Company Number: SC2116

AVIVA INSURANCE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
2010

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Directors' report

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

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

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

Company secretary
K A Cooper

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

Registered office
Pitheavlis
Perth
Scotland PH2 0NH

Company number
Registered in Scotland no. SC2116

Other information
Aviva Insurance 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').

Principal activities
The Company transacts most classes of general insurance business. The Company also invests in securities, properties and loans.

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

Financial position and performance
The financial position of the Company at 31 December 2010 is shown in the statement of financial position on page 17, with the trading results shown in the income statement on page 15 and the statement of cash flows on page 18.

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

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

Directors' report continued

Financial position and performance continued
The result before tax improved from a loss of £1,121 million in 2009 to a profit of £386 million in 2010. This return to profitability is due to improved underwriting results, lower impairment charges on assets, offset to some extent by lower investment returns.

The net written premiums of the Company arise primarily from the sale of small to medium enterprise commercial lines insurance. The result reflects profitable growth through disciplined underwriting. The Company's enhanced pricing and risk selection techniques have brought more detailed segmentation of risks and pricing, which enables the Company to target the right risks with the right premium. Commercial motor rates increased 7% in 2010 with higher increases during the second half of the year as claims trends in personal motor impacted commercial motor. In homeowner, rates increased 6%. In commercial property and liability the Company has seen little change in overall rating reflecting continuing intense competition. The Company has protected profitability by selectively targeting rate increases by segment and case, careful risk selection resulting in reduced overall claims frequencies, and continuing excellence in claims management.

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

Net written premiums in 2010 increased to £1,286 million *(2009: £1,154 million)*, an increase of 11%. This performance has been driven principally by excellent levels of retention across all lines of business and the rolling out of direct prices to brokers.

The net incurred claims ratio improved to 47.3% *(2009: 59.5 %)*.

The Company's net written expenses ratio remained in line with to last year at 13.0% *(2009: 13.1 %)*.

Net investment income decreased in 2010 to £343 million *(2009: £698 million)* reflecting a reduction in dividends received from subsidiary companies to £452 million (*2009: £909 million*) and net investment expense of £109 million *(2009: £211 million expense)*.

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

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

Principal risks and uncertainties
A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 27 to the financial statements.

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

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

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

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

Directors' report continued

A summary of the KPIs is set out below:

Measure	**2010**	**2009**
Increase/(decrease) in net written premiums	**11.4%**	(21.1)%
Combined operating ratio	**92%**	104%
Net incurred claims ratio	**47.3%**	59.5%
Net written commissions ratio	**32.1%**	30.9%
Net written expenses ratio	**13.0%**	13.1%

The written expense ratio excludes corporate costs of £33 million (*2009: £15 million*), and £8 million (*2009: £40 million*) relating to restructuring costs.

Dividends
The directors paid an interim dividend of £450 million (*2009: £900 million*) during the year. The directors do not recommend the payment of a final dividend (*2009: £nil*).

Going concern
The Company's business activities, together with the factors likely to affect its future development, performance and position including the Business review, are set out in this report. In addition, the financial statements include notes on the contingent liabilities and other risk factors (note 23); its capital structure (note 26); management of its major risks including market, credit and liquidity risk (note 27); and derivative financial instruments (note 28).

The Company and its ultimate holding company Aviva plc have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. After making enquiries, the directors have a reasonable expectation that the Company and its subsidiaries as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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

Major events
On 18 October 2010, the Company undertook a reduction in its share capital under the provisions of section 642 of the Companies Act 2006. Following this reduction, the share premium account has been reduced by £3,049 million, and distributable retained earnings have increased by the corresponding amount.

Events since the Statement of Financial Position Date
The Aviva Group is currently undertaking a restructuring of its Asia Pacific regional entities which involves the transfer of most of the shareholdings in these entities from the Company's immediate parent, Aviva International Insurance Limited ('AII'), and its subsidiary, Aviva International Holdings Limited ("AIH"), to Aviva Asia Holdings Private Limited ('AAHPL'), a wholly-owned direct subsidiary of AIH.

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

Overseas branches
During the year the Company had branch offices outside the UK in Jersey, Cyprus, France and the Bahamas.

Financial Instruments
The business of the Company includes use of financial instruments. Details of the Company's risk management objectives and policies and exposure to risk relating to financial instruments are set out in note 27 to the financial statements.

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

Directors' report continued

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

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

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

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

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

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

By order of the Board

K A Cooper

Company Secretary

30 March 2011
Registered Office: Pitheavlis,
Perth, Scotland PH2 0NH
Registered in Scotland No. SC2116

Independent auditor's report

To the members of Aviva Insurance Limited

We have audited the financial statements of Aviva Insurance Limited for the year ended 31 December 2010, which comprise the Accounting Policies, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows, and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion, the financial statements:

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

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

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

Accounting policies

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

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

(A) Basis of presentation

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

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

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

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

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

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

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

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

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

(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.

Accounting policies continued

(B) Critical accounting policies and the use of estimates continued

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

Use of estimates
All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results can always differ from those estimates, possibly significantly.

The table below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy.

Item	Accounting policy
Fair value of investments in subsidiaries	C
Insurance contract liabilities	I
Impairment of financial investments	N
Fair value of derivative financial instruments	O
Deferred acquisition costs	R
Provisions and contingent liabilities	U
Deferred income taxes	V

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

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

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

(D) Foreign currency transactions

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit and loss (FV) (see policy N) are included in foreign exchange gains and losses in the income statement. Translation differences on non-monetary items, such as equities which are designated as FV, are reported as part of the fair value gain or loss, whereas such differences on AFS equities are included in the investment valuation reserve.

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

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.

Accounting policies continued

(E) Product classification continued
As noted in policy A above, insurance contracts in general continue to be measured and accounted for under existing accounting practices at the later of the date of transition to IFRS or the date of the acquisition of the entity, in accordance with IFRS 4. Accounting for insurance contracts is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers, the most recent version of which was issued in December 2005, and amended in December 2006. In certain businesses, the accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed and adjustments to the measurement basis have occurred then the financial statements of that year will have disclosed the impacts accordingly.

(F) Premiums earned
Premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Written premiums include an estimate of pipeline premiums less a provision for anticipated lapses. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

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

(H) Net investment income
Investment income consists of dividends, interest and rents receivable for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on FV investments (as defined in policy N). 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.

The realised gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate. Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(I) Insurance contract liabilities
Claims
General insurance and health claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

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

Insurance provisions
(i) Outstanding claims provisions
Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 17.

Provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as a change in insurance liabilities. The range of discount rates used is described in note 17.

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

Accounting policies continued

(I) Insurance contract liabilities continued

(ii) Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement as recognition of revenue over the period of risk.

(iii) Liability adequacy
At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the deficiency is recognised in the income statement by setting up a provision in the statement of financial position.

Other assessments and levies
The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "Provisions" in the statement of financial position.

(J) Reinsurance
The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the income statement and statement of financial position as appropriate.

