements

- Defined terms of reference for the legal entity Boards and the associated executive management and other committees within the Aviva Group,

- A clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to executive management committees and senior management,

- Adoption of the Aviva Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the Aviva Group The policies also set out the roles and responsibilities of businesses, regions, policy owners and risk oversight committees

The Aviva Group operates a three lines of defence risk management model Primary responsibility for risk identification and management lies with business management (the first line of defence) Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions (the second line of defence) Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided by group audit (the third line of defence)

The adoption of Aviva Group policies enables a consistent approach to management of risk at a business unit level The Aviva Group operates a number of oversight committees that monitor aggregate risk data and take overall risk management decisions

The Aviva Group has developed a framework, using Individual Capital Assessment ("ICA") principles, for quantifying the impact of risks on economic capital The ICA combines the results of financial and operational risk stress tests The results of modelling are incorporated into key strategic planning and decision making processes The FSA also requires the Aviva Group and the Company to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business

(a) Market risk
Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices, property prices and foreign currency exchange rates Market risk arises due to fluctuations in both the value of liabilities and the value of investments held

Market risk is managed locally within the Aviva Group market risk framework, within local regulatory constraints and in line with established Aviva Group policy, including minimum principles for matching liabilities with appropriate assets

The Aviva Group's insurance operations are subject to numerous local regulatory requirements that prescribe the type, quality, and concentration of investments, and the level of assets to be maintained in local currency in order to meet local insurance liabilities These requirements help to maintain market risk at an acceptable level in each of the jurisdictions in which the Aviva Group operates

Notes to the financial statements continued

30 Risk management continued

(a) Market risk continued
For each of the major components of market risk, described in more detail below, additional policies and procedures are in place to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite

Equity price risk	The Company is subject to equity price risk due to daily changes in the market values of its equity securities portfolio Equity price risk is actively managed in order to mitigate potential unfavourable market movements and includes using a variety of derivative instruments, including futures and options Sensitivity to changes in equity prices is given in section (g) below
Interest rate risk	Interest rate risk arises primarily from the Company's investments, fixed income securities and other liabilities, which are exposed to fluctuations in interest rates The Company maintains a close matching of assets and liabilities by duration, using derivative instruments if necessary, to minimise this risk Sensitivity to changes in interest rates is given in section (g) below
Currency risk	The Company has minimal exposure to currency risk, other than through the fair value of overseas subsidiaries
Derivatives risk	Derivatives are used within policy guidelines agreed by the Aviva plc Board of Directors and in line with Group policy Derivatives are only used for efficient investment management, asset and liability management or risk hedging purposes

The fair values of investments in subsidiaries are estimated using applicable valuation models, underpinned by the Aviva Group's market capitalisation This uses a three month rolling average of the Aviva Group's share price and is, therefore, sensitive to movements in that price

The management of market risk is overseen by the Group's Asset and Liability Committee

(b) Credit risk
Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations

The Company's management of credit risk is carried out in accordance with the Aviva Group credit risk processes, which include setting exposure limits and monitoring exposures in accordance with ratings set by credit ratings agencies such as Standard & Poor's Exposure levels are reported to, and reviewed by, the Group's Asset and Liability Committee

Financial assets are graded according to current 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 speculative grade Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty and the type of exposure

The Company has significant financial exposure to amounts due from its parent, Aviva plc, and fellow Aviva group companies The credit risk arising from Aviva group counterparties failing to meet all or part of their obligations is considered remote Due to the nature of the intra-group loans, and the fact that these loans are settled, and not traded, the Company is not exposed to the risk of changes to the market value caused by changing perceptions of the credit worthiness of such counterparties

The following table provides information regarding the aggregated credit risk exposure of the Company "Non-rated" assets captures assets not rated by external ratings agencies

