Aviva Life & Pensions UK Limited

Directors and Officers

Directors

D B Barral
B A Curran
P C Willcock

Officer – Company Secretary

J J Wilman
Wellington Row
York
YO90 1WR

Independent Auditors

PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds
LS1 4JP

Registered Office

2 Rougier Street
York
YO90 1UU

Company Number

Registered in England and Wales No 3253947

Other Information

Aviva Life & Pensions UK Limited ("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")

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Aviva Life & Pensions UK Limited
Registered in England No. 3253947
Directors' report

The directors present their annual report and audited financial statements for Aviva Life & Pensions UK Limited (the Company) for the year ended 31 December 2012

Directors

The names of the present directors of the Company appear on page 1

J R Lister resigned as a director of the Company on 18 April 2012

R I Houghton resigned as a director of the Company on 18 June 2012

B A Curran was appointed as a director of the Company on 18 September 2012

C J Thornton was appointed as a director of the Company on 1 August 2012

H W Hessing resigned as a director of the Company on 6 August 2012

G S Boffey resigned as a director of the Company on 30 November 2012

C J Thornton resigned as a director of the Company on 8 March 2013

Business review, principal activities and future outlook

The principal activity of the Company is the transaction of long-term insurance business The Company has both non-profit and with-profit funds and writes primarily pensions, bonds and protection business The directors consider that this will continue unchanged into the foreseeable future

New business volumes including deposits collected have decreased during 2012 due to focus on value rather than volume, with improved margin overall

Protection sales increased during the year, benefiting from an increased distribution footprint New protection distribution deals were agreed with key partners in both 2011 and 2012

Group personal pension sales increased strongly due to high levels of activity in the run-up to implementation of the Retail Distribution Review

Sales of individual savings products including pensions and bonds declined as the Company focused on maximising value This follows a review of the profitability of products and distribution arrangements

Shareholders' equity has increased by £374 million (2011 decrease of £123million), reflecting the profit for the year less the dividend paid

The UK industry is entering an uncertain period as an unprecedented level of regulatory change takes effect, including the Retail Distribution Review, Auto-Enrolment and Gender neutral pricing The Company is fully prepared and well-placed to benefit from the changes, with both a broad product range and an extensive distribution network

Following regulatory delays in finalising the Omnibus II Directive, which underpins Solvency II, it became clear that Solvency II would not come into effect on 1 January 2014 Currently the earliest expected effective date is 2 years later, on 1 January 2016

Aviva has been early adopting a number of Solvency II requirements into the ICA, which is the current economic regulatory basis in the UK Aviva is well placed for review by the FSA on an "ICA plus" basis ("ICA plus' represents how the FSA is addressing the regulatory uncertainty left in the wake of continuing Solvency II implementation delays)

Aviva continues to enhance and develop its economic capital infrastructure for full Solvency II compliance by the effective date and actively participates in developments through the key European industry working groups, engaging with the FSA and HM Treasury to inform the on-going negotiations in Brussels

Financial position and performance

The financial position of the Company at 31 December 2012 is shown in the statement of financial position on page 18, with the results shown in the income statement on page 17 and the statement of cash flows on page 20

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 32 to the financial statements

Key performance indicators ("KPI")

Combined net premiums and deposits collected under non-participating investment contracts for the year have increased by 2 5% to £5,811 million *(2011 increased by 6 6% to £5,668 million)*

The profit after tax for the year is £497 million *(2011 £112 million)*, including £52 million profit *(2011 £47 million)* arising from the shareholder element of the bonus declared on with-profit policies

Dividend

An interim dividend for the year of £123 million was paid on 31 March 2012 *(2011 £235 million)* The directors do not recommend a final dividend for the year *(2011 £nil)*

Major events

On 26 March 2012 the Company approved the sale of its 26 16% shareholding in Assureweb Limited to Internet Pipeline Limited (the Purchaser) for a cash consideration of £354,160, being its share of the total consideration payable to the Shareholders of £1,350,000 The Purchaser also made a payment, on behalf of Assureweb Limited, of £1,121,551 to the Company in satisfaction of outstanding shareholder loans owed to it In addition, the Purchaser agreed to pay the Shareholders a deferred cash payment of £750,000 in each of the three years following completion The deferred payments are dependent on the Shareholders purchasing, in aggregate, Products and Services as defined in the Sale and Purchase Agreement with a value of £2,250,000 in each of the three years following completion

Overseas branches

The Company has branch offices outside the UK in Belgium, France and Ireland The closure of the German branch was approved by the Board of directors on 14 September 2011 and was deregistered on 18 April 2012

Financial instruments

The business of the Company includes 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 32 to the financial statements

Employees

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited Disclosures relating to employees may be found in the Annual Report and Financial Statements of Aviva Employment Services Limited

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, and
- 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

Following a competitive tender process by the Company's ultimate parent company, Aviva plc, PricewaterhouseCoopers LLP were appointed as auditors to the Company for the year ended 31 December 2012 in accordance with the provisions of the Companies Act 2006

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 Company's 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, which continue to apply in relation to any provision made before 1 October 2007

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 paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

By order of the Board

JJWilman.

J J Wilman
Company Secretary

25 March 2013

Independent auditors' report to the members of Aviva Life & Pensions UK Limited

We have audited the financial statements of Aviva Life & Pensions UK Limited for the year ended 31 December 2012 which comprise the Accounting Policies, the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 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

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2012 and of its profit and cash flows 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

Lindsay Gardiner (senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

25 March 2013

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), transacts long-term insurance business

The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied to all years presented, unless otherwise stated

(A) Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Company has also complied with IFRS as issued by the IASB and applicable at 31 December 2012 The financial statements have been prepared under the historical cost convention, except for investment properties, mortgage loans, subsidiaries, associates, joint ventures and those financial instruments and financial liabilities (including derivative instruments) at fair value through profit and loss These have all been endorsed by the EU IFRS 10 is expected to have a significant impact on the recognition and measurements of interest in other entities The full impact of the changes has yet to be assessed

The financial statements are prepared on the going concern basis and in accordance with Companies Act 2006

As permitted under IAS 27 and under Section 400 of the Companies Act 2006, the Company has elected not to present consolidated financial statements These financial statements present information about the Company as an individual undertaking and not about its group Information on the ultimate controlling parent and immediate parent can be found in note 27

In accordance with IFRS 4, Insurance Contracts, the Company has applied existing accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards Further details are given in policy D below

The Company has adopted the following new amendments to standards which became effective for financial years beginning on or after 1 January 2012 Neither of these amendments has a material impact on these financial statements

(i) Amendment to IFRS 7, Financial Instruments – Disclosures, relating to the transfer of financial assets

(ii) Amendment to IAS 12, Income Taxes, relating to deferred tax

The IASB has issued a number of standards and amendments which are applicable for accounting periods beginning on or after 1 January 2013 and are therefore not applicable for the current accounting period, namely IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12 Disclosure Of Interest In Other Entities, IFRS 13, Fair Value Measurement, reissues of IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures and amendments to IFRS 7, Financial Instruments - Disclosures These have all been endorsed by the EU IFRS 10 is expected to have a significant impact on the recognition and measurements of interest in other entities The full impact of the changes has yet to be assessed

IFRS 9, Financial Instruments, will replace IAS 39, Financial Instruments – Recognition and Measurement IFRS 9 is applicable prospectively for accounting periods beginning on or after 1 January 2015 and is 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 which is, to a large extent, dependent on the finalisation of the IASB's insurance contracts accounting project

Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m)

(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 D) and in the classification of financial investments (set out in policy R)

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 that are considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy

Item	Accounting policy
Insurance and participating investment contract liabilities	H
AVIF and other intangible assets	K
Fair value of financial investments	R
Fair value of derivative financial instruments	S
Deferred acquisition costs	V
Provisions and contingent liabilities	X
Deferred income taxes	Y

Further details on the estimation of amounts for insurance and participating investment contract liabilities are given in notes 19, 20 and 28 to these financial statements

(C) Foreign currency translation

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 financial assets measured at fair value and designated as held at fair value through profit or loss (FV) are reported as part of the fair value gain or loss Translation differences on assets held at amortised cost are included in foreign exchange gains and losses in the income statement

(D) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract Such contracts remain insurance contracts until all rights and obligations are extinguished or expire Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts

Some insurance and investment contracts contain a discretionary participating feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits These are referred to as participating contracts

(E) Premiums earned

Premiums on long-term insurance contracts and participating investment contracts are recognised as income when receivable, except for investment-linked premiums that are accounted for when the corresponding liabilities are recognised For single premium business, this is the date from which the policy is effective For regular premium contracts, receivables are recognised at the date when payments are due Premiums are shown before deduction of commission and before any sales-based taxes or duties Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums

Deposits collected under investment contracts without a discretionary participating feature (non-participating contracts) are not accounted for through the income statement, except for the fee income (covered in policy F) and the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability

(F) Fee and commission income

Investment contract policyholders are charged fees for policy administration, investment management, surrenders or other contract services The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance These fees are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods, in which case they are deferred and recognised as the service is provided

Initiation and other "front-end" fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment contracts The front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided

(G) 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 R) 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 Rental income is recognised on an accruals basis

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year Realised gains or losses on investment property represent the difference between the net disposal proceeds and the carrying amount of the property

(H) Insurance and participating investment contract liabilities

Claims

Claims reflect the cost of all claims arising during the year, including claims handling costs, as well as policyholder bonuses accrued in anticipation of bonus declarations

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function

Long-term business provisions

Under IFRS 4, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices, with the exception of those relating to with-profit contracts The Company has adopted FRS 27, *Life Assurance,* for liabilities relating to such contracts, which adds to the requirements of IFRS but does not vary them in any way

Calculation of the long-term business provisions are based on regulatory requirements and represent a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the prevailing circumstances The principal assumptions are disclosed in note 19(b) For with-profit funds, FRS 27 requires liabilities to be calculated as the realistic basis liabilities as set out by the Financial Services Authority (FSA), adjusted to remove the shareholders' share of future bonuses For non-profit insurance contracts in the with-profits funds, the Company applies the realistic regulatory basis as set out in the FSA Policy Statement 06/14 *Prudential Changes for Insurers* where applicable

Unallocated divisible surplus

In certain participating long-term insurance and investment business, the nature of the policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain Amounts whose allocation either to policyholders or shareholders has not been determined by the end of the financial year are held within liabilities as an unallocated divisible surplus

If the aggregate carrying value of liabilities for a particular participating business fund is in excess of the aggregate carrying value of its assets, then the difference is held as a negative unallocated divisible surplus balance, subject to recoverability from margins in that fund's participating business Any excess of this difference over the recoverable amount is charged to net income in the reporting period

Embedded derivatives

Embedded derivatives that meet the definition of an insurance contract or correspond to options to surrender insurance contracts for a set amount (or based on a fixed amount and an interest rate) are not separately measured All other embedded derivatives are separated and measured at fair value, if they are not considered as closely related to the host insurance contract or do not meet the definition of an insurance contract Fair value reflects own credit risk to the extent the embedded derivative is not fully collateralised

Liability adequacy

At each reporting date an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in the light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up an additional provision in the statement of financial position

(I) Non-participating investment contract liabilities

Claims

For non-participating investment contracts with an account balance, claims reflect the excess of amounts paid over the account balance released

Investment contract liabilities

Deposits collected under non-participating investment contracts are not accounted for through the income statement, except for the investment income attributable to those contracts, but are accounted for directly through the statement of financial position as an adjustment to the investment contract liability

Nearly all of the Company's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value

The fair value liability is determined in accordance with IAS 39, using a valuation technique to provide a reliable estimate of the amount for which the liability could be settled between knowledgeable willing parties in an arm's length transaction, subject to a minimum equal to the surrender value For unit-linked contracts, the fair value liability is equal to the current unit fund value, plus additional non-unit reserves if required based on a discounted cash flow analysis For non-linked contracts, the fair value liability is based on a discounted cash flow analysis, with allowance for risk calibrated to match the market price for risk

(J) Reinsurance

The Company accepts and cedes reinsurance in the normal course of business, with retention limits varying by line of business Premiums on reinsurance accepted are recognised as revenue in the same manner 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

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities and investment contract liabilities This includes balances in respect of contracts, which are legally reinsurance contracts but do not meet the definition of a reinsurance contract under IFRS Amounts recoverable from reinsurers are estimated in a manner consistent with the 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 reinsurer

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 a reliably measurable impact on the amounts that the Company will receive from the reinsurer

(K) Acquired value of in-force business ("AVIF") and intangible assets

AVIF

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset If the AVIF results from the acquisition of an investment in a joint venture or an associate, it is held within the carrying amount of that investment The AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value The value of the acquired in-force long-term business is reviewed annually for any impairment in value and any reductions are charged as expenses in the income statement

Intangible assets

Costs of developing and acquiring intangible assets are capitalised only if the asset can be reliably measured, will generate future economic benefits and there is an ability to use or sell the asset An impairment review is carried out at each reporting date and an impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable amount

Intangible assets consist of software internally generated in a fellow group undertaking and amortised over their useful lives of five years using the straight line method The amortisation charge for the period is included in the income statement under operating expenses

(L) Subsidiaries

Subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by MCEV and IFRS net asset value Subsidiaries managed on a fair value basis are classified as held at fair value through profit or loss, with movements recognised in the income statement Subsidiaries for which fair values cannot be measured reliably are recognised at cost less impairment Fair values cannot be measured reliably where there is no active market for shares in the subsidiary and the variability in the range of reasonable fair value estimates is significant

Dividends from subsidiaries are recognised when declared and approved

(M) Associates and joint ventures

Property management undertakings

The Company has invested in a number of property limited partnerships (PLPs), either directly or via property unit trusts (PUTs), through a mix of capital and loans The PLPs are managed by general partners (GPs) in which the Company holds equity stakes and which themselves hold nominal stakes in the PLPs The PUTs are managed by a fellow group subsidiary Accounting for the PUTs and PLPs as subsidiaries, associates, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms of each partnership agreement Where the Company exerts control over a PLP it has been treated as a subsidiary Where the partnership is managed by a contractual agreement such that no party exerts control, notwithstanding that the Company's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be greater than 50%, such PUTs and PLPs have been classified as joint ventures Where the Company has significant influence over a partnership, but not control, the investment is classified as an associate Generally, it is presumed that the Company has significant influence if it has between 20% and 50% of voting rights Where the Company holds minority stakes in PLPs, with no disproportionate influence, the relevant investments are carried at fair value through profit or loss within financial investments