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

Reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

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) Property and equipment
Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are taken to a separate reserve within equity. When such properties are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives. All other items classed as property and equipment within the statement of financial position are carried at historical cost less accumulated depreciation.

Depreciation is calculated on the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives of three to five years. Land is not depreciated. The assets' residual values, useful lives and method of depreciation are reviewed regularly, and at least at each financial year end, and adjusted if appropriate.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

Accounting policies continued

(K) Property and equipment continued
Borrowing costs directly attributable to the acquisition and construction of property and equipment are capitalised. All repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of existing asset will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset.

(L) Impairment of non-financial assets
Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(M) Derecognition and offset of financial assets and financial liabilities
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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

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

Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values less transaction costs. Debt securities are initially recorded at their fair value which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as other than trading are subsequently carried at fair value. Changes in the fair value of these investments are included in the income statement in the period in which they arise.

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

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

Accounting policies continued

(N) Financial investments continued

Impairment
The Company reviews the carrying value of its investments on a regular basis. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

(O) Derivative financial instruments and hedging
Derivative financial instruments are foreign exchange contracts that derive their value mainly from underlying foreign exchange rates. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter ("OTC"). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 28.

Currency swaps
Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Exposure to gain or loss on both types of swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Foreign exchange contracts
Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

For a variety of reasons, the above derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the specific IFRS rules and are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in other trading income.

(P) Loans
Loans with fixed maturities, including mortgage loans on investment property and collateral loans, are recognised when cash is advanced to borrowers. The majority of these loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest rate method.

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

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

Accounting policies continued

(Q) Collateral continued
Collateral pledged in the form of cash, which is legally segregated from the Company, is derecognised from the statement of financial position with a corresponding receivable for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised on the statement of financial position within the appropriate asset classification.

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

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

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

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

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included 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.

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

(U) Provisions and contingent liabilities
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is more probable than not.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Accounting policies continued

(V) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The rates enacted or substantively enacted at the statement of financial position date are used to determine the deferred tax.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferrred tax related to fair value re-measurement of available for sale investments, owner-occupied properties and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

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

(W) 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.

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

Income statement
For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Income	1		
Gross written premiums		**1,452**	1,296
Premiums ceded to reinsurers		**(166)**	(142)
Premiums written net of reinsurance		**1,286**	1,154
Net change in provision for unearned premiums		**(12)**	131
Net earned premiums	F	**1,274**	1,285
Fee and commission income	G	**16**	8
Net investment income	H	**343**	698
Profit on the disposal of subsidiaries		**-**	88
		1,633	2,079
Expenses	2		
Claims paid, net of recoveries from reinsurers		**(667)**	(801)
Change in insurance liabilities, net of reinsurance		**63**	37
Fee and commission expense		**(542)**	(513)
Other expenses		**(97)**	(1,918)
Finance costs		**(4)**	(5)
		(1,247)	(3,200)
Profit/ (loss) before tax		**386**	(1,121)
Tax credit	V&5	**33**	65
Profit/(loss) for the year		**419**	(1,056)

The accounting policies (identified alphabetically) on pages 7 to 14 and notes (identified numerically) on pages 19 to 49 are an integral part of these financial statements.

Statement of comprehensive income
For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Profit/ (loss) for the year		**419**	(1,056)
Other comprehensive income			
Subsidiaries			
Fair value gains transferred to profit on disposal	C&1	**-**	(88)
Fair value gains on investments in subsidiaries	C,7(a)&14	**435**	171
Impairment losses on investments previously revalued through other comprehensive income, now taken to the income statement	C,2&14	**-**	1,808
Foreign exchange rate movements on overseas branches		**-**	4
Other comprehensive income, net of tax		**435**	1,895
Total comprehensive income for the year		**854**	839

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

	Ordinary share capital £m	Share premium £m	Owner-occupied properties reserve £m	Investment valuation reserve £m	Special reserve £m	Retained earnings £m	Total equity £m
Balance at 1 January 2009	6,988	3,049	3	(1,940)	111	5,928	14,139
Loss for the year	-	-	-	-	-	(1,056)	(1,056)
Other comprehensive income	-	-	-	1,891	-	4	1,895
Total comprehensive income for the year	-	-	-	1,891	-	(1,052)	839
Dividends	-	-	-	-	-	(900)	(900)
Shares issued	596	-	-	-	-		596
Balance at 31 December 2009	7,584	3,049	3	(49)	111	3,976	14,674
Profit for the year	**-**	**-**	**-**	**-**	**-**	**419**	**419**
Other comprehensive income	**-**	**-**	**-**	**435**	**-**	**-**	**435**
Total comprehensive income for the year	**-**	**-**	**-**	**435**	**-**	**419**	**854**
Dividends (note 6)	**-**	**-**	**-**	**-**	**-**	**(450)**	**(450)**
Shares issued (note 7)	**54**	**-**	**-**	**-**	**-**	**-**	**54**
Reduction in share capital (note 13)	**-**	**(3,049)**	**-**	**-**	**-**	**3,049**	**-**
Balance at 31 December 2010	**7,638**	**-**	**3**	**386**	**111**	**6,994**	**15,132**

The accounting policies (identified alphabetically) on pages 7 to 14 and notes (identified numerically) on pages 19 to 49 are an integral part of these financial statements.

Statement of financial position
As at 31 December 2010

	Note	2010 £m	2009 £m
Assets			
Investments in subsidiaries	C&7	**11,913**	11,424
Property and equipment	K&8	**3**	3
Financial investments	M,N,O,Q &9	**411**	553
Reinsurance assets	J,16&18	**181**	242
Receivables	11	**4,861**	5,018
Deferred acquisition costs and other assets	R&12	**333**	365
Current tax asset	V&19	**21**	40
Group relief asset	V&19	**45**	-
Cash and cash equivalents	S&25	**196**	103
Total assets		**17,964**	17,748
Equity			
Capital			
Ordinary share capital	13	**7,638**	7,584
Capital reserves			
Share premium	13	**-**	3,049
Other reserves	14	**500**	65
Retained earnings	15	**6,994**	3,976
Total equity		**15,132**	14,674
Liabilities			
Gross insurance liabilities	I,16&17	**2,360**	2,468
Provisions	U&20	**5**	17
Group relief liability	V&19	**-**	58
Payables and other financial liabilities	M&21	**315**	329
Other liabilities	22	**152**	202
Total liabilities		**2,832**	3,074
Total equity and liabilities		**17,964**	17,748

Approved by the Board on 30 March 2011

PCRegan

P C Regan
Director

The accounting policies (identified alphabetically) on pages 7 to 14 and notes (identified numerically) on pages 19 to 49 are an integral part of these financial statements.