Notes to the financial statements continued

30 Risk management continued

(b) Credit risk continued

31 December 2010	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Non-rated**	**Total**
	Credit rating						
	%	**%**	**%**	**%**	**%**	**%**	**£m**
Debt securities	**21 8%**	**14 7%**	**39 6%**	**23 9%**	**-**	**-**	**906**
Reinsurance assets	**-**	**76 1%**	**7 2%**	**-**	**-**	**16 7%**	**414**
Loans	**-**	**-**	**98 8%**	**1.2%**	**-**	**-**	**127**
Other investments	**-**	**-**	**-**	**-**	**-**	**100.0%**	**74**

31 December 2009	AAA	AA	A	BBB	Speculative grade	Non-rated	Total
	Credit rating						
	%	%	%	%	%	%	£m
Debt securities	93 0%	3 7%	1 9%	1 4%	-	-	1,169
Reinsurance assets	58 1%	8 2%	21 8%	-	-	11 9%	489
Loans	-	-	100 0%	-	-	-	125
Other investments	-	-	-	-	-	100 0%	33

The Company is not generally exposed to significant concentrations of credit risk due to compliance with the FSA's regulations limiting investments in individual assets and classes

The Company manages exposure to reinsurance counterparties in accordance with Group policy Exposure limits are set by the Group Credit Approvals Committee which maintains a list of reinsurers that have acceptable credit standing Reinsurer exposure and the impact of any reinsurer default are monitored regularly

The Company's largest reinsurance counterparty is Berkshire Hathaway Inc (including subsidiaries) At 31 December 2010, the reinsurance asset recoverable from Berkshire Hathaway Inc was £263 million (2009 £327 million) This exposure is monitored on a regular basis

The Company's maximum exposure to credit risk is equal to the carrying value of assets in the statement of financial position plus financial guarantees given to other group companies, outlined in note 26(d)

The credit quality of receivables and other financial assets is monitored by the Company, and provisions for impairment are made for irrecoverable amounts The following table provides information regarding the carrying value of financial assets that have been impaired and the ageing of financial assets that are past due but not impaired

31 December 2010	**Neither past due nor impaired**	**Financial assets that are past due but not impaired**				**Carrying value of impaired financial assets**	**Total**
		0 – 3 months	**3 – 6 months**	**6 months – 1 year**	**Greater than 1 year**		
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	**906**	**-**	**-**	**-**	**-**	**-**	**906**
Reinsurance assets	**414**	**-**	**-**	**-**	**-**	**-**	**414**
Loans	**127**	**-**	**-**	**-**	**-**	**-**	**127**
Receivables	**2,660**	**-**	**-**	**-**	**-**	**-**	**2,660**

Notes to the financial statements continued

30 Risk management continued

(b) Credit risk continued

31 December 2009	Neither past due nor impaired	Financial assets that are past due but not impaired				Carrying value of impaired financial assets	Total
		0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year		
	£m	£m	£m	£m	£m	£m	£m
Debt securities	1,169	-	-	-	-	-	1,169
Reinsurance assets	489	-	-	-	-	-	489
Loans	125	-	-	-	-	-	125
Receivables and other financial assets	2,183	-	-	-	-	-	2,183

Receivables include loans and amounts due from other Aviva group companies of £2,617 million (*2009 £1,654 million*)

There were no material financial assets that would have been past due or impaired had the terms not been renegotiated

The management of credit risk is overseen by the Group's Asset and Liability Committee

(c) Management of general insurance risk and reinsurance strategy
The Aviva Group's underwriting strategy and risk appetite is agreed by the Aviva Group Executive Committee and communicated via specific policy statements and guidelines Group general insurance risk is monitored through the General Insurance Risk Committee which is part of the Group's risk management framework

Significant insurance risks will be reported through the risk management framework Additionally, the ICA 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 Increasingly risk-based capital models are being used to support the quantification of risk under the ICA framework All general insurance business units undertake a quarterly review of their insurance risks, the output from which is a key input into the ICA and risk-based capital assessments