Associates and joint ventures

Associates and joint ventures are stated at their fair values, estimated using applicable valuation models underpinned by MCEV and IFRS net asset value Associates and joint ventures are managed on a fair value basis and classified as held at fair value through profit or loss, with movements recognised in the income statement

(N) Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation

Investment properties under construction are included within property and equipment until completion, and are stated at cost less provision for any impairment in their values until construction is completed or fair value becomes reliably measurable

Depreciation is calculated using the straight line method to write down the cost of assets to their residual values over their estimated useful lives as follows

Properties under construction	No depreciation
Computer equipment	Three to five years
Other assets	Three to five years

Land is not depreciated

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

(O) 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 or by qualified staff of the Aviva Group Changes in fair values are recorded in the income statement within net investment income

As described in policy N above, investment properties under construction are included within property and equipment, and are stated at cost less any provision for impairment in their values until construction is completed or fair value becomes reliably measurable

(P) Impairment of non-financial assets

Property and equipment and other non-financial assets held at cost 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 Non-financial assets except goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting dates

(Q) 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 has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

A financial liability is derecognised when the obligation under the liability is discharged, 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

(R) Financial investments

The Company classifies its investments as financial assets at fair value through profit or loss (FV) 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')

In general, the FV category is used as, in most cases, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis In certain circumstances, the FV category is used where this eliminates an accounting mismatch Derivatives, which the Company buys with the intention to resell, are classified as trading All other 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 recorded at their fair value, which is initially taken to be amortised cost, with amortisation credited or charged to the income statement Investments classified as trading and other than trading are subsequently carried at fair value Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise

Investments carried at fair value are measured using a fair value hierarchy, described in note 11, with values 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

(S) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, commodity values or equity instruments All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost They are subsequently re-measured at their fair value 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 in 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 and swaps Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Group's exposure to credit risk

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the statement of financial position as they do not represent the potential gain or loss associated with such transactions These amounts are disclosed in note 33

The Group has collateral agreements in place between the individual Group entities and relevant counterparties Accounting policy (U) below covers collateral, both received and pledged, in respect of these derivatives

(T) Loans

Loans with fixed maturities, including policyholder loans 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 Loans with indefinite future lives are carried at unpaid principal balances or cost

For mortgage loans, the Company has taken advantage of the revised fair value option under IAS 39 to present the mortgages at fair value, since they are managed as a portfolio on a fair value basis This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these items The fair values of mortgages classified as FV are estimated using discounted cash flow forecasts, based on a risk-adjusted discount rate which reflects the risks associated with these products They are revalued at each period end, with movements in their fair values being taken to the income statement

At each reporting date, loans carried at amortised cost are reviewed for objective evidence that they are impaired and uncollectable, either at the level of an individual security or collectively within a group of loans with similar credit risk characteristics To the extent that a loan is uncollectible, it is written down as impaired to its recoverable amount, measured as the present value of expected future cash flows discounted at the original effective interest rate of the loan, including any collateral receivable Subsequent recoveries in excess of the loan's written down carrying value are credited to the income statement

(U) Collateral

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, as well as 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 Non-cash collateral received is not recognised in the statement of financial position unless the Company either (a) sells or repledges these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability, or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset

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

(V) Deferred acquisition costs

The costs directly attributable to the acquisition of new business for non-participating insurance contracts are deferred to the extent that they are expected to be recoverable out of future margins in revenues on these contracts For participating contracts, acquisition costs are generally not deferred, as the liability for these contracts is calculated in accordance with the FSA's realistic capital regime and FRS 27 For non-participating investment contracts, incremental acquisition costs and sales enhancements that are directly attributable to securing an investment management service are also deferred

Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and is treated as a separate liability

Deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of future margins Deferrable acquisition costs for non-participating investment contracts are amortised over the period in which the service is provided

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

(W) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held on call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the statement of financial position

Operating cash flows

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

(X) 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 more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made

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

(Y) 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 principal temporary differences arise from unrealised gains and losses on capital assets, deferred acquisition costs, tax acquisition expenses and tax losses carried forward The rates enacted or substantively enacted at the statement of financial position date are used to determine the deferred tax

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 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

In addition to paying tax on shareholders' profits, the Company pays tax on policyholders' investment returns ("policyholder tax") on certain products at policyholder tax rates Policyholder tax is accounted for as an income tax and is included within the total tax expense

(Z) Borrowings

Borrowings are recognised initially at their issue proceeds less transaction costs incurred Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method All borrowing costs are expensed as they are incurred except where they are directly attributable to the acquisition or construction of property and equipment as described in policy N above

(AA) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities Accordingly, a financial instrument is treated as equity if

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets

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

(AB) Leases

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases Assets in such leases are included in investment properties, and are stated at fair value 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 The Company has not entered into any material finance lease arrangements either as lessor or lessee

Aviva Life & Pensions UK Limited
Income statement
For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Income	1		
Gross written premiums		**2,390**	2,599
Premiums ceded to reinsurers		**(501)**	(488)
Net premiums earned	E	**1,889**	2,111
Fee and commission income	F	**286**	250
Net investment income	G	**6,239**	1,754
		8,414	4,115
Expenses	2		
Claims and benefits paid, net of recoveries from reinsurers		**(6,636)**	(6,879)
Change in insurance liabilities, net of reinsurance		**2,945**	2,763
Change in investment contract provisions		**(2,612)**	722
Change in unallocated divisible surplus		**(369)**	382
Fee and commission expense		**(619)**	(529)
Other expenses		**(518)**	(580)
Finance costs		**(58)**	(92)
Profit / (loss) before tax		**547**	(98)
Tax (expense) / credit	Y & 5	**(50)**	210
Profit for the year		**497**	112

The Company has no other comprehensive income

The accounting policies (identified alphabetically) on pages 7 to 16 and notes (identified numerically) on pages 21 to 68 are an integral part of these financial statements

Aviva Life & Pensions UK Limited
Statement of financial position
As at 31 December 2012

	Note	2012 £m	2011 £m
Assets			
Acquired value of in-force business and intangible assets	K & 6	**93**	149
Investments in subsidiaries	L & 7	**2,958**	2,915
Investments in joint ventures and associates	M & 8	**1,093**	1,222
Property and equipment	N & 9	**123**	164
Investment property	O & 10	**3,886**	4,580
Loans	T & 12	**6,175**	7,353
Financial investments	R & 13	**68,955**	68,290
Reinsurance assets	J & 14	**4,226**	3,836
Receivables	15	**1,458**	1,199
Current tax asset	Y & 24	**7**	-
Deferred tax asset	Y & 24	**-**	19
Deferred acquisition costs	V & 16	**1,210**	1,257
Prepayments and accrued income	16(c)	**533**	587
Cash and cash equivalents	W & 30(b)	**6,720**	5,870
Total assets		**97,437**	97,441
Equity			
Ordinary share capital	AA & 17	**100**	100
Share premium	17	**623**	623
Retained earnings	18	**3,904**	3,530
Total equity		**4,627**	4,253
Liabilities			
Gross insurance liabilities	H & 19	**39,130**	41,831
Gross liability for investment contracts	H, I & 20	**45,952**	42,933
Unallocated divisible surplus	H & 23	**2,038**	1,669
Deferred tax liabilities	Y & 24	**1**	-
Current tax liabilities	Y & 24	**-**	99
Borrowings	Z & 25	**257**	260
Payables and other financial liabilities	26	**5,342**	6,261
Other liabilities	27	**90**	135
Total liabilities		**92,810**	93,188
Total equity and liabilities		**97,437**	97,441

Approved by the Board on 25 March 2013

D B Barral Director

The accounting policies (identified alphabetically) on pages 7 to 16 and notes (identified numerically) on pages 21 to 68 are an integral part of these financial statements

Aviva Life & Pensions UK Limited

Statement of changes in equity

For the year ended 31 December 2012

	Note	Ordinary share capital	Share premium	Retained earnings	Total equity
		£m	£m	£m	£m
Balance at 1 January 2011		100	623	3,653	**4,376**
Profit for the year		-	-	112	**112**
Dividends	AA & 18	-	-	(235)	**(235)**
Balance at 31 December 2011		100	623	3,530	**4,253**
Profit for the year		-	-	497	**497**
Dividends	AA & 18	-	-	(123)	**(123)**
Balance at 31 December 2012		100	623	3,904	**4,627**

The accounting policies (identified alphabetically) on pages 7 to 16 and notes (identified numerically) on pages 21 to 68 are an integral part of these financial statements

Aviva Life & Pensions UK Limited
Statement of cash flows
For the year ended 31 December 2012

The cash flows presented in this statement cover all the Company's activities and include flows from policyholder and shareholder activities

	Note	2012 £m	2011 £m
Cash flows from operating activities			
Cash generated / (used) in operations	30(a)	**1,044**	(436)
Tax paid		**(62)**	(56)
Net cash generated / (used) in operating activities		**982**	(492)
Cash flows from investing activities			
Acquisitions of subsidiaries, joint ventures and associates		**(210)**	(151)
Disposals of subsidiaries, joint ventures and associates		**224**	44
Purchases of property and equipment		**(16)**	(42)
Additions to intangible assets		**(16)**	(14)
Net cash used in investing activities		**(18)**	(163)
Cash flows from financing activities			
Accelerated claims payment received net of surplus		**54**	43
Repayment of borrowings		**(43)**	-
Interest paid on borrowings		**(19)**	(60)
Dividends paid		**(123)**	(235)
Net cash used in financing activities		**(131)**	(252)
Net increase / (decrease) in cash and cash equivalents		**833**	(907)
Cash and cash equivalents at 1 January		**5,790**	6,165
Cash and cash equivalents transferred from fellow group undertakings		**-**	532
Cash and cash equivalents at 31 December	30(b)	**6,623**	5,790

The accounting policies (identified alphabetically) on pages 7 to 16 and notes (identified numerically) on pages 21 to 68 are an integral part of these financial statements

1. Income

	2012 £m	2011 Restated £m
Gross written premiums		
Insurance contracts	**2,007**	2,210
Participating investment contracts	**383**	389
	2,390	2,599
Less Premiums ceded to reinsurers	**(501)**	(488)
Net premiums earned	**1,889**	2,111
Fee and commission income	**286**	250
Total revenue	**2,175**	2,361
Net investment income		
Interest and similar income	**1,071**	1,204
Dividend income	**1,276**	1,327
Other income from investments designated as trading		
Realised losses on disposals	**(463)**	(298)
Unrealised gains / losses		
(Losses) / gains arising in the year	**(109)**	262
Losses / (gains) recognised in prior periods and now realised	**87**	(94)
Other income from investments designated as other than trading		
Realised gains on disposals	**1,406**	1,439
Unrealised gains / losses		
Gains / (losses) arising in the year	**3,476**	(980)
Gains recognised in prior periods and now realised	**(562)**	(1,385)
Foreign exchange gains / (losses)	**144**	(24)
Net income from investment properties		
Rent	**314**	333
Expenses relating to properties with rental income	**(52)**	(47)
Expenses relating to properties without rental income	**-**	(1)
Realised gains on disposal	**12**	57
Fair value (losses) / gains on investment properties	**(224)**	64
Fair value gains on property under construction	**-**	32
Other investment expenses	**(137)**	(135)
Net investment income	**6,239**	1,754
Total income	**8,414**	4,115

The prior year comparatives for gross written premiums in the above note have been restated, with a £709 million increase in insurance contracts and an equal reduction in participating investment contracts The revised amounts bring the product allocation into line with the existing classification of insurance and investment contract liabilities, pursuant to accounting policy D There is no impact on either the income statement or the statement of financial position

Gains recognised in the income statement relating to assets and liabilities still held at the Statement of Financial Position date were £35 million (*2011 £nil*).

2. Expenses

	2012	2011 Restated
	£m	£m
Claims and benefits paid to policyholders		
Insurance contracts	5,937	6,038
Participating investment contracts	1,188	1,161
	7,125	7,199
Less Claim recoveries from reinsurers		
Insurance contracts	(489)	(320)
Claims and benefits paid, net of recoveries from reinsurers	6,636	6,879
Change in insurance liabilities	(2,701)	(2,274)
Less Change in reinsurance asset for insurance provisions	(244)	(489)
Change in insurance liabilities, net of reinsurance	(2,945)	(2,763)
Investment income allocated to investment contracts	2,781	(285)
Other changes in provisions		
Participating investment contracts	(169)	(437)
Change in investment contract provisions	2,612	(722)
Change in unallocated divisible surplus	369	(382)
Acquisition costs		
Commission expenses and other acquisition costs for insurance and participating investment contracts	452	398
Change in deferred acquisition costs for insurance and participating investment contracts	(12)	6
Commission expenses for non-participating investment contracts	100	93
Change in deferred acquisition costs for non-participating investment contracts	59	3
Other fee and commission expense	20	29
Fee and commission expense	619	529
Other	518	401
Impairments (see note 7)	-	179
Other expenses	518	580
Other similar charges	58	92
Finance costs	58	92
Total expenses	7,867	4,213

Other expenses includes £72 million (*2011 £33million*) relating to amortisation of AVIF and impairment of intangible assets in the year

The prior year comparatives for claims and benefits paid to policyholders in the above note have been restated, with a £555 million increase in insurance contracts and an equal reduction in participating investment contracts The revised amounts bring the product allocation into line with the existing classification of insurance and investment contract liabilities, pursuant to accounting policy D There is no impact on either the income statement or the statement of financial position

3. Directors' emoluments

G S Boffey resigned as a director of the Company on 30 November 2012 and details of his termination benefits are not included in the emoluments as they are still subject to finalisation at date of the approval of the financial statements

Emoluments of directors in office during 2012 were

	2012	2011 Restated
	£'000	£'000
Aggregate emoluments in respect of qualifying services	1,880	2,475
Company pension contributions to money purchase scheme	64	72
Company pension contributions to final salary scheme	-	66
Accrued pension at end of year from defined benefit pension scheme	121	187
Emoluments of the highest paid director		
Aggregate emoluments in respect of qualifying services	537	598
Company pension contributions to money purchase scheme	-	26
Company pension contributions to final salary scheme	-	19
Accrued pension at end of year from defined benefit pension scheme	15	57

In the 2011 prior year financial statements, total emoluments of directors' within Aviva Life & Pensions UK Limited and its subsidiary Aviva Annuity UK Limited were disclosed in both financial statements In the 2012 current year financial statements, the emoluments of directors' have been apportioned on the basis of two-thirds of director's costs being allocated to the Company and the remaining balance being allocated to the subsidiary, to provide a more accurate representation of time spent The 2011 comparative figures have been apportioned using the same methodology, resulting in differences to the balances reported in the prior year financial statements

The highest paid director exercised share options during the year and received shares under the executive long-term incentive scheme

Certain of the directors are covered by private medical insurance provided by Aviva Insurance UK Limited Payments may be made to, or on behalf of, directors, subject to the normal policy rules

No lump sum in relation to the defined benefit pension scheme had accrued at the end of the current or previous year

During the year 6 directors exercised share options and 8 of the directors received shares under long term incentive schemes

4. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditor, PricewaterhouseCoopers LLP and its associates (2011 Ernst and Young LLP), in respect of the audit of these financial statements, is shown below

	2012	2011
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	836	1,194

Fees paid to PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company are not disclosed in these accounts since the consolidated accounts of the Company's ultimate parent company, Aviva plc (see note 34), are required to disclose other (non-audit) services on a consolidated basis

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies

5. Tax

(a) Tax charged / (credited) to the income statement

(i) The total tax charge / (credit) comprises.