Statement of cash flows
For the year ended 31 December 2010

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	25(a)	**117**	34
Net cash generated from operating activities		**117**	34
Cash flows from investing activities			
Purchase of property and equipment		**(1)**	-
Net cash used in investing activities		**(1)**	-
Net increase in cash and cash equivalents		**116**	34
Cash and cash equivalents at 1 January		**67**	34
Effect of exchange rate changes on cash and cash equivalents		**-**	(1)
Cash and cash equivalents at 31 December	25(b)	**183**	67

The accounting policies (identified alphabetically) on pages 7 to 14 and notes (identified numerically) on pages 19 to 49 are an integral part of these financial statements.

Notes to the financial statements

1. Details of income

	Note	2010 £m	2009 £m
Gross written premiums		**1,452**	1,296
Less: premiums ceded to reinsurers		**(166)**	(142)
Gross change in provision for unearned premiums	17(d)	**31**	189
Reinsurers' share of change in provision for unearned premiums	18(c)(ii)	**(43)**	(58)
Net change in provision for unearned premiums		**(12)**	131
Net earned premiums		**1,274**	1,285
Fee and commission income			
Reinsurance commissions receivable		**16**	8
Total revenue		**1,290**	1,293
Net investment income			
Interest and similar income			
From investments designated as trading and other than trading		**22**	28
Dividend income		**452**	909
Other income from investments designated as trading			
Realised losses		**(174)**	(227)
Unrealised gains/ (losses)	9(b)	**43**	(38)
		(131)	(265)
Other income from investments designated as other than trading			
Realised losses		**(4)**	(46)
Unrealised gains	9(b)	**14**	75
		10	29
Foreign exchange gains and losses on investments other than trading		**1**	-
Change of economic assumptions on assets and liabilities other than claims reserves		**(7)**	-
Other investment expenses		**(4)**	(3)
Net investment income		**343**	698
Profit on the disposal of subsidiaries		**-**	88
Total income		**1,633**	2,079

Notes to the financial statements continued

2. Details of expenses

	Note	2010 £m	2009 £m
Claims and benefits paid		**716**	840
Less: Claim recoveries from reinsurers		**(49)**	(39)
Claims and benefits paid, net of recoveries from reinsurers		**667**	801
Change in insurance liabilities	17(b)	**(81)**	(81)
Change in reinsurance asset for insurance provisions	18(c)(i)	**18**	44
Change in insurance liabilities, net of reinsurance		**(63)**	(37)
Fee and commission expense, net of reinsurance			
Acquisition costs			
Commission expenses		**429**	365
Change in deferred acquisition costs		**2**	53
Other acquisition costs		**111**	95
		542	513
Other operating expenses			
Impairment of investments in subsidiaries	14	**-**	1,808
Net foreign exchange losses/(gains)		**1**	(1)
Corporate costs		**33**	15
Restructuring costs		**8**	40
Other expenses		**55**	56
		97	1,918
Finance costs		**4**	5
Total expenses		**1,247**	3,200

3. Directors and employees

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

The Company has no employees.

4. Auditor's remuneration

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

	2010 £'000	2009 £'000
Fees payable to Ernst & Young LLP for the statutory audit of the Company	**71**	79

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

Notes to the financial statements continued

5. Tax

(a) Tax credited to the income statement

(i) The total tax credit comprises:

	2010 £m	2009 £m
Current tax:		
For the year	**21**	39
Adjustment in respect of prior years	**12**	9
Total current tax	**33**	48
Deferred tax:		
Origination and reversal of temporary differences	**-**	17
Total deferred tax	**-**	17
Total tax credited to income statement	**33**	65

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

	2010 £m	2009 £m
Technical provisions and other insurance items	**-**	(4)
Unused losses and tax credits	**(1)**	17
Accelerated capital allowances	**-**	3
Provisions and other timing differences	**3**	1
Pensions and other post retirement obligations	**(2)**	-
Total deferred tax credited to income statement	**-**	17

(b) Tax reconciliation

The tax on the Company's profit/ (loss) before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	2010 £m	2009 £m
Profit/ (loss) before tax	**386**	(1,121)
Tax calculated at standard UK corporation tax rate of 28% *(2009: 28%)*	**(108)**	314
Adjustment to tax charge in respect of prior years	**12**	(2)
Non-assessable dividends	**127**	254
Non-taxable profit on sale of subsidiaries	**-**	25
Movement on deferred tax assets	**2**	(20)
Impairment of investments in subsidiaries	**-**	(506)
Total tax credited to income statement (note 5(a)(i))	**33**	65

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

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

Notes to the financial statements continued

6. Dividends

	2010 £m	2009 £m
Ordinary dividends declared and charged to equity in the year		
Interim 2009	-	900
Interim 2010	450	-
	450	900

7. Investments in subsidiaries

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

	2010 £m	2009 £m
Fair value as at 1 January	**11,424**	10,859
Transfer from parent	**54**	521
Additions	**54**	652
Transfer to subsidiary	**(54)**	(775)
Liquidations	-	(4)
Movement in fair value (note 14)	**435**	171
At 31 December	**11,913**	11,424

All investments in subsidiaries are recorded as Level 3 investments in the fair value hierarchy (see note 10(b)).

(b) Material movements

Transfer from parent

On 25 November 2010, the Company acquired shares in Aviva Limited, from its immediate parent, Aviva International Insurance Limited ("AII"). These shares were transferred to the Company at their fair value on the date of transfer, £54 million. The consideration for the transfer was the issue of 5,420 ordinary shares of £10,000 each to AII.

Additions

The Company subsequently transferred the ownership of the Aviva Limited shares to its direct subsidiary, Aviva International Holdings Limited ("AIH"), at their fair value on the date of transfer, £54 million. The consideration for the transfer was the issue of 5,420 ordinary shares of £10,000 each by AIH and as a result, the Company's holding in AIH increased by £54 million. No profit or loss has been recognised as a result of the transfer.

Movement in fair value

The increase in the fair value of the Company's investment in subsidiaries reflects changes in the composition of the assets of the subsidiaries and the increase in the Aviva plc's market capitalisation.

(c) Principal subsidiaries

The principal subsidiaries at 31 December 2010 are Aviva International Holdings Limited, an intermediate parent undertaking, and Aviva Insurance UK Limited which is an insurance company. Aviva International Holdings Limited holds the Company's overseas subsidiaries. Both of these subsidiaries are wholly-owned and domiciled in the UK.

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

Notes to the financial statements continued

7. Investments in subsidiaries continued

(d) Events after the reporting period
The Aviva Group is currently undertaking a restructuring of its Asia Pacific regional entities which involves the transfer of most of the shareholdings in these entities from the Company's immediate parent, Aviva International Insurance Limited ('AII'), and its subsidiary, Aviva International Holdings Limited ("AIH"), to Aviva Asia Holdings Private Limited ('AAHPL'), a wholly-owned direct subsidiary of AIH.