The Group General Insurance Committee monitors and develops the management of insurance risk in the general insurance business units, and assesses the aggregate risk exposure It is responsible for the development, implementation, and review of the Group policies for underwriting, claims, reinsurance and reserving that operate within the risk management framework

The Company's insurance business is managed within a group of companies, "UKGI", undertaking insurance business and other non-insurance business in the UK The Company considers insurance risk within its general insurance activity to comprise the following

- Inaccurate pricing and selection of risks when underwritten,
- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations,
- Unexpected claims arising from a single source,
- Inadequate reinsurance protection or other risk transfer techniques, and
- Inadequate reserves

The majority of the general insurance business underwritten by the Company is of a short-tail nature such as motor, household and commercial property insurances

The Company also sets its own underwriting strategy, consistent with the Group's Underwriting strategy is communicated to underwriters, with underwriting licences granted to individual underwriters according to competence and experience The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK

Notes to the financial statements continued

30 Risk management continued

(c) General insurance risk continued
The Company has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Company , The Company has in place various methodologies to manage effectively exposures arising from specific perils The Company analyses accumulations of insurance risk under various headings, including type of business, location, profile of customers and type of claim and uses these analyses to inform underwriting and reserving

Reinsurance purchases are reviewed to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Company The basis of these purchases is underpinned by extensive financial and capital modelling and actuarial analysis to optimise the cost and capital efficiency benefits This involves utilising externally sourced probabilistic models to verify the accumulations and loss probabilities based on the Company's specific portfolios of business In addition to external models, scenarios are developed and tested using the Company's data to determine the potential losses and appropriate levels of reinsurance protection Reinsurance covers single large exposures and concentrations of exposures The Company has processes in place to manage catastrophe risk and purchases catastrophe reinsurance to protect against significant natural hazard events For a single realistic catastrophic event, UKGI's maximum retention is approximately £210 million

Actuarial claims reserving is conducted by local actuaries in the various general insurance business units according to the Group General Insurance Reserving policy The Group General Insurance Committee monitors and maintains the General Insurance Reserving policy, and conducts quarterly reviews of the Group's general insurance claims provisions, and their adequacy The reviews include peer reviews of the business unit's own conclusions as well as independent analysis to confirm the reasonableness of the local reviews The adequacy of the Group's general insurance claims provisions is ultimately overseen by the General Insurance Committee A number of business units also have periodic external reviews by local consultant actuaries (often as part of the local regulatory requirement)

The adequacy of the Company's general insurance claims provisions is overseen by both the Group General Insurance Risk Committee and the UKGI Reserve Committee Actuarial claims reserving is conducted by the Company's actuaries in compliance with the Group General Insurance Reserving policy There are periodic external reviews by consultant actuaries

The management of insurance risk is overseen by specific UKGI senior management committees, namely the Underwriting and Pricing Groups, the Reserve Committee and the Projections Committee

(d) Liquidity risk
Liquidity risk is the risk than an entity will encounter difficulty in meeting obligations associated with financial liabilities

The Company has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due The Aviva Group maintains significant committed borrowing facilities from a range of highly-rated banks to mitigate this risk further

Notes to the financial statements continued

30. Risk management continued

(d) Liquidity risk continued

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets and reinsurers' share of the unearned premium provisions, which are available to fund the repayment of liabilities as they crystallise

31 December 2010	**On demand or within 1 year £m**	**1-5 years £m**	**Over 5 years £m**	**No fixed term £m**	**Total £m**
Debt securities	**88**	**803**	**15**	**-**	**906**
Equity securities	**1**	**-**	**-**	**-**	**1**
Other investments	**28**	**-**	**34**	**12**	**74**
Loans	**-**	**2**	**125**	**-**	**127**
Reinsurance assets	**40**	**99**	**275**	**-**	**414**
Receivables and other financial assets	**2,660**	**-**	**-**	**-**	**2,660**
Cash and cash equivalents	**332**	**-**	**-**	**-**	**332**
	3,149	**904**	**449**	**12**	**4,514**