	2012 £m	2011 £m
Current tax		
For the year	**72**	161
Prior year adjustments	**(42)**	(19)
Total current tax	**30**	142
Deferred tax		
Origination and reversal of temporary differences	**47**	(323)
Changes in tax rates or tax laws	**(27)**	(29)
Total deferred tax	**20**	(352)
Total tax charged / (credited) to the income statement (note 5 (b))	**50**	(210)

(ii) Deferred tax charged / (credited) to the income statement represents movements on the following items.

	2012 £m	2011 £m
Deferred acquisition costs	**(24)**	(19)
Unrealised gains / (losses) on investments	**118**	(183)
Unused losses and tax credits	**12**	(58)
Provisions and other temporary differences	**(86)**	(92)
Total deferred tax charged / (credited) to the income statement	**20**	(352)

(b) Tax reconciliation

The tax on the Company's profit before tax differs from tax calculated at the standard UK corporation tax rate as follows

	2012	2011
	£m	£m
Profit / (loss) before tax	**547**	(98)
Tax calculated at standard UK corporation tax rate of 24 5% *(2011 26 5%)*	**134**	(26)
Different basis of tax for UK life insurance	**137**	(111)
Adjustment to tax charge in respect of prior years	**(42)**	(19)
Non-assessable dividends	**(1)**	(49)
Disallowable expenses	**15**	8
Reduction in future UK tax rate	**(23)**	(29)
Movements in unrealised gains	**(65)**	15
Surrender of losses from group undertakings for no charge	**(105)**	-
Other	**-**	1
Total tax charged / (credited) to the income statement (note 5 (a))	**50**	(210)

The UK corporation tax rate reduced to 24% from 1 April 2012 A subsequent reduction in the UK corporation tax rate to 23% was substantively enacted on 3 July 2012 and will apply from 1 April 2013 The substantively enacted rate of 23% has been used in the calculation of the UK's deferred tax assets and liabilities As announced in the 2012 Autumn statement, the rate is expected to reduce further to 21% from 1 April 2014 The aggregate impact of the reduction in rate from 23% to 21% would reduce the deferred tax assets and liabilities and increase IFRS net assets by approximately £30 million and will be recognised when the legislation is substantively enacted

Finance Act 2012 included initial legislation introducing considerable changes to the regime for taxing UK life insurance companies applicable from 1 January 2013 The impact of the legislation has been included in the results of the Company for the year ended 31 December 2012 but has not had a material impact

6. Acquired value of in-force business (AVIF) and intangible assets

	AVIF £m	Intangible assets £m
Gross amount		
At 1 January 2011	-	-
Additions	-	14
Amount transferred from investment in subsidiaries (see note 35)	168	-
At 31 December 2011	168	14
Additions	-	16
At 31 December 2012	**168**	**30**
Accumulated amortisation & impairment		
At 1 January 2011	-	-
Amortisation	(33)	-
At 31 December 2011	(33)	-
Amortisation	(58)	(3)
Impairment	-	(11)
At 31 December 2012	**(91)**	**(14)**
Carrying amount		
At 1 January 2011	-	-
At 31 December 2011	135	14
At 31 December 2012	77	16

Following a review of internal software development costs during 2011 the decision was made to hold intangible assets in the company receiving the benefits of the development, following completion of the project Consequently, the intangible asset relating to the new UKL protection proposition was transferred from a fellow group undertaking, Aviva Life Services UK Limited on 31 December 2011, for consideration equal to the amortised cost At 31 December 2012, a decision was taken to fully impair the first phase of the UKL protection proposition as a result of cost increases and volumes being significantly below expected values The carrying value at 31 December 2012 is £nil

The intangible asset relating to the second phase of the new UKL protection proposition was transferred from Aviva Life Services UK Limited in October 2012, for consideration equal to the amortised cost The second phase of the protection proposition involves different business partners to the first phase and there is no indication of impairment at 31 December 2012

7. Investments in subsidiaries

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

	2012 £m	2011 £m
Carrying amount at 1 January	**2,915**	3,494
Investments transferred from fellow group undertakings (see note 35)	**-**	(372)
Investments transferred to AVIF (see note 6)	**-**	(168)
Investments reclassified as Unit Trusts	**(175)**	-
Impairments	**-**	(179)
Investments transferred from joint ventures and associates	**107**	7
Additions	**117**	121
Disposals	**(163)**	(6)
Fair value gains	**157**	18
At 31 December	**2,958**	2,915

On 17 August 2011 and 2 December 2011, dividends of £120 million and £54 million respectively were paid to the Company by Aviva Life UK Limited (ALUK), a subsidiary undertaking The dividends triggered impairments in the valuation of ALUK of £120 million and £54 million

On 16 December 2011, a dividend of £5 million was paid to the Company by Undershaft (NUL) UK Limited (NULUK) (formerly Norwich Union Life (RBS) Limited) a subsidiary undertaking The dividend triggered an impairment in the valuation of NULUK of £5 million

Other distributions received from subsidiaries during the year amounted to £98 million *(2011 £42 million)*

On 30 September 2011, the net assets of Aviva (Peak No 2) Limited (Peak 2) and Aviva (Peak No 1) Limited (Peak 1), subsidiary undertakings of the Company via the intermediate holding companies ALUK and Aviva Life Investments Limited (ALI), were transferred to the Company (see note 35) The value of the tangible net assets transferred was £372 million and was accounted for as a return of capital At the same time £168 million of AVIF implicitly recognised in the valuation of the subsidiaries was explicitly recognised on the balance sheet (see note 6)

Subsidiaries are stated at their fair values, estimated using applicable valuation models underpinned by MCEV and IFRS net asset value

(b) Additions

During the year the Company made an investment of £28 million in Aviva Special PFI Limited Partnership, further investments of £5 million in Aviva Pension Trustees UK Limited (*2011 £6 million*), and £84 million in property limited partnerships (*2011 £115 million*)

(c) Disposals

Disposals of property limited partnerships totalled £163 million during the year (*2011 £6 million*) No further disposals were made during the year (*2011 £nil*)

(d) The principal subsidiaries are as follows:

Subsidiary	Principal activity	Percentage of ownership	Incorporated in
Aviva Annuity UK Limited	Annuity life assurance	100%	England
Aviva Equity Release UK Limited	Equity release products	100%	England
The Cardiff Bay Partnership	Property ownership and management	100%	England
The Retirement Housing Partnership	Property ownership and management	100%	England
Paddington Central I Limited Partnership	Property ownership and management	56%	England
Paddington Central II Limited Partnership	Property ownership and management	100%	England
Quarryvale One Limited	Holding company for Quarryvale Three Limited	100%	England
Quarryvale Three Limited	Investment in, and development of, property in the Republic of Ireland	100%	England
Anna Livia Properties Limited	Investment in, and development of, property in the Republic of Ireland	100%	Republic of Ireland
20 Gracechurch Street Unit Trust	Property ownership and management	100%	England
Capital Residential Fund Unit Trust	Property ownership and management	88%	England
The Designer Retail Outlet Centres Limited Partnership	Property ownership and management	97%	England
The Lime Property Fund Unit Trust	Property ownership and management	16%	England

8. Investments in joint ventures and associates

(a) Movements in the Company's investments in joint ventures and associates are as follows:

	2012 £m	2011 £m
Carrying amount at 1 January	**1,222**	1,244
Investments transferred to investments in subsidiaries	**(107)**	(7)
Additions	**93**	30
Disposals	**(61)**	(38)
Fair value losses	**(54)**	(7)
At 31 December	**1,093**	1,222

Associates and joint ventures are stated at their fair values The principal associates and joint ventures included above are as follows

Company	Proportion held
Airport Property Partnership	50 0%
Arena Property Unit Trust	50 0%
Ashtenne Industrial Fund Unit Trust	43 7%
The Mall Limited Partnership	50 5%
Paddington Central 4 Limited Partnership	50 0%
Queensgate Limited Partnership	50 0%
Quercus Healthcare JPUT	29 3%
2-10 Mortimer Street Limited Partnership	28 0%
The Southgate Limited Partnership	50 0%

All the above entities perform property ownership and management activities, and are incorporated and operate in Great Britain

Distributions received from joint ventures during the year amounted to £33 million *(2011 £33 million)*

The joint ventures have no significant contingent liabilities to which the Company is exposed, nor has the Company any significant contingent liabilities in relation to its interest in the joint ventures

Most of the property limited partnerships (PLPs) have raised external debt, secured on their respective property portfolios The lenders are only entitled to obtain payment, of both interest and principal, to the extent that there are sufficient resources in the respective PLPs The lenders have no recourse whatsoever to the Company

9. Property and equipment

	Properties under construction	Computer equipment	Other assets	Total
	£m	£m	£m	£m
Cost or valuation				
At January 2011	90	43	28	161
Additions	42	-	-	42
Fair value gains	32	-	-	32
At 31 December 2011	164	43	28	235
Additions	16	-	-	16
Transfer to investment property (note 10)	(57)	-	-	(57)
At 31 December 2012	123	43	28	194
Accumulated depreciation				
At 1 January and 31 December 2011	-	43	28	71
Charge for the year	-	-	-	-
At 31 December 2012	-	**43**	**28**	**71**
Carrying amount				
At 1 January 2011	90	-	-	90
At 31 December 2011	164	-	-	164
At 31 December 2012	**123**	-	-	**123**

10. Investment property

(a) Carrying amounts

	Freehold £m	Leasehold £m	Total £m
Carrying amount at 1 January 2011	3,623	1,161	4,784
Additions	31	9	40
Capitalised expenditure on existing properties	18	1	19
Fair value gains	98	23	121
Disposals	(380)	(4)	(384)
At 31 December 2011	3,390	1,190	4,580
Additions	42	-	42
Transfer from property and equipment (note 9)	57	-	57
Capitalised expenditure on existing properties	52	4	56
Fair value losses	(165)	(47)	(212)
Disposals	(486)	(151)	(637)
At 31 December 2012	**2,890**	**996**	**3,886**

Investment property in the UK is valued at least annually by external chartered surveyors at open market values in accordance with the guidance issued by The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period In the event of a material change in market conditions between the valuation date and balance sheet date, adjustments are made to reflect any material changes in fair value

Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking into consideration lease incentives and assuming no future growth in the estimated rental value of the property This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties

(b) Operating leases

The fair value of investment properties leased to third parties under operating leases, all of which are on commercial terms, is as follows

	2012 £m	2011 £m
Freeholds	**2,569**	3,099
Long leaseholds – over 50 years	**931**	1,088
	3,500	4,187

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

	2012 £m	2011 £m
Within one year	**238**	276
Later than one year and not later than five years	**735**	848
Later than five years	**1,458**	1,508
	2,431	2,632

11. Fair value methodology

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

For financial assets and liabilities carried at fair value, the measurement basis has been categorised 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

- 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, current property values and default rates)
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs)

Modelled with significant unobservable market inputs – ("Level 3")

Inputs to Level 3 fair values are unobservable inputs for the asset 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 business unit considers that market participants would use in pricing the asset Examples are certain private equity investments and private placements

(b) Fair value hierarchy analysis

An analysis of financial assets and liabilities according to fair value hierarchy is given below

2012

	Fair Value Hierarchy					
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total Fair Value £m	Amortised cost £m	Statement of financial position total £m
Financial investments and loans (notes 13 and 12)						
Loans	-	1,194	-	1,194	4,981	6,175
Debt securities	26 196	221	1,016	27,433	-	27,433
Equity securities	21 892	-	8	21,900	-	21,900
Other investments (including derivatives)	17 130	730	1 762	19,622	-	19,622
Total	65,218	2,145	2,786	70,149	4,981	75,130
Financial liabilities						
Non-participating investment contracts (note 20)	33,784	-	-	33,784	-	33,784
Borrowings (note 25)	-	-	-	-	257	257
Derivative liabilities (note 26)	41	72	-	113	-	113
Total	33,825	72	-	33,897	257	34,154

Discussion on the valuation techniques applied to value financial liabilities carried at fair value is included in the relevant footnote disclosure for the financial liability

For the year to 31 December 2012, transfers from fair value hierarchy Level 1 to Level 2 amounted to £13 million (*2011 £64 million*), and from Level 2 to Level 1 amounted to £36 million (*2011 £9 million*) The transfers arose as a result of changes in levels of activity in the markets from which prices are sourced

2011

	Fair Value Hierarchy					
	Level 1 £m	Level 2 £m	Level 3 £m	Sub-total Fair Value £m	Amortised cost £m	Statement of financial position total £m
Financial investments and loans (notes 13 and 12)						
Loans	-	1 336	-	1,336	6,017	7,353
Debt securities	27 028	239	1,167	28 434	-	28 434
Equity securities	20,979	-	23	21,002	-	21 002
Other investments (including derivatives)	16 258	822	1,774	18,854	-	18,854
Total	64 265	2,397	2,964	69 626	6,017	75 643
Financial liabilities						
Non-participating investment contracts (note 20)	30 596	-	-	30,596	-	30,596
Borrowings (note 25)	-	-	-	-	260	260
Derivative liabilities (note 26)	64	83	27	174	-	174
Total	30,660	83	27	30,770	260	31 030