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

8. Property and equipment

	Owner-occupied properties £m	Total £m
Cost or valuation		
At 1 January 2009	3	3
Additions	1	1
Fair value losses	(1)	(1)
At 31 December 2009 and 31 December 2010	3	3
Depreciation		
At 1 January 2009, 31 December 2009 and 31 December 2010	-	-
Carrying amount		
At 1 January 2009	3	3
At 31 December 2009	3	3
At 31 December 2010	**3**	**3**

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers or by local qualified staff of the Aviva Group in overseas operations, all with recent relevant experience. These values are assessed in accordance with the relevant parts of the current RICS Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment, on the basis of Existing Use Value and in accordance with UK Practice Statement 1.3, is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses. The valuation assessment adopts market-based evidence and is in line with guidance from the International Valuation Standards Committee and the requirements of IAS 16, Property, Plant and Equipment.

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £1 million (*2009: £1 million*).

The Company has no material finance leases for property and equipment.

Notes to the financial statements continued

9. Financial investments

(a) Carrying amount
Financial investments comprise:

	At fair value through profit or loss		**2010**
	Trading £m	**Other than trading £m**	**Total £m**
Debt securities			
UK government	-	**59**	**59**
Non-UK government	-	**69**	**69**
Other Corporate	-	**261**	**261**
	-	**389**	**389**
Equity securities			
Corporate - Non-UK	-	**3**	**3**
	-	**3**	**3**
Other investments			
Derivative financial instruments (note 28)	**19**	-	**19**
Total financial investments	**19**	**392**	**411**

	At fair value through profit or loss		2009
	Trading £m	Other than trading £m	Total £m
Debt securities			
UK government	-	137	137
Non-UK government	-	40	40
Corporate - Non-UK	-	361	361
	-	538	538
Equity securities			
Corporate - Non-UK	-	5	5
	-	5	5
Other investments			
Derivative financial instruments (note 28)	10	-	10
Total financial investments	10	543	553

Of the above total, £356 million *(2009: £500 million)* is expected to be recovered more than one year after the statement of financial position date.

Notes to the financial statements continued

9. Financial investments continued

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/ amortised cost, gross unrealised gains and losses and fair value of financial investments:

				2010
	Cost/ Amortised Cost	**Unrealised gains**	**Unrealised losses and impairments**	**Fair Value**
	£m	**£m**	**£m**	**£m**
Debt securities	**376**	**13**	**-**	**389**
Equity securities	**5**	**-**	**(2)**	**3**
Other investments				
Unit trusts and specialised investment vehicles	**1**	**-**	**(1)**	**-**
Derivative financial instruments	**40**	**-**	**(21)**	**19**
Other	**5**	**-**	**(5)**	**-**
	427	**13**	**(29)**	**411**

				2009
	Cost/ Amortised Cost	Unrealised gains	Unrealised losses and impairments	Fair Value
	£m	£m	£m	£m
Debt securities	543	15	(20)	538
Equity securities	6	-	(1)	5
Other investments				
Unit trusts and specialised investment vehicles	1	-	(1)	-
Derivative financial instruments	76	-	(66)	10
Other	4	-	(4)	-
	630	15	(92)	553

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

Unrealised gains and losses on financial investments classified as at fair value through profit or loss recognised in the income statement in the year were a net gain of £57 million *(2009: £37 million net gain)*.

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

(c) Stock lending

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 occurs in the UK, where investments are lent to EEA-regulated, locally-domiciled counterparties and governed by agreements written under English law.

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

Notes to the financial statements continued

9. Financial investments continued

(c) Stock lending continued
The Company receives collateral in order to reduce the credit risk of these arrangements. The level of collateral held is monitored regularly, with further collateral obtained where this is considered necessary to manage the Company's risk exposure. In certain markets, the Company's appointed stock lending managers obtain legal ownership of the collateral received and can re-pledge it as collateral elsewhere or sell outright in the absence of default. Collateral must be in a readily realisable form such as listed securities and is held in segregated accounts. Transfer of title always occurs for the collateral received, although no market risk or economic benefit is taken. The carrying amounts of financial assets received and pledged in this manner at 31 December 2010 were £156 million and £143 million, respectively (*2009: £148 million and £138 million, respectively*). No collateral was actually sold or re-pledged in the absence of default in either 2010 or 2009.

10. Fair value methodology

a) Basis for determining fair value hierarchy of financial instruments

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

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

Modelled with significant observable market inputs – ("Level 2")
Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- quoted prices for similar (i.e. not identical) assets and liabilities in active markets;
- quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates); and
- inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

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

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

Modelled with significant unobservable market inputs – ("Level 3")
Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset. Examples are certain private equity investments and private placements, and investments in subsidiaries valued at net asset value.

Notes to the financial statements continued

10. Fair value methodology continued

(b) Fair value hierarchy
The majority of the Company's financial assets are valued based on quoted market information or observable market data with the exception of investment in subsidiaries which are considered Level 3 investments. All financial assets recorded at fair value are considered to be Level 1 investments at 31 December 2010 and 31 December 2009. An analysis of financial investments according to fair value hierarchy is given below:

		2010		2009
	Level 1	**Statement of financial position total**	Level 1	Statement of financial position total
	£m	**£m**	£m	£m
Financial investments				
Debt securities	**389**	**389**	538	538
Equity securities	**3**	**3**	5	5
Other investments	**19**	**19**	10	10
	411	**411**	553	553

All investments in subsidiaries are considered to be Level 3 investments. The unobservable inputs to the fair value relate to assumptions made to individual subsidiary net assets or embedded values, all of which are underpinned by the market capitalisation of Aviva plc. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternatives assumptions would not change the fair value significantly.

11. Receivables

	2010 **£m**	2009 £m
Amounts due from contract holders	**-**	30
Amounts due from intermediaries	**398**	252
Amounts due from reinsurers	**24**	66
Amounts due from immediate parent (Note 29(a)(ii))	**223**	687
Amounts due from subsidiaries(Note 29(a)(ii))	**2,866**	3,917
Amounts due from other Aviva Group companies (Note 29(a)(ii))	**7**	13
Loans due from subsidiaries(Note 29(a)(i))	**1,300**	-
Other receivables	**43**	53
Total	**4,861**	5,018
Expected to be recovered in less than one year	**3,561**	5,018
Expected to be recovered in greater than one year	**1,300**	-
	4,861	5,018

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

12. Deferred acquisition costs and other assets

(a) The carrying amount comprises:

	2010 **£m**	2009 £m
Deferred acquisition costs in respect of insurance contracts	**310**	351
Prepayments and accrued income	**23**	14
Total	**333**	365

Notes to the financial statements continued

12. Deferred acquisition costs and other assets continued

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

	2010 £m	2009 £m
Carrying amount at 1 January	**351**	461
Acquisition costs deferred during the year	**535**	460
Amortisation	**(576)**	(570)
Carrying amount at 31 December	**310**	351

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

13. Ordinary share capital

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

	2010 £m	2009 £m
Allotted, called up and fully paid		
763,765 *(2009:758,345)* ordinary shares of £10,000 each	**7,638**	7,584

The Companies Act 2006 abolished the requirement for a company to have an authorised share capital and the articles of association adopted by the Company on 22 January 2010 reflect this. Directors will still be limited as to the number of shares they can, at any time allot as allotment authority continues to be required under the Act. Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

(b) Movements in the year comprise:

	Number of shares	Share Capital £m	Share Premium £m
At 1 January 2010	758,345	7,584	3,049
Shares issued	5,420	54	-
Reduction in share capital	-	-	(3,049)
At 31 December 2010	**763,765**	**7,638**	**-**

On 18 October 2010, the Company undertook a reduction in its share capital under the provisions of section 642 of the Companies Act 2006. Following this reduction, the share premium account has been reduced by £3,049 million, and distributable retained earnings have increased by a corresponding amount (Note 15).