31 December 2009	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	No fixed term £m	Total £m
Debt securities	23	1,058	88	-	1,169
Equity securities	-	-	-	243	243
Other investments	-	-	33	-	33
Loans	-	-	125	-	125
Reinsurance assets	97	116	276	-	489
Receivables and other financial assets	2,041	142	-	-	2,183
Cash and cash equivalents	686	-	-	-	686
	2,847	1,316	522	243	4,928

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company Where an instrument is puttable back to the issuer on demand, such as a unit trust or similar type of investment vehicle, it is included in the "On demand or within 1 year" column

For insurance contracts, the analysis of liabilities below is based on the estimated timing of future cash flows The following table shows the Company's financial liabilities and the general insurance liabilities analysed by duration

31 December 2010	**Within 1 year**	**1-5 years**	**5-15 years**	**Over 15 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
General insurance liabilities	**872**	**911**	**521**	**245**	**2,549**
Payables and other financial liabilities	**755**	**552**	**-**	**-**	**1,307**
	1,627	**1,463**	**521**	**245**	**3,856**

31 December 2009	Within 1 year	1-5 years	5-15 years	Over 15 years	Total
	£m	£m	£m	£m	£m
General insurance liabilities	945	963	485	243	2,636
Payables and other financial liabilities	1108	348	-	-	1,456
	2,053	1,311	485	243	4,092

Notes to the financial statements continued

30 Risk management continued

(e) Strategic risks

The Company is exposed to a number of strategic risks The Company's strategy supports its vision, purpose and objectives and is responsive to both the external and internal environment, for example, changes in the competitive landscape arising from economic conditions, customer demands and competitor activity, regulatory changes, merger and acquisition opportunities and emerging trends (such as climate change and pandemic)

Strategic risk is explicitly considered throughout the Company's strategic review and planning process Developments are assessed during the quarterly performance management process where all aspects of the risk profile are considered

The Company actively engages with external bodies to share the benefits of its expertise in supporting responses to emerging risks as well as challenging developments that could be damaging to the business and the industry as a whole

(f) Operational risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems or from external events Operational risk includes reputation and regulatory risks, such as compliance Only financial instrument risk requires quantification under IFRS and consequently no quantification of this risk is provided

Operational risk is managed in accordance with control standards set out in Group policy framework

The management of operational risk is overseen by the Group's Operational Risk Committee

(g) Risk and capital management

The Aviva Group uses a number of risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently Primarily, risk-based capital models and scenario tests are used Sensitivities to economic and operating experience are regularly produced on financial performance measurements to inform the Aviva Group's decision making and planning processes and quantifying the risks to which the Aviva Group is exposed

General insurance claims 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 development on which the projections are based As such, in the analysis below, the sensitivity of general insurance claims liabilities is primarily based on the financial impact of changes to the reported loss ratio

Some results of sensitivity testing for the Company's business are set out below For each sensitivity test the impact of a 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 ± 1% (e g if a current interest rate is 5%, the impact of an immediate change to 4% and 6%) The test allows consistently for similar changes to investment returns and movements in the market value of fixed interest securities
Equity / property market values	The impact of a change in equity/property market values by +/- 10%
Expenses	The impact of an increase in expenses by 10%
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%

The above sensitivity factors are applied using actuarial and statistical models The impacts are shown in the tables below

Notes to the financial statements continued

30. Risk management continued

(g) Risk and capital management continued

Pre-tax impacts on profit and shareholder's equity at 31 December 2010

Impact on profit before tax (£m)

	Interest Rates +1%	Interest Rates -1%	Equity / Property +10%	Equity / Property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	40	(50)	-	-	(30)	(55)
Net of reinsurance	25	(30)	-	-	(30)	(55)

Impact before tax on shareholder's equity (£m)