(c) Further information on Level 3 financial instruments

(i) The tables below show movements in the Level 3 financial assets and liabilities measured at fair value

2012	Debt securities £m	Equity securities £m	Other investments £m	Financial investments Total £m	Financial liabilities Total £m
Balance at 1 January	**1,167**	**23**	**1,774**	**2,964**	**27**
Total net gains / (losses) recognised in the income statement	**38**	**-**	**(2)**	**36**	**-**
Purchases	**-**	**-**	**274**	**274**	**(27)**
Disposals	**(154)**	**(17)**	**(284)**	**(455)**	**-**
Transfers into Level 3	**12**	**2**	**-**	**14**	**-**
Transfers out of Level 3	**-**	**-**	**-**	**-**	**-**
Foreign exchange movements	**(47)**	**-**	**-**	**(47)**	**-**
Balance at 31 December	**1,016**	**8**	**1,762**	**2,786**	**-**

2011	Debt securities £m	Equity securities £m	Other investments £m	Financial investments Total £m	Financial liabilities Total £m
Balance at 1 January	1,186	25	1 704	2,915	-
Total net gains / (losses) recognised in the income statement	(40)	5	115	80	27
Purchases	43	-	272	315	-
Disposals	(13)	(4)	(337)	(354)	-
Transfers into Level 3	-	-	48	48	-
Transfers out of Level 3	(7)	(3)	(24)	(34)	-
Foreign exchange movements	(2)	-	(4)	(6)	
Balance at 31 December	1 167	23	1,774	2,964	27

The Company assesses the fair value hierarchy of its financial investments biannually at 30 June and 31 December

Transfers into and out of Level 3 arose for the following reasons

- Changes in the market observability of valuation inputs
- Changes in the market observability of inputs used to validate valuations

£36 million (*2011 £80 million*) of net gains were recognised in the income statement during the year for Level 3 financial instruments within net investment income

(ii) The principal investments classified as Level 3, and the valuation techniques applied to them, are

- Private equity investment funds held by the Company amounting to £1 1bn In valuing our interest in these funds, we rely on investment valuation reports received from the fund manager, making adjustments for items such as subsequent draw downs and distributions between the date of the report and valuation date and the fund manager's carried interest

- External hedge fund investments held by the Company amounting to £0 6bn, valued using the net asset values obtained from the fund manager administrators Investors are unable to obtain details of the underlying assets on a timely basis to establish their composition and classification, hence these have been classified as Level 3 investments

- Notes issued by loan partnerships held by the Company amounting to £1 0bn, for which there is no active market These are valued using counterparty quotes, benchmarked against the prices of selected similar securities However, there are insufficient market observable transactions in the selected securities to provide a reliable proxy price to corroborate the counterparty price

(iii) The table below shows the sensitivity of the fair value of Level 3 investments at 31 December 2012 to changes in unobservable inputs to a reasonable alternative

	2012		Change in fair value	
	Fair value £m	Most significant unobservable inputs	Positive impact £m	Negative impact £m
Fixed maturity securities				
Structured bonds	-	Credit spreads	-	-
Loan partnership notes	1,003	Credit spreads	20	(85)
Other	13	Illiquidity spreads	-	-
Equity securities				
Unlisted/private equities directly held	8	Multiple of IFRS net asset value	2	(2)
Other investments				
Hedge funds with significant level 3 investments	609	Multiple of IFRS net asset value	122	(122)
Unlisted investment funds invested in private equities	1,153	Multiple of IFRS net asset value	231	(231)
Total Level 3 investments	2,786		375	(440)

	2011		Change in fair value	
	Fair value £m	Most significant unobservable inputs	Positive impact £m	Negative impact £m
Fixed maturity securities				
Structured bonds	-	Multiple of IFRS net asset value	-	-
Loan partnership notes	1,167	Credit spreads	23	(23)
Other	-	Multiple of IFRS net asset value	-	-
Equity securities				
Unlisted/private equities directly held	23	Multiple of IFRS net asset value	-	-
Other investments				
Hedge funds with significant level 3 investments	584	Multiple of IFRS net asset value	12	(12)
Unlisted investment funds invested in private equities	1,190	Multiple of IFRS net asset value	24	(24)
Total Level 3 investments	2,964		59	(59)

For level 3 financial liabilities, changing one or more unobservable inputs to a reasonable alternative would not have a significant impact on the fair value of financial liabilities carried at fair value

For the year ended 31 December 2011, we reported that changing one or more unobservable inputs to a reasonable alternative would not have had a significant impact on the fair value of financial investments carried at fair value

100% *(2011 100%)* of valuations for Level 3 investments are sourced from independent third parties, usually validated against internally modelled valuations Where these third parties are unwilling to provide a sensitivity analysis for their valuations, the analysis in the above table has been prepared on the following basis

- For third party valuations validated against internally modelled valuations using significant unobservable inputs, the table reflects the sensitivity of the internally modelled valuation to changes in unobservable inputs to a reasonable alternative
- For third party valuations either not validated or validated against a Level 2 internally modelled valuation, the third party valuation in its entirety is considered an unobservable input The sensitivity analysis above is determined by flexing to a reasonable alternative the yield, NAV multiple, IRR or other suitable valuation multiples of the financial instrument implied by the third party valuation For example, for a fixed income security the implied yield would be the rate of return which discounts the security's contractual cash flows to equal the third party valuation

12. Loans

(a) Carrying amounts

	2012	2011
	£m	£m
Policy loans	**26**	35
Mortgage loans	**1,194**	1,336
Loans to credit institutions	**4,006**	4,987
Loans to parent	**179**	170
Loans to subsidiaries	**256**	306
Loans to fellow subsidiaries	**130**	131
Other loans	**384**	388
	6,175	7,353

£1,194 million *(2011 £1,336 million)* of the above mortgage loans are Commercial Mortgages The majority of mortgages are valued using a Portfolio Credit Risk Model (PCRM) This model calculates a Credit Risk Adjusted Value (CRAV) for each mortgage The risk adjusted cash flows are discounted using a yield curve, taking into account the term dependant gilt yield curve, and global assumption for the liquidity premium

The CRAV model provides consistency in valuation of assets and related liabilities, with both being discounted using a yield curve including an allowance for liquidity This ensures consistency with assumptions used in the Company's Individual Capital Assessment (ICA)

The amount of change in the fair value of mortgage loans attributable to changes in the credit risk during the year was a £35 million loss *(2011 £58 million loss)* The cumulative amount of such change was £237 million *(2011 £202 million)*

Further details of the fair value methodology are given in note 11

Of the above total, £1,691 million *(2011 £1,920 million)* is expected to be recovered more than one year after the statement of financial position date

The carrying amount of the above loans that are stated at amortised cost is £4,981 million *(2011 £6,017 million)* The corresponding fair value of these loans is £4,796m The carrying amount in 2011 was a reasonable approximation for fair value at the statement of financial position date

(b) Collateral

The Company holds collateral in respect of loans where it is considered appropriate, in order to reduce the risk of non-recovery This collateral generally takes the form of financial assets, liens or charges over properties and, in the case of policy loans, the underlying policy, for the majority of the loan balances above In all other situations, the collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts Transfer of title for the collateral received always occurs in such cases, although no market risk or benefit is taken In the event of a default, the Company is able to sell or repledge the collateral

The amount of collateral received with respect to loans which the Company is permitted to sell or repledge in the absence of default was £4,279 million *(2011 £5,282 million)* The value of collateral that was actually sold or repledged in the absence of default during the year was £nil *(2011 £nil)*

13. Financial investments

(a) Carrying amount

	At fair value through profit or loss		2012
	Trading £m	Other than trading £m	Total £m
Debt securities	-	27,433	**27,433**
Equity securities	-	21,900	**21,900**
Other investments			
Unit trusts	-	18,105	**18,105**
Derivative financial instruments	258	-	**258**
Other	-	1,259	**1,259**
	258	**68,697**	**68,955**

	At fair value through profit or loss		2011
	Trading £m	Other than trading £m	Total £m
Debt securities	-	28,434	28,434
Equity securities	-	21,002	21,002
Other investments			
Unit trusts	-	17,139	17,139
Derivative financial instruments	242	-	242
Other	-	1,473	1,473
	242	68,048	68,290

Of the above total, £58,792 million *(2011 £60,916 million)* is expected to be recovered more than one year after the statement of financial position date

(b) Stock lending arrangements

The Company has entered into stock lending arrangements during the year in accordance with established market conventions The majority of the Company's stock lending transactions occur in the UK, where investments are lent to EEA-regulated, locally domiciled counterparties and governed by agreements written under English law

Non-cash collateral received

The Company receives collateral in order to reduce the credit risk of these arrangements Collateral must be in a readily realisable form, such as listed securities, and is held in segregated accounts Transfer of title always occurs for collateral received, although no market risk or economic benefit is taken The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Company's risk exposure

In certain markets, the Company or the Company's appointed stock lending managers obtain legal ownership of the collateral received and can repledge it as collateral elsewhere or sell outright in the absence of default The carrying amounts of financial assets received and pledged in this manner at 31 December 2012 were £9,702 million and £nil respectively *(2011 £12,459 million and £nil respectively)*

Cash Collateral

In addition to the above the Company has received cash collateral under stock lending arrangements of £3,989 million *(2011 £5,174 million)*

(c) ***Non UK Government Debt Securities***

Non-UK Government Debt Securities	2012 Participating £m	2012 Shareholder £m	2012 Total £m	2011 Participating £m	2011 Shareholder £m	2011 Total £m
Austria	-	5	**5**	-	-	-
Belgium	12	-	**12**	1	-	1
France	300	-	**300**	304	8	312
Germany	587	7	**594**	459	15	474
Ireland	-	-	-	-	-	-
Italy	12	-	**12**	50	4	54
Netherlands	134	6	**140**	88	-	88
Poland	-	-	-	-	-	-
Portugal	-	-	-	4	-	4
Spain	2	-	**2**	2	-	2
European Supranational debt	1,334	10	**1,344**	1,217	61	1,278
Other European countries	3	7	**10**	22	-	22
Europe	2,384	35	**2,419**	2,147	88	2,235
Canada	2	-	**2**	4	-	4
United States	12	2	**14**	20	3	23
North America	14	2	**16**	24	3	27
Singapore	-	-	-	-	-	-
Sri Lanka	-	-	-	-	-	-
Other	210	1	**211**	256	7	263
Asia Pacific and Other	210	1	**211**	256	7	263
Total	2,608	38	**2,646**	2,427	98	2,525

The above table does not include the Company's unit-linked non UK government debt securities

(d) ***Exposure to Worldwide banks – debt and equity securities***

	Shareholder assets		2012	2012	Participating funds assets		2012	2012
Debt securities	**Total senior debt £m**	**Total subordinated debt £m**	**Total debt £m**	**Total equity £m**	**Total senior debt £m**	**Total subordinated debt £m**	**Total debt £m**	**Total equity £m**
Austria	13	3	16	-	-			
France	21	23	44	-	73	15	88	15
Germany	-	-	-	-	-	7	7	2
Ireland	-	-	-	-	13	13	26	-
Italy	1	1	2	-	4	4	8	2
Netherlands	31	134	165	-	172	53	225	8
Portugal	-	-	-	-	-	-	-	-
Spain	89	28	117	-	63	32	95	4
United Kingdom	873	213	1,086	-	481	393	874	457
United States	286	206	492	-	310	114	424	38
Other	91	92	183	-	127	101	228	375
Total	**1,405**	**700**	**2,105**	-	**1,243**	**732**	**1,975**	**901**
FY11 Total	**1,352**	**778**	**2,130**	-	**2,901**	**1,037**	**3,938**	**796**

The above table does not include the Company's unit-linked debt and equity securities

14. Reinsurance assets

(a) The carrying amounts at 31 December comprised:

	2012 £m	2011 £m
Insurance contracts	**2,653**	2,409
Non-participating investment contracts	**1,570**	1,425
Participating investment contracts	**3**	2
	4,226	3,836

Of the above total, £3,949 million *(2011 £3,311 million)* is expected to be recovered more than one year after the statement of financial position date

(b) Assumptions

The assumptions used for reinsurance contracts follow those used for insurance and investment contracts

Reinsurance assets are valued net of an allowance for their recoverability

(c) Movements

The following movements have occurred in reinsurance assets during the year

	2012 £m	2011 £m
Carrying amount at 1 January	**3,836**	2,805
Asset in respect of new business	**221**	346
Expected change in existing business assets	**106**	36
Variance between actual and expected experience	**258**	(18)
Impact of operating assumption changes	**(243)**	10
Impact of economic assumption changes	**48**	332
Change in assets	**390**	706
Business transferred from fellow group undertakings (see note 35)	**-**	325
At 31 December	**4,226**	3,836

The effects of changes in the main assumptions are given in note 22

15. Receivables

	2012 £m	2011 £m
Amounts owed by contract holders	**148**	196
Amounts owed by intermediaries	**17**	14
Amounts due from reinsurers	**113**	117
Amounts due from brokers for investment sales	**338**	258
Amounts due from parent companies	**170**	165
Amounts due from subsidiaries	**-**	2
Amounts due from fellow subsidiaries	**80**	72
Other receivables	**592**	375
	1,458	1,199

Concentrations of credit risk with respect to receivables are limited due to the size and spread of the Company's trading base

None of the above is expected to be recovered more than one year after the statement of financial position date *(2011 £nil)*

16. Deferred acquisition costs, other assets, prepayments and accrued income

(a) The carrying amount comprises:

	2012 £m	2011 £m
Deferred acquisition costs in respect of		
Insurance contracts	**438**	430
Participating investment contracts	**25**	21
Non-participating investment contracts	**747**	806
	1,210	1,257

Of the above total, £1,083 million *(2011 £1,141 million)* is expected to be recovered more than one year after the statement of financial position date

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

	2012 £m	2011 £m
Carrying amount at 1 January	**1,257**	1,189
Business transferred from fellow group undertakings (see note 35)	**-**	77
Acquisition costs deferred during the year	**152**	175
Impact of assumption changes	**10**	(37)
Amortisation	**(209)**	(147)
At 31 December	**1,210**	1,257

(c) Prepayments and accrued income

There are no prepayments or accrued income *(2011 £nil)* that are expected to be recovered more than one year after the statement of financial position date

17. Ordinary share capital and share premium

(a) Details of the Company's ordinary share capital at 31 December are as follows:

	2012 £m	2011 £m
The allotted, called up and fully paid share capital of the Company was 100,000,000 ordinary shares of £1 each	**100**	100

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) Share premium

	2012 £m	2011 £m
At 1 January and 31 December	**623**	623

18. Retained earnings

	2012 £m	2011 £m
At 1 January	**3,530**	3,653
Profit for the year	**497**	112
Dividends paid of £1 23 per share *(2011 £2 35 per share)*	**(123)**	(235)
At 31 December	**3,904**	3,530

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies imposed by the FSA Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital

19. Insurance liabilities

(a) The carrying amount comprises:

	2012 £m	2011 £m
Participating	**27,211**	30,373
Unit-linked non-participating	**4,303**	4,563
Other non-participating	**7,138**	6,453
Outstanding claims provisions	**478**	442
	39,130	41,831

Of the above total, £33,499 million *(2011 £35,966 million)* is expected to be paid more than one year after the statement of financial position date

(b) Insurance liabilities

(i) Business description

The Company underwrites long-term business as follows

- "with-profit" funds, where the with-profits policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance,
- "non-profit" funds, where shareholders are entitled to 100% of the distributed profits Following the transfer of the business of CGNU Life Assurance Limited (CGNU) and Commercial Union Life Assurance Company Limited (CULAC) into the Company with effect from 1 October 2009, the inherited estates of CGNU and CULAC were apportioned between the Non-Profit Sub-Fund (ring-fenced and known as the reattributed inherited estate external support account (RIEESA)) and the Old With-Profits Sub-Fund based on the election by eligible with-profits policyholders

  Although shareholders are entitled to 100% of profits distributed from the RIEESA, the Scheme of Transfer imposes conditions that must be met before a distribution can take place to ensure that sufficient protection for with-profit policyholder benefits is maintained

(ii) Methodology

(1) With-profit funds

The valuation of with-profit business uses the methodology developed for the Realistic Statement of Financial Position, adjusted to remove the shareholders' share of future bonuses The key elements of the Realistic Statement of Financial Position methodology are the with-profit benefit reserve (WPBR) and the present value of the expected cost of any payments in excess of the WPBR (referred to as the cost of future policy related liabilities) The realistic liability for any contract is equal to the sum of the WPBR and the cost of future policy related liabilities The WPBR for an individual contract is generally calculated on a retrospective basis, and represents the accumulation of the premiums paid on the contract, allowing for investment return, taxation, expenses and any other charges levied on the contract

For a small proportion of business, the retrospective approach is not available or is inappropriate, so a prospective valuation approach is used instead, including allowance for anticipated future regular and final bonuses

The items included in the cost of future policy related liabilities include

- Maturity Guarantees
- No market value reduction (MVR) guarantees
- Guaranteed Annuity Options (GAOs)
- Guaranteed Minimum Pension (GMP) underpin on Section 32 transfers
- Inflation guarantees
- Expected payments under the Mortgage Endowment Promise

This is offset by the expected cost of charges or credits to WPBR to be made in respect of guarantees

The costs of future policy related liabilities are determined using a market consistent approach, and in the main this is based on a stochastic model calibrated to market conditions at the end of the reporting period Non-market related assumptions, for example, persistency, mortality and expenses are based on experience, adjusted to take into account future trends Where policyholders have valuable guarantees, options or promises, then future persistency is assumed to improve, and future take-up rates of guaranteed annuity options are assumed to increase

The with-profit funds contain non-profit policies The methodology for the valuation of this non-profit business is consistent with the methodology set out for similar business in the non-profit funds

(2) Non-profit funds

The reserves are calculated using the gross premium method which discounts the projected future cash flows The cash flows are calculated using the amount of contractual premiums payable together with explicit assumptions for investment returns, inflation, discount rates, mortality, morbidity, persistency and future expenses These assumptions can vary by contract type and reflect current and expected future experience

(iii) Company practice – with-profit and non-profit business

Insurance liabilities are calculated separately for each fund

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions, where discretion is permitted In turn, the assumptions used depend on the circumstances prevailing in each of the life funds Provisions are most sensitive to assumptions regarding future investment returns, discount rates, future bonus rates, mortality/morbidity rates and persistency

Bonuses paid during the year are reflected in claims paid, whilst those allocated as part of the bonus declaration are included in the movements in insurance liabilities, as detailed below

(iv) Assumptions – with-profit business

The WPBR is in the main a historic calculation, and hence not affected by assumptions relating to the future

The principal assumptions underlying the cost of future policy related liabilities are

(1) Future investment return

A 'risk-free' rate equal to the spot yield on gilts, plus a margin of 0 1% is used for the opening position and a swap curve for the closing position The rates vary according to the outstanding term of the policy – a typical rate as at 31 December 2012 for swaps is 1 92% (*2011 2 32% for swaps 2 20% for gilts*) for a policy with 10 years outstanding

Volatility assumptions are set with reference to implied volatility data on traded market instruments, where available Specimen values based on a policy with 10 years outstanding are as follows

Class	Volatility	
	2012	2011
UK equities	**26%**	26%
Property	**15%**	15%
Government Bond yields	**17%**	18%

(2) Future regular bonuses

Annual bonus assumptions for 2013 have been set consistent with the 31 December 2012 declaration Future annual bonus rates reflect the principles and practices of the fund, in particular the level is set with regard to the projected margin for final bonus, the change from one year to the next is limited to a level consistent with past practice

(3) Persistency

Rates, which will vary between classes of business, are based on experience adjusted to take into account assumed future trends Where policyholders have valuable guarantees, options or promises the Company assumes that persistency improves in the future

(4) GAO take-up rates

The rates used vary between the funds based on fund-specific experience

(5) Future expenses

Where expense charges are subject to a defined fee arrangement, the expense assumption reflects a continuation of that defined basis Assumptions for other expenses are based on experience, adjusted to take into account future trends

(6) Mortality

Mortality assumptions are set with regard to recent company experience and general industry trends

	Mortality tables used 2012	Mortality tables used 2011
Assurances, pure endowments and deferred annuities before vesting	**Nil or AM00/AF00 adjusted**	Nil or AM00/AF00 adjusted
Pensions business after vesting and pensions annuities in payment	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

(7) Guarantee charge

An annual charge of 0 5% pa is assumed for 2013 in the With-Profit Sub-Fund and 0 75% pa thereafter

An annual charge of 0 7% pa for the first 10 years is assumed in the New With-Profit Sub-Fund (NWPSF) and the Old With-Profit Sub-Fund (OWPSF) in respect of the inflation protection guaranteed bonds

In the Provident Mutual fund, a charge or addition at maturity will be assumed sufficient to ensure a zero estate, subject to a maximum of 10% of WPBR

(v) Assumptions – non-profit business in the with-profit funds

The gross premium method is used for all material classes of business

For unit-linked business, the provisions are valued initially by adding a prospective non-unit reserve to the bid value of units The prospective non-unit reserve is calculated by projecting the future non-unit cash flows Where appropriate, allowance for persistency is based on actual experience

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical and expected future default experience of each asset class A further margin for risk is then deducted for all asset classes

	Valuation discount rates	
	2012	2011
Assurances		
Life conventional non-profit – NWPSF & OWPSF	**1.8%**	1 8%
Life conventional non-profit – Provident Mutual fund	**2 2%**	2 75%
Pensions conventional non-profit – NWPSF & OWPSF	**2.25%**	2 3%
Deferred annuities – with-profit fund		
Non-profit – in deferment	**1 8%**	2 3%
Non-profit – in payment	**1 8%**	2 3%
Deferred Annuities – Provident Mutual fund		
Non-profit – in deferment	**2 6%**	3 1%
Non-profit – in payment	**2.4%**	2 9%
Annuities in payment – Provident Mutual fund	**3.15%**	3 75%
Annuities in payment – NWPSF & OWPSF	**3.3%**	4 15%

Mortality assumptions are set with regard to recent company experience and general industry trends

	Mortality tables used	Mortality tables used
	2012	2011
Assurances	**AM00/AF00 or TM00/TF00 adjusted for smoker status**	AM00/AF00 or TM00/TF00 adjusted for smoker status
Pure endowments and deferred annuities before vesting	**Nil or AM00/AF00 adjusted**	Nil or AM00/AF00 adjusted
Annuities in payment		
General annuity business	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	IML00/IFL00 adjusted plus allowance for future mortality improvement
Pensions business	**PCMA00/PCFA00 adjusted plus allowance for future mortality improvement**	PCMA00/PCFA00 adjusted plus allowance for future mortality improvement

(vi) Assumptions – non-profit funds

The gross premium method is used for all contracts

For unit-linked business, a reserve equal to the bid value of the units allocated to policyholders is held

For unit-linked and some unitised with-profit business, a non-unit reserve is held The prospective non-unit reserve is calculated by projecting the future non-unit cash flows Where appropriate, allowance for persistency is based on actual experience adjusted to take into account assumed future trends

The provisions held in respect of guaranteed annuity options are a prudent assessment of the additional liability incurred under the option on a basis and method consistent with that used to value basic policy liabilities, and includes a prudent assessment of the proportion of policyholders who will choose to exercise the option

Valuation discount rate assumptions are set with regard to yields on the supporting assets and the general level of long-term interest rates as measured by gilt yields An explicit allowance for risk is included by restricting the yields for equities and properties with reference to a margin over long-term interest rates or by making an explicit deduction from the yields on corporate bonds, mortgages and deposits, based on historical and expected future default experience of each asset class. A further margin for risk is then deducted for all asset classes.

Valuation discount rates have reduced since 2011, reflecting a fall in the yields on the supporting assets.

	Valuation discount rates	
	2012	2011
Assurances		
Life conventional non-profit	**1.8%**	1.8% - 1.9%
Pensions conventional non-profit	**2.2%**	2.6%
Annuities		
Immediate and deferred annuities	**2.2%-2.6%**	2.2% - 2.8%
Non-unit reserves		
Life	**2.1%**	1.8% – 2.2%
Pensions	**2.5%**	2.2% - 2.7%
Income Protection		
Active lives	**2.2%**	2.4%
Claims in payment – level	**3.1%**	3.6%
Claims in payment – indexed	**(0.7%)**	(1.0%)

Mortality assumptions are set with regard to recent company experience and general industry trends. The base mortality tables for assurance mortality were changed during 2008 to the most recent tables and assumptions for assurances have been updated in 2012 to allow for recent experience, as summarised below.

	Mortality tables used 2012 and 2011
Assurances	
Non-profit mortality	**AM00/AF00 or TM00/TF00 or ELT15 adjusted for smoker status and age/sex specific factors**
Non-profit critical illness	**CIM11A or reinsurer rates adjusted for smoker status and age/sex specific factors**
Non-profit PHI inception rates	**CIDA adjusted by factors derived from our own experience**
Non-profit PHI recovery rates	**CMIR12 adjusted by factors derived from our own experience**
Pure endowments and deferred annuities before vesting	**AM00/AF00 adjusted**
General annuity business after vesting	**PCMA00/PCFA00 (2011: IML00/IFL00) adjusted, plus allowance for future mortality improvement**
Pensions business after vesting	**PCMA00/PCFA00 adjusted, plus allowance for future mortality improvement**

(c) The following movements have occurred in insurance liabilities during the year:

	2012 £m	2011 £m
Carrying amount at 1 January	**41,831**	42,926
Provisions in respect of new business	**483**	753
Expected change in existing business provisions	**(4,591)**	(4,849)
Variance between actual and expected experience	**982**	(1,340)
Impact of operating assumption changes	**(270)**	(32)
Impact of economic assumption changes	**695**	3,194
Change in liability recognised as income	**(2,701)**	(2,274)
Business transferred from fellow group undertakings (see note 35)	**-**	1,179
At 31 December	**39,130**	41,831

The effect of changes in the main assumptions is given in note 22

20. Liability for investment contracts

(a) The carrying amount comprises

	2012 £m	2011 £m
Participating contracts	**12,168**	12,337
Non-participating contracts	**33,784**	30,596
	45,952	42,933

Of the above total, £42,531 million *(2011 £38,812 million)* is expected to be paid more than one year after the statement of financial position date

(b) Investment liabilities

Investment contracts are those that do not transfer significant insurance risk from the contract holder to the issuer, and are therefore treated as financial instruments under IFRS

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits These are referred to as participating contracts and are measured according to the methodology and practice for insurance liabilities as described in note 19 The liability in respect of participating investment contracts of £12,168 million *(2011 £12,337 million)* has been calculated in accordance with actuarial principles These contracts are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS In the absence of such a definition it is not possible to provide a range of estimates within which fair value is likely to be The International Accounting Standards Board has deferred consideration of participating contracts to Phase II of its insurance contracts project

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as the unallocated divisible surplus Guarantees on long-term investment products are discussed in note 21

Investment contracts that do not contain a discretionary participation feature are referred to as non-participating contracts and the liability is measured at fair value

Of the non-participating investment contracts measured at fair value, £33,697 million (*2011 £30,536 million*) are unit-linked in structure and the fair value liability is equal to the unit reserve plus additional non-unit reserves, if required, on a fair value basis These contracts are classified as "Level 1" in the fair value hierarchy, as the unit reserve is calculated as the publicly quoted unit price multiplied by the number of units in issue Of the remaining non-participating contracts measured at fair value, all are non-linked contracts classified as "Level 1" in the fair value hierarchy For this business, a deferred acquisition cost asset and deferred income reserve liability are recognised in respect of transaction costs and front-end fees, that relate to the provision of investment management services, and which are amortised on a systematic basis over the contract term The amount of the related deferred acquisition cost asset is shown in note 16 and the deferred income reserve is shown in note 27

Movements in the year

The following movements have occurred in the year

(i) Participating investment contracts

	2012 £m	2011 £m
Carrying amount at 1 January	**12,337**	12,771
Provisions in respect of new business	**50**	38
Expected change in existing business provisions	**(768)**	(739)
Variance between actual and expected experience	**470**	(260)
Impact of operating assumption changes	**3**	(41)
Impact of economic assumption changes	**76**	565
Change in liability recognised as an expense	**(169)**	(437)
Business transferred from fellow group undertakings (see note 35)	**-**	3
At 31 December	**12,168**	12,337

The effect of changes in the main assumptions is given in note 22

(ii) Non-participating investment contracts

	2012 £m	2011 £m
Carrying amount at 1 January	**30,596**	28,708
Provisions in respect of new business	**2,482**	2,502
Expected change in existing business provisions	**(25)**	(241)
Variance between actual and expected experience	**733**	(2,031)
Impact of operating assumption changes	**(4)**	2
Impact of economic assumption changes	**2**	6
Change in liability recognised as an expense	**3,188**	238
Business transferred from fellow group undertakings (see note 35)	**-**	1,650
At 31 December	**33,784**	30,596

The effect of changes in the main assumptions is given in note 22

21. Financial guarantees and options

As a normal part of operating activities, the Company has given guarantees and options, including investment return guarantees, in respect of certain long-term insurance products Further information on assumptions is given in accounting policy H and note 19

(a) With-profit business

In the UK, life insurers are required to comply with the FSA's realistic reporting regime for their with-profit funds for the calculation of FSA liabilities Under the FSA's rules, provision for guarantees and options within realistic liabilities must be measured using a market consistent approach, which generally requires a stochastic approach A stochastic approach includes measuring the time value of guarantees and options, which represents the additional cost arising from uncertainty surrounding future economic conditions

The material guarantees and options to which this provision relates are

(i) Maturity value guarantees – Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus In addition, one of the linked funds has offered maturity value guarantees on certain unit-linked products

(ii) No market value reduction (MVR) guarantees – For unitised business, there are a number of circumstances where a 'no MVR' guarantee is applied, for example on certain policy anniversaries, guaranteeing that no market value reduction will be applied to reflect the difference between the accumulated value of units and the market value of the underlying assets.