14. Other reserves

	Owner – occupied properties reserve (see accounting policy K) £m	Investment valuation reserve (see accounting policy C) £m	Special reserve £m	Total £m
Balance at 1 January 2009	3	(1,940)	111	(1,826)
Arising in the year:				
Fair value gains transferred to profit on disposal of subsidiaries (note 1)	-	(88)	-	(88)
Fair value gains on investments in subsidiaries (note 7(a))	-	171	-	171
Impairment charged to income statement (note 2)	-	1,808	-	1,808
Balance at 31 December 2009	**3**	**(49)**	**111**	**65**
Arising in the year:				
Fair value gains on investments in subsidiaries (note 7(a))	-	**435**	-	**435**
Balance at 31 December 2010	**3**	**386**	**111**	**500**

Notes to the financial statements continued

14. Other reserves continued

Special reserve

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

15. Retained earnings

	2010 £m	2009 £m
Balance at 1 January	**3,976**	5,928
Profit/ (loss) for the year	**419**	(1,056)
Dividends (note 6)	**(450)**	(900)
Foreign exchange rate movements on overseas branches	**-**	4
Transfer from share premium (note 13)	**3,049**	-
Balance at 31 December	**6,994**	3,976
Distributable	**3,066**	88
Non-distributable	**3,928**	3,888
Balance at 31 December	**6,994**	3,976

16. Insurance contract liabilities and associated reinsurance

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

	2010			2009		
	Gross insurance provisions £m	**Reinsurance assets £m**	**Net £m**	Gross insurance provisions £m	Reinsurance assets £m	Net £m
Outstanding claims provisions	**(1,303)**	**72**	**(1,231)**	(1,403)	79	(1,324)
Provisions for claims incurred but not reported	**(297)**	**14**	**(283)**	(274)	25	(249)
	(1,600)	**86**	**(1,514)**	(1,677)	104	(1,573)
Provision for unearned premiums	**(760)**	**95**	**(665)**	(791)	138	(653)
Total	**(2,360)**	**181**	**(2,179)**	(2,468)	242	(2,226)

17. Insurance liabilities

(a) Carrying amount

Insurance liabilities at 31 December comprise:

	2010 £m	2009 £m
Outstanding claims provisions	**1,303**	1,403
Provision for claims incurred but not reported	**297**	274
	1,600	1,677
Provision for unearned premiums	**760**	791
Total	**2,360**	2,468

Notes to the financial statements continued

17. Insurance liabilities continued

(b) General insurance liabilities

Provisions for outstanding claims

Significant delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves for general insurance are based on information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses ("LAE") in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

Outstanding claims provisions are based on undiscounted estimates of future claim payments, except for the following classes of business for which discounted provisions are held:

	Discounting Rate		Mean term of liabilities	
Class	**2010**	2009	**2010**	2009
Latent claims	**0.88% to 4.17%**	1.02% to 4.58%	**15 years**	15 years
Reinsured London Market business	**3.3%**	4.0%	**12 years**	10 years
Structured settlements	**3.2%**	3.3%	**35 years**	35 years

The gross outstanding claims provision before discounting was £1,687 million *(2009: £1,760 million)*. The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims reserve is based on the relevant swap curve having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the section above. The duration of the claims span over 35 years, with the average duration estimated to be 15 years.

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

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the Lord Chancellor and that is applied when calculating the present value of loss of earnings for claims settlement purposes. The Ogden discount rate is currently under review by the Lord Chancellor. The outcome of this review is expected to be announced in 2011 but it is still not clear whether or by how much the rate will change. A reduction in the Ogden discount rate will increase lump sum payments to UK bodily injury claimants.

Assumptions

Claims provisions are estimated based on known facts at the date of estimation. Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, taking into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for authorisation. No adjustments are made to the claims technicians' case estimates included in booked claims provisions, except for rare occasions when the estimated ultimate cost of a large or unusual claim may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case. The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Claims development is separately analysed for each line of business. Certain lines of business are also further analysed by claim type or type of coverage. In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

Notes to the financial statements continued

17. Insurance liabilities continued

(b) General insurance liabilities continued

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

Movements

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

	2010 £m	2009 £m
Carrying amount at 1 January	**1,677**	1,751
Impact of changes in assumptions	**6**	(10)
Claims losses and expenses incurred in the current year	**711**	865
Decrease in estimated claim losses and expenses incurred in prior years	**(83)**	(96)
Incurred claims losses and expenses	**634**	759
Less:		
Payments made on claims incurred in the current year	**(254)**	(302)
Payments made on claims incurred in prior years	**(461)**	(538)
Claims payments made in the year	**(715)**	(840)
Unwinding of discount	**4**	4
Changes in claims reserve recognised as an income	**(77)**	(77)
Foreign exchange rate movements	**-**	3
Carrying amount at 31 December	**1,600**	1,677

The net improvement in claims from prior accident years is mainly due to favourable development on Commercial Property, Public and Product Liability and other commercial lines.

(c) Loss development tables

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the accident years 2001 to 2010. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2002, by the end of 2010 £507 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £561 million was re-estimated to be £527 million at 31 December 2010. This decrease from the original estimate is due to the combination of a number of factors. The original estimates will also be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

The Company aims to maintain strong reserves in respect of its general insurance business in order to protect against adverse future claims experience and development. As claims develop and the ultimate cost of claims become more certain, the absence of adverse claims experience will then result in a release of reserves from earlier accident years, as shown in the loss development tables below. However, in order to maintain overall reserve adequacy the Company establishes strong reserves in respect of the current accident year (2010), where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