	Interest Rates +1%	Interest Rates -1%	Equity / Property +10%	Equity / Property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	40	(50)	-	-	(5)	(55)
Net of reinsurance	25	(30)	-	-	(5)	(55)

Pre-tax impacts on profit and shareholder's equity at 31 December 2009

Impact on profit before tax (£m)

	Interest rates +1%	Interest rates -1%	Equity / Property +10%	Equity / Property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	40	(55)	30	(30)	(30)	(55)
Net of reinsurance	25	(30)	30	(30)	(30)	(55)

Impact before tax on shareholder's equity (£m)

	Interest Rates +1%	Interest rates -1%	Equity / Property +10%	Equity / Property -10%	Expenses +10%	Gross loss ratios +5%
Gross of reinsurance	40	(55)	30	(30)	(5)	(55)
Net of reinsurance	25	(30)	30	(30)	(5)	(55)

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance 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

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 Company's assets and liabilities are actively managed Additionally, the financial position of the Company may vary at the time that any actual market movement occurs For example, the Company'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 and taking other protective action

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Aviva Group's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates, equity prices and property values move in an identical fashion

Notes to the financial statements continued

30 Risk management continued

(g) Risk and capital management continued
Assets are held at fair value in accordance with the relevant accounting policy The majority of such assets are valued based on quoted market information or observable market data A small percentage of total assets recorded at fair value are based on estimates 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 Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not significantly change the fair value

31 Derivative financial instruments

The Company 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 table 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 Company

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 Company has in place collateral agreements between the Company and relevant counterparties

The Company had no cash flow or fair value hedges at 31 December 2010 (*2009 nil*)

The Company's non-hedge derivative activity at 31 December 2010 was as follows

			2010			2009
	Contract/ notional amount £m	**Fair value asset £m**	**Fair value liability £m**	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Foreign exchange contracts						
OTC						
Forwards	**998**	**11**	**(3)**	41	-	-
Interest and currency swaps	**304**	**31**	**(3)**	665	33	(30)
Options	**4,000**	**16**	**(26)**	-	-	-
Total	**5,302**	**58**	**(32)**	706	33	(30)
Interest rate contracts						
OTC						
Swaps	**290**	**4**	**(71)**	-	-	-
Options	**-**	**-**		-	-	-
Total	**290**	**4**	**(71)**	-	-	-
Totals at 31 December	**5,592**	**62**	**(103)**	706	33	(30)

Fair value assets are recognised as 'Derivative financial instruments' in note 12 Fair value liabilities are recognised as 'Other financial liabilities' in note 24

Notes to the financial statements continued

31 Derivative financial instruments continued

The contractual undiscounted cash flows in relation to non-hedge derivative liabilities have the following maturities

	2010 £m	2009 £m
Within one year	19	19
Between one and two years	19	19
Between two and three years	19	19
Between three and four years	19	19
Between four and five years	19	19
After five years	225	244
Total	320	339

32 Related party transactions

(a) The Company had the following related party transactions in 2010 and 2009

(i) Quota share arrangement
The Company has entered into quota share reinsurance arrangements with subsidiary undertakings, Aviva Insurance UK Limited (AIUK) in each year since 2001, with London & Edinburgh Insurance Company Limited (LEIC) in each year since 2002 and with Gresham Insurance Company Limited (GIC) since 2006

The key terms of the agreement are

• A 50% cession rate on premiums *(2009 50%)*, claims and expense costs is applied in respect of that underwriting year in respect of AIUK and LEIC

• A 100% cession rate on premiums, claims and expense costs is applied in respect of that underwriting year in respect of GIC

• Interest payment of LIBOR + 50bps on any reserves

The premiums, claims and expenses which have been reinsured into the Company under the arrangement are

Quota share	2010 £m	2009 £m
Premiums earned	1,407	1,569
Claims incurred	(1,102)	(1,118)
Fee and commission expenses and operating expenses	(473)	(586)
Loss on reinsurance	(168)	(135)