(iii) Guaranteed annuity options (GAOs) – The Company's with-profit funds have written individual and group pension contracts which contain GAOs where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates

(iv) Guaranteed minimum pension (GMP) – The Company's with-profit funds also have certain policies which contain a guaranteed minimum level of pension as part of the condition of the original transfer from state benefits to the policy

(v) Inflation guarantees – For some unitised with-profit life contracts the amount paid after the fifth anniversary is guaranteed to be at least as high as the premium paid increased in line with the rise in Retail Price Index or Consumer Price Index

In addition the Company has made promises to certain policyholders in relation to their with-profit mortgage endowments Top up payments will be made on these policies at maturity to meet the mortgage value up to a maximum of the 31 December 1999 illustrated shortfall For NWPSF policyholders, these payments are subject to certain conditions

(b) Non-profit business in the with-profit fund

FRS 27 requires the non-profit liabilities in a with-profit fund to be evaluated by reference to local statutory reserving rules

Guaranteed unit price on certain products – Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death An additional provision is made for guarantees in the Unit Linked Guarantee Fund No provision is required for other guarantees because the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates

(c) Non-profit business

Non-profit business is not subject to the requirements of the FSA's realistic reporting regime and, therefore, liabilities are evaluated by reference to local statutory reserving rules, including changes introduced in 2006 under FSA Policy Statement 06/14 *Prudential Changes for Insurers*

(i) GAO – Similar options to those written in the with-profit fund have been written in relation to non-profit products Provision for these guarantees does not materially differ from a provision based on a market-consistent stochastic model, and amounts to £35 million at 31 December 2012 *(2011 £35 million)*

(ii) Guaranteed unit price on certain products – Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death An additional provision is made for guarantees, except where the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates

22. Effect of changes in assumptions and estimates during the year

Certain estimates and assumptions used in determining liabilities for insurance and investment contract business were changed from 2011 and 2012 and had the following effect on the unallocated divisible surplus (UDS) and the profit recognised for the year, both gross and net of reinsurance This disclosure only shows the impact on liabilities and related reinsurance assets, and does not allow for offsetting movements in the value of backing financial assets

				2012
	Effect on UDS before reinsurance £m	Effect on profit before reinsurance £m	Effect on UDS after reinsurance £m	Effect on profit after reinsurance £m
Assumptions				
Insurance contracts				
Persistency rates	40	32	40	32
Economic assumptions	(348)	(347)	(347)	(300)
Mortality for assurance contracts	45	198	44	(46)
Mortality for annuity contracts	6	(10)	6	(2)
Expenses	8	(9)	8	(9)
Other operating assumptions	(56)	16	(56)	10
	(305)	(120)	(305)	(315)
Investment contracts – Participating				
Economic	(62)	(14)	(62)	(14)
Persistency Rates	2	-	2	-
Expenses	-	(5)	-	(5)
Other operating assumptions	1	(1)	1	(1)
	(59)	(20)	(59)	(20)
Investment contracts – Non-participating				
Economic	-	(2)	-	(2)
Expenses	-	(7)	-	(7)
Other operating assumptions	-	11	-	11
	-	2	-	2
Total increase as a result of changes in assumptions and estimates	(364)	(138)	(364)	(333)

The change in other operating assumptions includes a £10 million reduction *(2011 £35 million)* in relation to the reserve for pension scheme deficit contributions, and £10 million for the reinsurance counterparty reserve

				2011
	Effect on UDS before reinsurance £m	Effect on profit before reinsurance £m	Effect on UDS after reinsurance £m	Effect on profit after reinsurance £m
Assumptions				
Insurance contracts				
Persistency rates	71	(106)	72	(1)
Other economic assumptions	(1,555)	(1,639)	(1,555)	(1,303)
Mortality for assurance contracts	-	128	-	63
Mortality for annuity contracts	(7)	(34)	(4)	(7)
Expenses	(2)	(20)	(2)	(16)
Other operating assumptions	(12)	14	(12)	(54)
	(1,505)	(1,657)	(1,501)	(1,318)
Investment contracts – Participating				
Economic	(397)	(168)	(397)	(170)
Persistency Rates	13	30	13	30
Other operating assumptions	-	(2)	-	(2)
	(384)	(140)	(384)	(142)
Investment contracts – Non-participating				
Expenses	-	(6)	-	(8)
Other operating assumptions	-	(2)	-	1
	-	(8)	-	(7)
Total increase as a result of changes in assumptions and estimates	**(1,889)**	**(1,805)**	**(1,885)**	**(1,467)**

23 Unallocated divisible surplus

An unallocated divisible surplus (UDS) is established where the nature of policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain This note shows the movements in this surplus during the year

The following movements have occurred in the year

	2012 £m	2011 £m
Carrying amount at 1 January	**1,669**	2,051
Change in with-profit funds assets	**135**	(594)
Change in with-profit funds liabilities	**234**	212
Change in liability recognised as an expense / (income)	**369**	(382)
At 31 December	**2,038**	1,669

24. Tax assets and liabilities

(a) General

Current tax liabilities payable in more than one year are £16 million *(2011 £45 million)*

(b) Deferred tax

(i) The balance at 31 December comprises:

	2012	2011
	£m	£m
Deferred acquisition costs	**257**	281
Unrealised gains / (losses) on investments	**43**	(75)
Unused losses	**(166)**	(178)
Other temporary differences	**(133)**	(47)
Net deferred tax liability / (asset)	**1**	(19)

(ii) The movement in the net deferred tax liability / (asset) was as follows:

	2012	2011
	£m	£m
Net (asset) / liability at 1 January	**(19)**	310
Amounts charged / (credited) to profit (note 5(a))	**20**	(352)
Balance transferred from fellow group undertakings (see note 35)	**-**	23
Net liability / (asset) at 31 December	**1**	(19)

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable The Company has unrecognised tax losses of £215 million *(2011 £nil)* to carry forward against future taxable income

25. Borrowings

(a) Carrying amount

The following table provides information about the maturity periods of the Company's borrowings

Borrowings are considered current if the contractual maturity dates are within a year The carrying amount is a reasonable approximation for fair value at the statement of financial position date

Amounts owed to reinsurers.	**2012**	2011
	£m	£m
Contractual maturity date		
Within 1 year	**35**	19
Between 1 and 5 years	**109**	83
Over 5 years	**113**	158
Total	**257**	260

(b) Description and features

Amounts owed to reinsurers

The Company has entered into a number of financial reinsurance contracts with Swiss Re Under these contracts the Company receives an up-front accelerated claims payment and in return recognises an obligation to repay this to Swiss Re, contingent on future surplus arising on selected policies

(c) Movements during the year

	2012 £m	2011 £m
Carrying amount at 1 January	**260**	217
Accelerated claims payment net of surplus	**54**	63
Repayments	**(43)**	-
Amortisation	**(14)**	(20)
At 31 December	**257**	260

26. Payables and other financial liabilities

	2012 £m	2011 £m
Payables arising out of direct insurance	**451**	495
Payables arising out of reinsurance operations	**76**	48
Amounts due to parent companies	**31**	-
Amounts due to subsidiaries	**72**	9
Amounts due to fellow subsidiaries	**15**	126
Derivative financial liabilities	**113**	174
Amounts due to brokers for investment purchases	**71**	50
Obligations for repayment of cash collateral received (note 13(b))	**3,916**	4,810
Other financial liabilities including provisions	**500**	469
Bank overdrafts	**97**	80
	5,342	6,261

Of the above total, £81 million *(2011 £105 million)* is expected to be paid more than one year after the statement of financial position date

Included in payables arising out of reinsurance operations above is £nil *(2011 £nil)* which is payable to subsidiaries and £nil *(2011 £nil)* which is payable to fellow subsidiaries

At 31 December 2012, other financial liabilities included provisions of £12 million *(2011 £8 million)*

All payables and other financial liabilities are carried at cost, which approximates to fair value, except for derivative liabilities, which are carried at their fair values

27. Other liabilities

	2012 £m	2011 £m
Deferred income	**90**	134
Accruals	**-**	1
	90	135

Of the above total, £79 million *(2011 £116 million)* is expected to be released more than one year after the statement of financial position date

28. Contingent liabilities and other risk factors

(a) Guarantees on long-term savings products

Note 21 gives details of guarantees and options given by the Company as a normal part of operating activities in respect of certain long-term insurance products In common with other pension and life policy providers, the Company wrote individual and group pension policies in the 1970s and 1980s with a GAO

Since 1993, such policies have become more valuable to policyholders, and more costly for insurers, as current annuity rates have fallen in line with interest rates and improving longevity Reserving policies for the cost of GAOs varied until a ruling by the House of Lords in the Equitable Life case in 2000 which effectively required full reserving by all companies Prior to the ruling, consistent with the Company's ordinary reserving practice in respect of such obligations, full reserves for GAOs had already been established No adjustment was made, or was necessary, to the Company's reserving practice as a result of the ruling The directors continue to believe that the existing provisions within insurance liabilities are sufficient

(b) Regulatory compliance

The Company's insurance and investment business is subject to regulation by the FSA 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 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 their regulator could find that they have failed to comply with the 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 and potential customers Regulatory action against a member of the Aviva Group could result in adverse publicity for, or negative perceptions regarding the Group, or could have a material adverse effect on the business of the Group, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business

In September 2009, the FSA launched an investigation into sales practices for payment protection insurance On 10 August 2010, the FSA announced that mis-selling of PPI policies had been widespread and that consumers who could prove mis-selling would be entitled to financial redress from distributors of the policies The directors do not consider that the Group is liable for mis-selling in its role as underwriter and so no provision is currently necessary

(c) Other

In the course of conducting insurance and investment business, the Company receives liability claims, and becomes involved in actual or threatened litigation arising therefrom In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect

The Company has provided a guarantee to its subsidiary Aviva Annuity UK Limited (UKA) that is designed to protect the Pillar 2 solvency position of UKA This does not have a material impact on the IFRS or Pillar 1 solvency position of the Company

The Company has indemnified the overdrafts of certain other Aviva Group companies In the opinion of the directors, no material loss will arise in respect of these indemnities

29. Commitments

Capital commitments

There are contractual commitments of £157 million *(2011 £376 million)* for acquisitions or capital expenditures of subsidiaries and joint ventures Of these commitments, £54 million *(2011 £273 million)* is in connection with joint ventures There are no contractual commitments for acquisitions or capital expenditure of property and equipment, investment property and intangible assets, which are not recognised in the financial statements

30. Statement of cash flows

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

	2012 £m	2011 £m
Profit / (loss) before tax	**547**	(98)
Adjustments for		
Profit on sale of investment property	**(12)**	(57)
Profit on sale of other financial investments	**(943)**	(1,141)
Fair value gains on subsidiaries	**(157)**	(18)
Impairment of subsidiaries	**-**	179
Fair value losses on joint ventures	**54**	7
Fair value losses / (gains) on investment property	**224**	(64)
Fair value (gains) / losses on investments	**(2,789)**	2,208
Fair value gains on property under construction	**-**	(32)
Foreign exchange (gains) / losses	**(144)**	24
Amortisation of investments	**180**	164
Amortisation of borrowings	**(14)**	-
Amortisation of deferred acquisition costs	**199**	184
Amortisation and impairment of AVIF and other intangible assets	**72**	33
Interest expense on borrowings	**19**	60
Changes in working capital		
Increase in reinsurance assets	**(390)**	(706)
Increase in deferred acquisition costs	**(152)**	(175)
Increase in receivables	**(289)**	(30)
Decrease in prepayments and accrued income	**54**	134
Decrease in insurance liabilities	**(2,701)**	(2,274)
Increase / (decrease) in liability for investment contracts	**3,019**	(199)
Increase / (decrease) in unallocated divisible surplus	**369**	(382)
(Decrease) / increase in payables and other financial liabilities	**(1,013)**	460
Decrease in other liabilities	**(45)**	-
Purchases of investment property	**(98)**	(59)
Proceeds on sale of investment property	**637**	384
Net sale of operating assets		
Financial investments and loans	**4,417**	962
Cash generated from operations	**1,044**	(436)

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

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise.