Notes to the financial statements continued

17. Insurance liabilities continued

(c) **Loss development tables** continued

Before the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Total £m
Gross cumulative claim payments												
At end of accident year		(180)	(175)	(148)	(158)	(176)	(199)	(328)	(299)	(302)	(254)	
One year later		(376)	(314)	(329)	(302)	(384)	(448)	(640)	(568)	(532)		
Two years later		(478)	(385)	(383)	(344)	(465)	(512)	(761)	(652)			
Three years later		(536)	(418)	(428)	(379)	(520)	(569)	(821)				
Four years later		(575)	(450)	(473)	(401)	(547)	(607)					
Five years later		(577)	(478)	(514)	(408)	(553)						
Six years later		(583)	(497)	(526)	(414)							
Seven years later		(583)	(501)	(535)								
Eight years later		(584)	(507)									
Nine years later		(584)										
Estimate of gross ultimate claims												
At end of accident year		541	561	608	622	704	755	1,006	925	865	711	
One year later		582	592	588	498	653	756	1,000	941	811		
Two years later		601	574	585	495	664	738	991	920			
Three years later		605	570	579	464	622	712	997				
Four years later		600	551	554	432	602	697					
Five years later		599	543	542	419	576						
Six years later		590	529	541	416							
Seven years later		583	526	537								
Eight years later		584	527									
Nine years later		584										
Estimate of gross ultimate claims		584	527	537	416	576	697	997	920	811	711	
Cumulative payments		(584)	(507)	(535)	(414)	(553)	(607)	(821)	(652)	(532)	(254)	
	348	-	20	2	2	23	90	176	268	279	457	**1,665**
Effect of discounting	(85)	-	-	(2)	-	-	-	-	-	-	-	**(87)**
Present value	263	-	20	-	2	23	90	176	268	279	457	**1,578**
Effect of acquisitions	-	-	5	5	5	5	-	-	-	-	2	**22**
Present value in the statement of financial position	263	-	25	5	7	28	90	176	268	279	459	**1,600**

Notes to the financial statements continued

17. Insurance liabilities continued

(c) **Loss development tables** continued

After the effect of reinsurance, the loss development table is:

Accident year	All prior years £m	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Total £m
Net cumulative claim payments												
At end of accident year		(178)	(153)	(137)	(145)	(171)	(199)	(320)	(294)	(296)	(250)	
One year later		(371)	(280)	(300)	(276)	(357)	(428)	(611)	(556)	(511)		
Two years later		(441)	(348)	(349)	(316)	(423)	(486)	(716)	(636)			
Three years later		(487)	(392)	(390)	(328)	(479)	(541)	(768)				
Four years later		(522)	(420)	(434)	(348)	(514)	(577)					
Five years later		(525)	(447)	(473)	(351)	(520)						
Six years later		(531)	(462)	(485)	(355)							
Seven years later		(531)	(462)	(493)								
Eight years later		(531)	(467)									
Nine years later		(531)										
Estimate of net ultimate claims												
At end of accident year		529	521	567	569	673	716	963	904	848	702	
One year later		546	487	555	444	606	700	948	922	789		
Two years later		563	535	548	437	614	686	935	896			
Three years later		554	532	539	403	571	668	937				
Four years later		547	512	514	371	568	650					
Five years later		547	506	501	359	542						
Six years later		536	493	496	356							
Seven years later		531	487	494								
Eight years later		531	487									
Nine years later		531										
Estimate of ultimate claims		531	487	494	356	542	650	937	896	789	702	
Cumulative payments		(531)	(467)	(493)	(355)	(520)	(577)	(768)	(636)	(511)	(250)	
	284	-	20	1	1	22	73	169	260	278	452	**1,560**
Effect of discounting	(68)	-	-	-	-	-	-	-	-	-	-	**(68)**
Present value	216	-	20	1	1	22	73	169	260	278	452	**1,492**
Effect of acquisitions	-	-	5	5	5	5	-	-	-	-	2	**22**
Present value recognised in the statement of financial position	216	-	25	6	6	27	73	169	260	278	454	**1,514**

In the loss development tables shown above, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into sterling at the exchange rates that applied at the end of that accident year. Disposals are dealt with by treating all outstanding and IBNR claims of the disposed entity as "paid" at the date of disposal.

The loss development tables include information on asbestos and environmental pollution claim provisions from business written before 2001. The undiscounted claim provisions, net of reinsurance, in respect of this business were £150 million at 31 December 2010 *(2009: £137 million)*.

(d) Provision for unearned premiums

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

	2010 £m	2009 £m
Carrying amount at 1 January	**791**	980
Premiums written during the year	**1,452**	1,296
Less: Premiums earned during the year	**(1,483)**	(1,485)
Changes in UPR recognised as income	**(31)**	(189)
Carrying amount at 31 December	**760**	791

Notes to the financial statements continued

18. Reinsurance assets

(a) The following is a summary of the reinsurance assets as at 31 December:

	2010 £m	2009 £m
Outstanding claims provisions	**72**	79
Provisions for claims incurred but not reported	**14**	25
	86	104
Provisions for unearned premiums	**95**	138
	181	242

Of the above reinsurance assets, £98 million *(2009: £126 million)* is expected to be recovered more than one year after the statement of financial position date.

(b) Assumptions
The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts. Reinsurance assets are valued net of an allowance for their recoverability.

(c) Movements
The following movements have occurred in the reinsurance asset during the year:

(i) Outstanding claims provisions and IBNR

	2010 £m	2009 £m
Carrying amount at 1 January	**104**	144
Impact of changes in assumptions	**1**	-
Reinsurers' share of claim losses and expenses incurred in current year	**9**	17
Reinsurers' share of claim losses and expenses incurred in prior years	**21**	(22)
Reinsurers' share of incurred claim losses and expenses	**30**	(5)
Less:		
Reinsurance recoveries received on claims incurred in current year	**(4)**	(6)
Reinsurance recoveries received on claims incurred in prior years	**(45)**	(33)
Reinsurance recoveries received in the year	**(49)**	(39)
Unwind of discount	**-**	-
Change in reinsurance asset recognised as expense	**(18)**	(44)
Foreign exchange rate and other movements	**-**	4
Carrying amount at 31 December	**86**	104

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

	2010 £m	2009 £m
Carrying amount at 1 January	**138**	196
Premiums ceded to reinsurers in the year	**166**	142
Less:		
Reinsurers' share of premiums earned during the year	**(209)**	(200)
Changes in reinsurance asset recognised as expense	**(43)**	(58)
Carrying amount at 31 December	**95**	138

Notes to the financial statements continued

19. Tax assets and liabilities

(a) Current tax

	2010 £m	2009 £m
(i) Tax asset		
Expected to be recoverable in more than one year	**21**	40
Tax asset recognised in statement of financial position	**21**	40

Assets and liabilities for prior years tax settled by Group Relief of £45 million and £nil *(2009: £nil and £58 million)* are included within receivables (note 11) and within the related party transactions (note 29) of which £45 million is recoverable in less than one year.

(b) Deferred tax

	2010 £m	2009 £m
(i) The balance at the year end comprises:		
Temporary differences arising on insurance items	**(37)**	(37)
Unused losses and tax credits	**32**	33
Accelerated capital allowances	**3**	3
Pension and other post retirement obligations	**(2)**	-
Provisions and other timing differences	**4**	1
Net deferred tax	**-**	-
(ii) The movement in the net deferred tax liability was as follows:		
Net liability at 1 January	**-**	(17)
Amounts credited to profit (note 5)	**-**	17
Net deferred tax at 31 December	**-**	-

The Company has unrecognised temporary differences of £39 million *(2009: £73 million)* to carry forward indefinitely against future taxable income. In addition, the Company has an unrecognised capital tax loss of £251 million *(2009: £251 million)*.