The material balances in the statement of financial position relating to this arrangement are

	2010 £m	2009 £m
Gross insurance liabilities	(1,759)	(1,766)
Payable arising out of reinsurance accepted	(170)	(137)
Receivables arising out of reinsurance accepted	152	158

(b) Other transactions

In addition to the quota share arrangement described above, the Company receives dividend and interest income from, and pays dividends and interest to parent companies, subsidiaries and fellow subsidiaries in the normal course of business These activities are reflected in the tables below

Notes to the financial statements continued

32 Related party transactions continued

(b) Other transactions continued

(i) Loans

Loans from other Aviva Group companies

In 2009, the Company entered into unsecured loan agreements with CGNU Life Assurance Limited (£55 million), Aviva Life & Pensions UK Limited (£50 million) and Commercial Union Life Assurance Company Limited (£10 million) These loans accrue interest at a fixed rate of 5 4% per annum, and settlement is expected to be paid in cash

Loan from subsidiary

In 2008, the Company entered into an unsecured facility agreement with one of its subsidiaries, RAC plc The Company agreed to a revolving credit facility in an aggregate amount of up to £500 million This facility accrues interest at 5%, and settlement is expected to be received in cash As at the statement of financial position date, the net amount drawn down under this facility was £357 million (*2009 £233 million*)

In 2009, the Company entered into an unsecured facility agreement with one of its subsidiaries, Aviva UKGI investments Ltd This facility accrues interest at 100 base points above 12 month LIBOR As at the statement of financial position date, the net amount drawn down under this facility was £80 million (*2009 £nil)*

The maturity analysis of the related party loans is as follows

			Maturity analysis of contractual undiscounted cashflows								
		Denominated currency	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	Over 5 years £m	No fixed term £m	Total	Effective interest rate %
Payables	**2010**	**£**	**25**	**462**	**6**	**120**	**-**	**-**	**-**	**613**	**4 65%**
	2009	£	-	-	233	-	115	-	-	348	5 10%

(ii) Services provided to related parties

	2010		2009	
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m
Holding company	**-**	**2,326**	-	1,526
Subsidiaries	**468**	**275**	1,055	72
Other Aviva Group companies	**-**	**16**	-	56
	468	**2,617**	1,055	1,654

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 given by the Company on behalf of related parties are given in note 26

Income earned of £468 million *(2009 £1,055 million)* relates to dividends received

(iii) Services provided and expenses recharged by related parties

	2010		2009	
	Services provided/expense recharged in year £m	**Payable at year end £m**	Services provided/expense recharged in year £m	Payable at year end £m
Holding company	**-**	**21**	-	23
Subsidiaries	**-**	**428**	3	894
Other Aviva Group companies	**1**	**10**	-	3
	1	**459**	3	920

Notes to the financial statements continued

32 Related party transactions continued

(iii) Services provided and expenses recharged by related parties continued
Expenses relating to staff and pension costs, facilities charges and other expenses for the UKGI region are initially charged by the Aviva Group's service companies and parent company to Aviva Insurance UK Limited ("AIUK"), a subsidiary of the Company AIUK then recharges these as a management charge across all the UKGI companies, as a result of which the Company's share was £nil in 2010 (*2009 £3 million*) Services provided include £1 million (*2009 £1 million*) investment management fees payable to fellow subsidiaries of the Aviva Group

The related parties' payables are not secured and no guarantees were received in respect thereof The payables will be settled in accordance with normal credit terms

(c) Key management compensation
Key management are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company The majority of such costs are borne by Aviva plc and Aviva Insurance UK Limited and are not recharged to the Company Please refer to the financial statements of Aviva plc and Aviva Insurance UK Limited for the IAS 24 disclosures in relation to management compensation

(d) Parent entity
The immediate holding company is Aviva Group Holdings Limited, registered in the UK

(e) Ultimate controlling entity
The ultimate controlling entity is Aviva plc Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ and on the Aviva plc website at www aviva com