	2012 £m	2011 £m
Cash at bank and in hand	**282**	387
Cash equivalents	**6,438**	5,483
	6,720	5,870
Bank overdrafts	**(97)**	(80)
	6,623	5,790

31. Capital

In managing its capital, the Company seeks to

- Match the profile of its assets and liabilities, taking account of the risks inherent in the business,
- Maintain sufficient, but not excessive, financial strength to support new business growth and satisfy the requirements of its policyholders and its regulator, the Financial Services Authority (FSA),
- Retain financial flexibility by maintaining strong liquidity, and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate

The Company is subject to the capital requirements applicable to insurance firms imposed by the FSA The Company fully complied with these regulatory requirements during the year

The Company considers not only the traditional sources of capital funding, but alternative sources of capital as appropriate when assessing its available capital This includes reinsurance, securitisation and certain financing arrangements that can be recognised as capital on a regulatory basis The analysis below sets out the Company's capital resources available to meet its capital requirements on an FSA pillar 1 basis

	2012	2011
	£m	£m
Total IFRS shareholders' funds	**4,627**	4,253
Unallocated divisible surplus	**2,038**	1,669
Adjustments onto a regulatory basis		
Intangible assets	**(93)**	(149)
Regulatory valuation and admissibility restrictions	**(505)**	158
Total available capital resources	**6,067**	5,931

32. Risk management

(a) Risk management framework

The ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, (collectively known as "the Group"), operate a risk management framework ("RMF"), which forms an integral part of the management and Board processes and decision-making framework across the Group The key elements of our risk management framework comprise risk appetite, risk modelling, roles and responsibilities, risk policies and procedures and risk governance and oversight Additional information on the key elements of the RMF is included in the risk and capital management section of the performance review The Group's approach to risk management ensures that significant existing or emerging risks are actively identified, measured, managed, monitored and reported on a continuous basis The RMF has been adopted in the businesses collectively referred to as "UK Life" (including this Company)

For the purposes of risk identification and measurement, risks are usually grouped by risk type market, credit, life insurance, liquidity, operational risk and asset management Risk falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity and profit They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to the Company's franchise value

Risk models are an important tool in the Company's measurement of risk and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available The Company carries out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged Board oversight of risk and risk management across the Group is maintained on a regular basis through its Risk Committee The Board has overall responsibility for determining risk appetite, which is an expression of the risk it is willing to take The

Group's position against risk appetite is monitored and reported to the Board on a regular basis A similar arrangement prevails at the UK Life business level

UK Life sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk UK Life is willing to accept) UK Life assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders Where risks are outside of appetite, actions are agreed to mitigate the exposure 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 UK Life business 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 across the UK Life business including the UK & Ireland Board, Risk Committee and Audit Committee
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to CEOs and senior management, and
- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations The policies also set out the roles and responsibilities of businesses, policy owners, and risk oversight committees

UK Life operates a three lines of defence risk management model that encourages close working relationships between line management and the risk function whilst facilitating independent assurance by internal audit 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 internal audit (the third line of defence)

The FSA also requires UK Life to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business UK Life has accordingly developed economic capital models that support the measurement, comparison and further understanding of its risks The results of the modelling are incorporated into key strategic planning and decision-making processes These models show the relative impact to economic capital from the risks faced In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite

Regulatory impact on risk and risk assessments

Where the Company has written products where the majority of investment risks are borne by its policyholders, these risks are actively and prudently managed in order to satisfy the policyholders' risk and reward objectives In addition, the insurance operations are subject to numerous regulatory requirements that prescribe the type, quality, and concentration of investments, and the level of assets to be maintained in order to meet insurance liabilities Meeting these requirements helps to ensure the Company's market risk is maintained at an acceptable level

The Company operates a number of oversight committees that monitor aggregate risk data

(b) 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 and property prices Market risk arises within the Company due to fluctuations in the relationship between the values of the liabilities and the value of investments held, as a result of movements in market prices

For each of the major components of market risk, described in more detail below, the Company has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite

The Company manages market risks within the asset/liability management (ALM) framework and within regulatory constraints The Company is also constrained by the requirement to meet policyholders' reasonable expectations and to minimise or avoid market risk in a number of areas

The financial impact of market risk is examined through stress tests adopted in the Individual Capital Assessment (ICA), Stress & Scenario analysis and Economic Capital (EC), which consider the impact on Economic Capital from variations in financial circumstances on either a remote scenario or to changes from the central operating scenario Management actions that may be taken in mitigation of the change in circumstances are also considered

The sensitivity of the MCEV closing balance sheet to changes in economic markets is monitored at reporting periods through sensitivities to investment returns and asset values in MCEV reporting

The Company's market risk policy sets out the minimum principles and framework for setting an ALM and investment strategy, the approaches to be taken when liabilities cannot be matched and the monitoring and reporting processes that are required The Company applies appropriate matching techniques to assets and liabilities for all classes of business in order to manage the financial risk from the mismatching of assets and liabilities when investment markets change The Company monitors adherence to this policy through the Asset & Liability Committee (ALCO)

Certain policyholder participation features contribute to the Company's market risk The major features include guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values The full list of material guarantees and options is set out in note 21

(i) Equity risk

The Company is subject to equity risk from equity market dynamics due to both price and index movements and changes in volatility and correlation The Company's shareholders are exposed to direct equity holdings in shareholder assets, to indirect impact of changes in the value of equities held in policyholder funds from which management charges or a share of performance are taken, and to its interest in the free assets of long-term funds

Equity price risk is actively managed in order to mitigate anticipated unfavourable market movements where this lies outside the risk appetite of the fund concerned In addition asset admissibility regulations require that the Company holds diversified portfolios of assets thereby reducing exposure to individual equities

The Company actively models the performance of equities through the use of stochastic models, in particular to understand the impact of equity performance on guarantees, options and bonus rates

In the principal with-profits funds, a dynamic hedging strategy is in place, which aims to protect the surplus within the funds from adverse changes in assets values, in particular equities and properties

The Company actively monitors its directly owned equity assets including subsidiary investments and shareholdings in strategic business partners, with regular management information presented to the Investment Governance Committee The principal subsidiaries are given in note 7 and are valued on a fair value basis The fair values will fluctuate as the underlying assets and liabilities held by the subsidiaries, including the in-force business where applicable, change in value

A sensitivity of profit and shareholders' equity to changes in equity prices is given in section (g) below

(ii) Property risk

The Company is subject to property risk due to holdings of investment properties The investment in property is managed and is subject to regulations on asset admissibility, liquidity requirements and the expectations of policyholders The financial impact from changes in property values is examined through stress tests adopted in the ICA and Stress & Scenario analysis

A sensitivity of profit and shareholders' equity to changes in property prices in given in section (g) below

(iii) Interest rate risk

Interest rate risk arises primarily from the Company's nominal and real yield curve exposure within both assets and liabilities Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets when interest rates rise or fall

The Company manages this risk by adopting asset liability matching techniques, to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements However where any mismatch is within the Company's risk appetite, the impact is monitored through economic capital measures such as ICA

Interest rate risk is also managed using a variety of derivative instruments, including futures, options and swaps, in order to provide a degree of hedging against unfavourable market movements in interest rates inherent in the assets backing technical liabilities Swaps have been put in place to improve the overall matching of asset and liability cash flows

A sensitivity of profit and shareholders' equity to changes in interest rates is given in section (g) below

(iv) Derivative risk

Derivatives are used to a limited extent, within policy guidelines agreed by the Board of Directors and overseen by Group Financial Risk which monitors implementation of the policy, exposure levels and supports large or complex transactions Derivatives are used for efficient investment management, risk hedging purposes or to structure specific retail-savings products Derivative transactions are materially covered by either cash or corresponding assets and liabilities Speculative activity is prohibited Over the counter derivative contracts are entered into only with approved counterparties, in accordance with the Company's policies, thereby reducing the risk of credit loss The Company applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken

(v) Correlation risk

Interdependencies between risk are taken into consideration in the ICA in the aggregation of the stress tests Stress and Scenario testing also considers scenarios involving a number of correlated events

(c) 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, or changes to the market value of assets caused by changed perceptions of the credit worthiness of such counterparties The Company's management of credit risk under the oversight of ALCO, includes the articulation of risk appetite, exposure limit frameworks and investment and lending criteria within credit risk policies and management agreements

Our approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements Credit risk categories include spread risk, default risk and rating migration risk

- Spread risk arises from changes in level of volatility of third party credit spreads over risk-free interest rates, that can be caused by credit concerns (improving or worsening) on the issuer, or from market factors, such as risk appetite and liquidity within the market,

- Default risk is the risk that a counterparty is unable or unwilling to meet its financial obligations when they fall due, and includes delays in repayments, restructuring or repayments/interest schedule and bankruptcy,

- Rating migration risk is the risk that a change in external credit rating of a counterparty adversely impacts Aviva

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 For the purposes of the table below financial assets which fall outside this range are classified as speculative grade Credit limits for individual counterparties are set based on default probabilities that are in turn based on the rating of the counterparty concerned Ratings published by companies such as Standard & Poor's are used where available Whilst not externally rated, the risk characteristics of commercial mortgages are carefully assessed before acquisition and are monitored carefully thereafter Internal reinsurance assets are not externally rated

The following table provides information regarding the aggregated credit risk exposure, for financial assets with external credit ratings, of the Company at 31 December

				Credit rating			2012
	AAA	AA	A	BBB	Speculative grade	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	18,268	1,742	3,521	2,260	314	1,328	27,433
Reinsurance assets	-	2,306	1,795	125	-	-	4,226
Other investments	-	-	-	-	-	19,622	19,622
Loans	898	2,777	327	4	-	2,169	6,175
	19,166	6,825	5,643	2,389	314	23,119	57,456

				Credit rating			2011
	AAA	AA	A	BBB	Speculative grade	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	18,873	1,652	3,654	2,334	419	1,502	28,434
Reinsurance assets	-	2,591	1,245	-	-	-	3,836
Other investments	-	-	-	-	-	18,854	18,854
Loans	1,328	2,726	934	-	-	2,365	7,353
	20,201	6,969	5,833	2,334	419	22,721	58,477

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure, except for guarantees that are set out in note 21, and the undrawn portion of an intercompany loan commitment of £155 million *(2011 £164 million)*

The Company is generally not exposed to significant concentrations of credit risk due to the internal credit limits, taking account of regulatory requirements that limit investments in individual assets and asset classes In cases where the Company is particularly exposed to credit risk, this risk is translated into a more conservative discount rate used to value the liabilities, creating a greater capital requirement, and this credit risk is actively managed The impact of aggregation of credit risk is monitored as described above

With the exception of AAA rated Governments the largest aggregated counterparty exposure does not exceed 1 3% *(2011 1 4%)* of the Company's total financial assets

The impact of collateral held on the net credit exposure is shown below

			2012
	Carrying value in the statement of financial position	Collateral held	Net Credit exposure
	£m	£m	£m
Wrapped credit	94	46	48
Reinsurance assets	4,226	-	4,226
Derivatives	154	154	-
Loans	6,175	5,422	753

Derivatives of £104 million with no gross credit exposure are excluded from the above table

	Carrying value in the statement of financial position	Collateral held	Net Credit exposure
			2011
	£m	**£m**	**£m**
Wrapped credit	172	98	74
Reinsurance assets	3,836	-	3,836
Derivatives	242	242	-
Loans	7,126	6,238	888

The fair value of collateral held against loans that are past due or impaired at 31 December 2012 was £91 million (*2011 £52 million*)

Additional information in respect to collateral is provided in notes 12(b) and notes 13(b)

To the extent that collateral held is greater than the amount receivable that it is securing, the table above shows only an amount equal to the latter In the event of default, any over-collateralised security would be returned to the relevant counterparty

Reinsurance credit exposures

The Company is exposed to concentrations of risk with individual reinsurers, due to the nature of the reinsurance market The Company places reinsurance with those reinsurers that have acceptable credit ratings The Company operates a policy to manage its reinsurance counterparty exposures and the impact from reinsurer default is measured regularly, in particular through the ICA tests, and is managed accordingly

Derivative credit exposures

The Company is exposed to counterparty credit risk through derivative trades This risk is mitigated through collateralising almost all trades (the exception being certain FX trades where it has historically been the market norm not to collateralise) The Company operates strict standards around collateral management and controls including the requirement that all "over the counter" derivatives are supported by credit support annexes and ISDAs

Unit-linked business

For unit-linked business the policyholder bears the market risk, including credit risk, on investment assets in the unit funds, and the shareholders' exposure to credit risk is limited to the extent that their income arises from asset management charges based on the value of assets in the fund

Impairment of financial assets

The following table provides information regarding the ageing of financial assets that are past due but not impaired

		Financial assets that are past due but not impaired					**2012**
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than 1 year	Carrying value of impaired financial assets	Total
	£m	£m	£m	£m	£m	£m	£m
Debt securities	27,433	-	-	-	-	-	27,433
Reinsurance assets	4,226	-	-	-	-	-	4,226
Other investments	19,622	-	-	-	-	-	19,622
Loans	6,089	7	-	-	-	79	6,175
Receivables	1,458	-	-	-	-	-	1,458

2011

	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 to 1 year	Greater than 1 year		
	£m	£m	£m	£m	£m	£m	£m
Debt securities	28,434	-	-	-	-	-	28,434
Reinsurance assets	3,836	-	-	-	-	-	3,836
Other investments	18,854	-	-	-	-	-	18,854
Loans	7,314	-	-	-	-	39	7,353
Receivables	1,199	-	-	-	-	-	1,199

(d) Life insurance risk

(i) Type of risk

Life insurance risk in the Company arises through its exposure to assurance mortality and morbidity, annuitant longevity and exposure to worse than anticipated operating experience on factors such as persistency levels and management and administration expenses

(ii) Risk management

The Company has developed a policy for the management of life insurance risk and guidelines for the practical application of key areas of life insurance practice The impact of life insurance risk is monitored by the Company as part of the control cycle of business management Exposure is monitored through the assessment of liabilities, the asset liability management framework, operation of a deals framework that includes economic capital assessments of insurance risk-related deals, profit reporting (under both IFRS and MCEV), Stress & Scenario analysis, and the ICA process

Mortality and morbidity risks are mitigated by use of reinsurance The Company assesses the risk exposures and monitors the aggregation of risk ceded to individual reinsurers

Longevity risk is carefully monitored against the latest internal and external industry data and emerging trends

Persistency risk is managed through frequent monitoring of Company experience, benchmarked against expectations Where possible the financial impact of lapses is reduced through appropriate product design and risk management actions

Expense risk is primarily managed through the assessment of profitability and frequent monitoring of expense levels

In addition to economic capital modelling and Stress & Scenario analysis, MCEV reporting uses sensitivity testing to measure the impact on the MCEV closing balance sheet due to exposure to life insurance risks This enables the Company to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite

(iii) Concentration risk

The Company writes a diverse mix of business that is subject to similar risks (mortality, persistency etc) The Company assesses the relative costs and concentrations of each type of risk through the ICA This analysis enables the Company to assess whether accumulations of risk exceed risk appetite

The main concentrations of insurance risk for the Company are persistency, mortality, morbidity and longevity The Company continually monitors these risks and the opportunities for mitigating actions through reinsurance, improved asset liability matching, or innovative solutions that emerge in the market