20. Provisions

(a) Carrying amounts

	2010 £m	2009 £m
Restructuring provision	**2**	3
Other provisions	**3**	14
Total	**5**	17

Of the above total, £3 million *(2009: £13 million)* is expected to be settled more than one year after the statement of financial position date.

Notes to the financial statements continued

20. Provisions continued

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

	Restructuring provision £m	Other provisions £m	Total £m
At 1 January 2009	15	14	29
Additional provisions	40	-	40
Utilised during the year	(52)	-	(52)
At 31 December 2009	**3**	**14**	**17**
Additional provisions	-	1	1
Utilised during the year	(1)	(12)	(13)
At 31 December 2010	**2**	**3**	**5**

Other provisions comprised many small provisions for obligations such as costs of compensation, litigation and reorganisation.

21. Payables and other financial liabilities

	2010 £m	2009 £m
Payables arising out of direct insurance	**82**	59
Payables arising out of reinsurance operations	**44**	41
Amounts due to subsidiaries (Note 29(a)(iii))	**19**	36
Amounts due to other Aviva Group companies (Note 29(a)(iii))	**157**	157
Bank overdrafts (Note 25(b))	**13**	36
	315	329

All of the above liabilities are expected to be settled within one year.

22. Other liabilities

	2010 £m	2009 £m
Reinsurers' share of deferred acquisition costs	**67**	106
Accruals	**55**	52
Other liabilities	**30**	44
	152	202

All the above liabilities are expected to be settled within one year.

23. Contingent liabilities and other risk factors

(a) Uncertainty over claims provisions
Note 17 gives details of the estimation techniques used in determining the general business outstanding claims provisions, which are designed to allow for prudence. These are estimated to give a result within the normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where experience is worse than that assumed, or future general business claims inflation differs from that expected, there is uncertainty in respect of this liability.

(b) Asbestos, pollution and social environmental hazards
In the course of conducting insurance business, the Company receives general insurance liability claims, and becomes involved in actual or threatened litigation arising there from, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in the United Kingdom. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, the Company's net exposure to such liabilities is not significant and, on the basis of current information and having regard to the level of provisions made for general insurance claims, the directors consider that any costs arising are not likely to have a material impact on the financial position of the Company.

Notes to the financial statements continued

23. Contingent liabilities and other risk factors continued

(c) Regulatory
The Financial Services Authority (FSA) regulates the Company's UK business and in addition monitors the financial resources and organisation of the Company as a whole. The FSA has broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation, to investigate marketing and sales practices and to require the maintenance of adequate financial resources. The Company's regulators outside the UK typically have similar powers but in some cases they operate a system of "prior product approval" and hence place less emphasis than the FSA on regulating sales and marketing practices.

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that the regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current or potential customers. Regulatory action against the Company could result in adverse publicity for, or negative perceptions regarding, the Company, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

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

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

(e) Other
In line with standard business practice, the Company has given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries to parties outside the Aviva Group. As at 31 December 2010, the total exposure of the Company is £43 million *(2009: £44 million)*. In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties.

24. Commitments

Operating lease commitments

Future contractual aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2010 **£m**	2009 £m
Within one year	**9**	9
Later than one year and not later than five years	**29**	31
Later than five years	**11**	18
	49	58
The total of future minimum sublease payments expected to be received under non-cancellable subleases	**2**	6

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

Notes to the financial statements continued

25. Statement of cash flows

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

	2010 £m	2009 £m
Profit/ (loss) before tax	**386**	(1,121)
Adjustments for:		
Loss/(profit) on sale of:		
Subsidiaries	**-**	(88)
Investments	**178**	273
	178	185
Impairment of Investments in subsidiaries	**-**	1,808
Amortisation of Premium or discount on debt securities	**2**	2
Fair value gains on investments	**(57)**	(37)
Unwind of discount	**4**	4
Foreign currency exchange losses	**-**	(1)
Changes in working capital:		
Decrease in reinsurance assets	**61**	98
Decrease in deferred acquisition costs	**2**	53
Decrease in insurance liabilities	**(108)**	(263)
Increase in other assets and liabilities	**(373)**	(781)
	(418)	(893)
Net sales of operating assets		
Financial investments	**22**	87
Cash generated in operations	**117**	34

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

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

	2010 £m	2009 £m
Cash at bank and in hand	**6**	48
Cash equivalents	**190**	55
	196	103
Bank overdrafts	**(13)**	(36)
	183	67

26. Capital structure

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

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

Notes to the financial statements continued

26. Capital structure continued

(b) Capital management

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

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

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

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

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

The Company fully complied with these regulatory requirements during the year.

(iii) Economic basis
The Company also measures its capital using a risk based capital model to assess economic capital requirements and to aid in risk and capital management. This model is used to support reporting under the ICA regime. The risk management note (Note 27), gives further details

(d) Company capital structure

	2010 £m	2009 £m
Total capital employed	**15,132**	14,674
Financed by		
Equity shareholders' funds	**15,132**	14,674

27. Risk management

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

Risk is categorised as follows:

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

Notes to the financial statements continued

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements continued

27. Risk management continued

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

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

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

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

(b) Credit risk

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

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

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as speculative grade. Credit limits for each counterparty are set based on default probabilities that are in turn based on the rating of the counterparty and the type of exposure.

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

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

	Credit rating						
31 December 2010	**AAA**	**AA**	**A**	**BBB**	**Speculative grade**	**Non-rated**	**Total**
	%	**%**	**%**	**%**	**%**	**%**	**£m**
Debt securities	**53.5%**	**11.6%**	**23.3%**	**11.6%**	**-**	**-**	**389**
Reinsurance assets	**-**	**49.2%**	**5.0%**	**-**	**1.1%**	**44.7%**	**181**

Notes to the financial statements continued

27. Risk management continued

31 December 2009	AAA	AA	A	BBB	Speculative grade	Non-rated	Total
	Credit rating						
	%	%	%	%	%	%	£m
Debt securities	45.7%	16.9%	23.0%	8.6%	0.4%	5.4%	538
Reinsurance assets	22.7%	58.5%	2.9%	-	-	15.9%	242

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

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

The company's largest reinsurance counterparty is HSBC Reinsurance Ltd. At 31 December 2010, the reinsurance asset recoverable from HSBC Reinsurance Ltd was £57 million (2009: £124 million). This exposure is monitored on a regular basis.

The Company's maximum exposure to credit risk is equal to the carrying value of assets in the statement of financial position plus financial guarantees given to other group companies, outlined in note 23(e).