ICA analysis and MCEV sensitivity testing help identify both concentrations of risk types and the benefits of diversification of risk

(iv) Embedded derivatives within insurance contracts

The Company has exposure to a variety of embedded derivatives within its long-term savings business due to product features offering varying degrees of guaranteed benefits at maturity or on early surrender, along with options to convert their benefits into different products on pre-agreed terms

Examples of each type of embedded derivative affecting the Company are

Options call, put, surrender and maturity options, guaranteed annuity options, option to cease premium payment, options for withdrawals free of market value adjustment, annuity option, guaranteed insurability options,

Guarantees embedded floor (guaranteed return), maturity guarantee, guaranteed death benefit, guaranteed minimum rate of annuity payment,

Other indexed interest or principal payments, maturity value, loyalty bonus

The impact of these is reflected in the economic capital model and MCEV reporting and managed as a part of the asset liability framework

(c) Liquidity risk

ALCO seeks to determine that the Company has sufficient financial resources to meet its obligations as they fall due

Maturity analyses

The following tables show the maturities of the Company's insurance and investment contract liabilities, and of the financial and reinsurance assets to meet them A maturity analysis of the contractual amounts payable for borrowings and derivatives is given in notes 25 and 33 respectively Contractual obligations under operating capital commitments are given in note 29

Analysis of expected maturity of insurance and investment contract liabilities

For insurance and investment business, the following table shows the gross liability at 31 December analysed by remaining duration The total liability is split by remaining duration in proportion to the present value of cash-flows estimated to arise during that period

					2012
	Total	**Within 1 year**	**1-5 years**	**5-15 years**	**Over 15 years**
	£m	**£m**	**£m**	**£m**	**£m**
Insurance contracts non-linked	34,827	5,026	14,034	12,345	3,422
Investment contracts non-linked	9,973	1,111	3,075	4,335	1,452
Linked business	40,282	2,523	8,742	13,955	15,062
Total contract liabilities	85,082	8,660	25,851	30,635	19,936

					2011
	Total	**Within 1 year**	**1-5 years**	**5-15 years**	**Over 15 years**
	£m	**£m**	**£m**	**£m**	**£m**
Insurance contracts non-linked	37,268	5,235	15,040	13,281	3,712
Investment contracts non-linked	10,247	1,091	3,183	4,364	1,609
Linked business	37,249	3,511	10,231	13,285	10,222
Total contract liabilities	84,764	9,837	28,454	30,930	15,543

For both insurance and investment contracts the analysis of liabilities shown above is based on the estimated timing of future cash flows For many insurance contracts and almost all investment contracts the contract may be surrendered on demand, and the earliest contractual maturity date is therefore the current statement of financial position date For non-participating investment contracts the undiscounted contractual maturity value is £33,443 million *(2011 £28,533 million)* For participating and non-participating unit-linked business, the surrender amount available on demand is approximately equal to the current statement of financial position liability

Analysis of maturity of financial and reinsurance assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise The Company also has non-financial assets, such as investment property, for which a maturity analysis has not been provided

					2012
	Total £m	**On demand or within 1 year £m**	**1-5 years £m**	**Over 5 years £m**	**No fixed term (perpetual) £m**
Debt securities	27,433	3,500	9,009	14,924	-
Equity securities	21,900	21,900	-	-	-
Other investments (including derivatives)	19,622	18,960	123	539	-
Loans	6,175	4,484	794	897	-
Reinsurance assets	4,226	277	904	3,045	-
Cash and cash equivalents	6,720	6,720	-	-	-
	86,076	55,841	10,830	19,405	-

					2011
	Total £m	**On demand or within 1 year £m**	**1-5 years £m**	**Over 5 years £m**	**No fixed term (perpetual) £m**
Debt securities	28,434	2,977	7,487	17,970	-
Equity securities	21,002	21,002	-	-	-
Other investments (including derivatives)	18,854	18,014	298	542	-
Loans	7,353	5,433	925	995	-
Reinsurance assets	3,836	524	976	2,336	-
Cash and cash equivalents	5,870	5,870	-	-	-
	85,349	53,820	9,686	21,843	-

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 can be put 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 Most of the Company's investments in equity securities and debt securities are market traded and therefore, if required, can be liquidated for cash at short notice

(f) Risk and capital management

The Company uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently Primarily MCEV, Stress & Scenario analysis and ICA are used Sensitivities to economic and operating experience are regularly produced on all of the Company's financial performance measurements to inform the Company's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed

(g) Life insurance and investment contracts

The nature of long-term business is such that a number of assumptions have been made in compiling these financial statements Assumptions are made about investment returns, expenses, mortality and morbidity rates, and persistency in connection with the in-force policies Assumptions are best estimates based on historic and expected experience of the business A number of the key assumptions are disclosed in note 19 and note 20

Some results of sensitivity testing for long-term 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

This reflects the sensitivity of profit and shareholders' equity in the non-profit funds and NWPSF only Profit in the other with-profit funds arises on the shareholders' share of bonuses paid on claims during the year, or added to policies at the end of the year Changes in the sensitivity factors will have no impact upon this figure

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
Expenses	The impact of an increase in maintenance expenses by 10%
Equity/property market values	The impact of a change in equity/property market values by +/- 10%
Assurance mortality/morbidity	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%
Annuitant mortality	The impact of a reduction in mortality rates for annuity contracts by 5%

The above sensitivity factors are applied using actuarial and statistical models, with the following pre-tax impacts on profit and shareholders' equity at 31 December

Impact on profit before tax and shareholders' equity before tax

2012	Interest rates +1% £m	Interest rates -1% £m	Equity/ property +10% £m	Equity/ property -10% £m	Expenses +10% £m	Assurance mortality +5% £m	Annuitant mortality -5% £m
Insurance							
Participating	33	(35)	19	(40)	-	-	(12)
Non-participating	18	(23)	(19)	15	-	(47)	(44)
Investment							
Participating	9	(10)	6	(11)	-	-	-
Non-participating	(6)	7	3	(4)	-	-	-
Total	54	(61)	9	(40)	-	(47)	(56)

2011	Interest rates +1% £m	Interest rates -1% £m	Equity/ property +10% £m	Equity/ property -10% £m	Expenses +10% £m	Assurance mortality +5% £m	Annuitant mortality -5% £m
Insurance							
Participating	5	(104)	(26)	(117)	-	(15)	(102)
Non-participating	(2)	(18)	6	(16)	-	(50)	(43)
Investment							
Participating	5	(14)	(1)	(11)	-	1	1
Non-participating	(14)	18	12	(12)	-	1	2
Total	(6)	(118)	(9)	(156)	-	(63)	(142)

The tables above indicate the impact of the stated changes after the effect of reinsurance The impact of changes in assurance mortality and interest rates would be significantly higher if existing reinsurance arrangements were not in place

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged In reality, such an occurrence is remote, due to correlations 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 and may be different at the time that any actual market movement occurs

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

33. Derivative financial instruments

The Company uses non-hedge derivatives to mitigate risk, as detailed below

			2012			2011
	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	**5,993**	**51**	**(5)**	4,754	25	(20)
Total	**5,993**	**51**	**(5)**	4,754	25	(20)
Interest rate contracts						
OTC						
Interest and currency swaps	**53,422**	**103**	**(72)**	9,910	132	(91)
Options	-	-	-	6	6	1
Exchange traded						
Futures	**3,514**	**4**	**(14)**	2,527	23	(25)
Total	**56,936**	**107**	**(86)**	12,443	161	(115)
Equity/index contracts						
OTC						
Options	**1**	-	**(7)**	-	-	-
Exchange traded						
Futures	**3,905**	**25**	**(15)**	2,076	21	(23)
Options	**1,079**	**75**	-	1,167	35	(16)
Total	**4,985**	**100**	**(22)**	3,243	56	(39)
	67,914	**258**	**(113)**	20,440	242	(174)

The notional amounts above 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 the current market values of the open positions

Fair value assets are recognised as 'derivative financial instruments' in note 13 Fair value liabilities are recognised as 'derivative financial liabilities' in note 26 The contractual undiscounted cash flows in relation to derivative liabilities have the following maturities

	2012	2011
	£m	£m
Within one year	**32**	45
Between one and two years	**16**	45
Between two and three years	**17**	43
Between three and four years	**10**	42
Between four and five years	**13**	41
After five years	**596**	1,065
	684	1,281

Certain derivative contracts involve the receipt or pledging of collateral Where appropriate, collateral receivable or repayable has been offset against the derivative liability or asset respectively Otherwise, the amounts of collateral receivable or repayable are included as other financial assets or liabilities in notes 15 and 26 respectively

34. Related party transactions

(a) The members of the Board of Directors are listed on page 1 of these financial statements

Under a management agreement, UKLS supplies and makes charges for the provision of operational assets and staff to the Company The agreement specifies the amounts payable to UKLS in respect of acquisition costs and administrative expenses The amount of this recharge is £560 million *(2011 £532 million)*

Investment management services have been provided to the Company by Aviva Investors Global Services Limited The amount of this charge is £98 million *(2011 £121 million)*

Included within Investments in subsidiaries (note 7) were distributions from property limited partnerships of £39 million (*2011 £42 million*) Included within Investments in joint ventures and associates (note 8) were distributions from property limited partnerships of £33 million (*2011 £33 million*)

During the year, the Company received dividends of £59 million *(2011 £180 million)* from its subsidiaries, and paid dividends of £123 million *(2011 £235 million)* to its parent

Included within debt securities in note 13 are £62 million *(2011 £56 million)* of bonds which were novated from Aviva plc to Aviva Life Holdings UK Limited (UKLH) during 2009 Interest receivable during the year on these bonds amounted to £5 million *(2011 £5 million)*

Included within debt securities in note 13 are £43 million *(2011 £42 million)* of loan notes issues by the special purpose securitisation companies Equity Release Funding (No 1) plc and Equity Release Funding (No 2) plc, which hold the beneficial interest in two portfolios of mortgages transferred by a subsidiary Interest receivable during the year in respect of these loan notes amounted to £2 million *(2011 £3 million)*

Amounts receivable from, or payments due to, related parties are disclosed separately in notes 15 and 26 respectively The related parties' receivables and payables are not secured, and no guarantees were received in respect thereof The receivables and payables will be settled in accordance with normal contract terms

Loans due from related parties are disclosed separately in note 12

(b) Reinsurance accepted from subsidiaries

	2012 Reinsurance accepted in year £m	2011 Reinsurance accepted in year £m
Claims	15	15
Share of insurance and investment contract liabilities	252	253

(c) Reinsurance accepted from fellow subsidiaries

	2012 Reinsurance accepted in year £m	2011 Reinsurance accepted in year £m
Claims	219	209
Share of insurance and investment contract liabilities	698	948

(d) Reinsurance ceded to subsidiaries

	2012 Reinsurance ceded in year £m	2011 Reinsurance ceded in year £m
Claims	8	8
Share of reinsurance assets	118	112

(e) Other income receivable from related parties

	2012 Income earned in year £m	2011 Income earned in year £m
Parent	15	20
Subsidiaries	15	15
Fellow subsidiaries	-	3

(f) Other expenses payable to related parties

	2012 Expense incurred in year £m	2011 Expense incurred in year £m
Fellow subsidiaries	680	666

(g) Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the executive directors is as follows

	2012	2011 Restated
	£'000	£'000
Salary and other short-term benefits	3,662	4,228
Post-employment benefits	245	313
Other long-term benefits	268	97
Termination benefits	74	-
	4,249	4,638

In the 2011 prior year financial statements, total key management compensation within Aviva Life & Pensions UK Limited and its subsidiary Aviva Annuity UK Limited were disclosed in both financial statements In the 2012 current year financial statements, the key management compensation has been apportioned on the basis of two-thirds of the costs being allocated to the Company and the remaining balance being allocated to the subsidiary, to provide a more accurate representation The 2011 comparative figures have been apportioned using the same methodology, resulting in differences to the balances reported in the prior year financial statements

There are no amounts receivable from, or payments due to, key management

The directors are remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate holding company, Aviva plc The emoluments of these directors are recharged to Aviva Life Services UK Limited, and details of their emoluments are given in note 3

(h) Ultimate parent undertaking and controlling party

The immediate parent undertaking is Aviva Life Holdings UK Limited, a company incorporated in England

The ultimate parent undertaking and controlling party is Aviva plc, a company incorporated in England

Aviva plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2012 The consolidated financial statements of Aviva plc are available on www aviva com or by application to the Group Company Secretary, Aviva plc, St Helen's,1 Undershaft, London EC3P 3DQ

35. Fund Transfer

On 31 December 2010, the company acquired a 100% interest in the share capital of Peak 1 and Peak 2 at fair value, with the intention that transfer of the long term business of these two companies should be made to the Company as soon as practical

On 5 September 2011, the board approved the transfer of the long-term business of Peak 1 and Peak 2 to the Company, with the transfer becoming effective on 30 September 2011

At the same time, certain assets and liabilities within the shareholder fund of Peak 1 and Peak 2 were also transferred to the shareholder fund of the Company Sufficient assets to cover the higher of the share capital and the regulatory minimum capital requirement remain within Peak 1 and Peak 2 Upon de-authorisation any assets in excess of the share capital in Peak 1 and Peak 2 will be transferred to the Company

The value of the tangible net assets transferred was £372 million and was accounted for as a return of capital At the same time £168 million of AVIF implicitly recognised in the valuation of the subsidiaries was explicitly recognised on the balance sheet (see note 6) The effect of this transfer on the Company's statement of financial position was as follows

	Transfer in and impact £m
Assets	
Acquired value of in-force business	**168**
Investment in Subsidiary	**(540)**
Financial investments	**2,230**
Reinsurance assets	**325**
Receivables	**142**
Deferred acquisition costs	**77**
Prepayments and accrued income	**11**
Cash and cash equivalents	**532**
Total assets	**2,945**
Liabilities	
Gross insurance liabilities	**1,179**
Gross liability for investment contracts	**1,653**
Deferred tax liabilities	**23**
Current tax liabilities	**(4)**
Payables and other financial liabilities	**48**
Other liabilities	**46**
Total liabilities	**2,945**

Financial assets and liabilities were transferred at fair value and insurance and participating investment contract liabilities were transferred at a value consistent with IFRS 4 The transfer was for £nil consideration in accordance with the Scheme of Transfer