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

31 December 2010	**Neither past due nor impaired**	**Financial assets that are past due but not impaired**				**Carrying value of impaired financial assets**	**Total**
		0 – 3 months	**3 – 6 months**	**6 months – 1 year**	**Greater than 1 year**		
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Debt securities	**389**	-	-	-	-	-	**389**
Reinsurance assets	**181**	-	-	-	-	-	**181**
Receivables	**4,861**	-	-	-	-	-	**4,861**

31 December 2009	Neither past due nor impaired	Financial assets that are past due but not impaired				Carrying value of impaired financial assets	Total
		0 – 3 months	3 – 6 months	6 months – 1 year	Greater than 1 year		
	£m	£m	£m	£m	£m	£m	£m
Debt securities	535	-	-	-	-	3	538
Reinsurance assets	242	-	-	-	-	-	242
Receivables	5,018	-	-	-	-	-	5,018

Receivables include loans and amounts due from other Aviva Group companies of £4,396 million (*2009: £4,617 million*).

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

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

Notes to the financial statements continued

27. Risk management continued

(c) Management of general insurance risk and reinsurance strategy

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

Significant insurance risks will be reported through the risk management framework. Additionally, the ICA is used to assess the risks that each general insurance business unit, and the Group as a whole, is exposed to, quantifying their impact and calculating appropriate capital requirements. Increasingly risk-based capital models are being used to support the *quantification of risk under the ICA framework. All general insurance business units undertake a quarterly review of their* insurance risks, the output from which is a key input into the ICA and risk-based capital assessments.

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

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

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

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

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

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

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

Notes to the financial statements continued

27. Risk management continued

(c) Management of general insurance risk and reinsurance strategy continued

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

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

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

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company has set its investment strategy to ensure it has sufficient liquid funds to meet its expected obligations as they fall due. In extreme circumstances, the Company would approach the Aviva Group for additional short-term borrowing whilst the Company liquidated other assets. The Aviva Group maintains significant committed borrowing facilities from a range of highly-rated banks to mitigate this risk further.

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

31 December 2010	**On demand or within 1 year £m**	**1-5 years £m**	**Over 5 years £m**	**No fixed term £m**	**Total £m**
Debt securities	**33**	**215**	**141**	-	**389**
Equity securities	**3**	-	-	-	**3**
Other investments	**19**	-	-	-	**19**
Reinsurance assets	**83**	**62**	**36**	-	**181**
Receivables and other financial assets	**3,561**	**1,300**	-	-	**4,861**
Cash and cash equivalents	**196**	-	-	-	**196**
	3,895	**1,577**	**177**	-	**5,649**

31 December 2009	On demand or within 1 year £m	1-5 years £m	Over 5 years £m	No fixed term £m	Total £m
Debt securities	43	224	271	-	538
Equity securities	-	-	-	5	5
Other investments	10	-	-	-	10
Reinsurance assets	116	84	42	-	242
Receivables and other financial assets	5,018	-	-	-	5,018
Cash and cash equivalents	103	-	-	-	103
	5,290	308	313	5	5,916

Notes to the financial statements continued

27. Risk management continued

(d) Liquidity risk continued
The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company. Where an instrument is puttable back to the issuer on demand, such as a unit trust or similar type of investment vehicle, it is included in the "On demand or within 1 year" column. The Company's equity securities represent a strategic investment and, therefore, cannot be readily sold.

For insurance contracts, the analysis of liabilities below is based on the estimated timing of future cash flows.

The following table shows the Company's financial liabilities and general insurance liabilities analysed by duration:

31 December 2010	**Within 1 year**	**1-5 years**	**5-15 years**	**Over 15 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
General insurance liabilities	**1,229**	**910**	**127**	**94**	**2,360**
Payables and other financial liabilities	**315**	**-**	**-**	**-**	**315**
	1,544	**910**	**127**	**94**	**2,675**

31 December 2009	Within 1 year	1-5 years	5-15 years	Over 15 years	Total
	£m	£m	£m	£m	£m
General insurance liabilities	1,223	1,020	131	94	2,468
Payables and other financial liabilities	329	-	-	-	329
	1,552	1,020	131	94	2,797

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

(e) Strategic risks

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

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

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

(f) Operational risk

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

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

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

Notes to the financial statements continued

27. Risk management continued

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

General insurance claims liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims development on which the projections are based. As such, in the analysis below, the sensitivity of general insurance claims liabilities is primarily based on the financial impact of changes to the reported loss ratio.

Some results of sensitivity testing for the Company's business are set out below. For each sensitivity test the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	**Description of sensitivity factor applied**
Interest rate and investment return	The impact of a change in market interest rates by ± 1% (e.g. if a current interest rate is 5%, the impact of an immediate change to 4% and 6%). The test allows consistently for similar changes to investment returns and movements in the market value of fixed interest securities.
Equity / property market values	The impact of a change in equity/property market values by +/- 10%.
Expenses	The impact of an increase in expenses by 10%.
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%.

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

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

Impact on profit before tax (£m)

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

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

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

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

Impact on profit before tax (£m)

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

Notes to the financial statements continued

27. Risk management continued

(g) Risk and capital management continued

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

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

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Company's assets and liabilities are actively managed. Additionally, the financial position of the Company may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

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

Assets are held at fair value in accordance with the relevant accounting policy. The majority of such assets are valued based on quoted market information or observable market data. A small percentage of total assets recorded at fair value are based on estimates. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not significantly change the fair value.

28. Derivative financial instruments

The Company uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. The objectives include managing exposure to price, foreign currency and/or interest rate risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the table below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held (or issued) by the Company.

The fair values do not provide an indication of credit risk, as many over-the-counter transactions are contracted and documented under ISDA (International Swaps and Derivatives Association Inc) master agreements or their equivalent. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure. In addition, the Company has in place collateral agreements between the Company and relevant counterparties.

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

Notes to the financial statements continued

28. Derivative financial instruments continued

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

	2010			2009		
	Contract/ notional amount £m	**Fair value asset £m**	**Fair value liability £m**	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Equity/Index contracts						
OTC						
Options	**1,783**	**19**	-	1,470	10	-
Totals at 31 December	**1,783**	**19**	-	1,470	10	-

Fair value assets are recognised as 'Derivative financial instruments' in note 9.

29. Related party transactions

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

The Company receives dividend and interest income from, and pays dividends and interest to parent companies, subsidiaries and fellow subsidiaries in the normal course of business. These activities are reflected in the tables below.

(i) Loans to subsidiaries
During the year, the Company provided an unsecured loan to Aviva International Holdings Limited ('AIH'), a subsidiary company. As at 31 December 2010, the balance outstanding was £1.3 billion (*2009: £nil*). Under the terms of the loan agreement, the maximum amount that may be drawn by AIH is £2 billion. This loan accrues interest at a floating rate of LIBOR + 100bps, with settlement to be received in cash at maturity in December 2013.

(ii) Services provided to related parties

	2010		2009	
	Income earned in year £m	**Receivable at year end £m**	Income earned in year £m	Receivable at year end £m
Immediate parent	-	**223**	-	687
Subsidiaries	**450**	**2,866**	909	3,917
Other Aviva Group companies	-	**7**	-	13
	450	**3,096**	909	4,617

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

Income earned includes £450 million (*2009: £909 million*) relating to dividends received.

(iii) Services provided and expenses recharged by related parties

	2010		2009	
	Services provided/ expenses recharged in year £m	**Payable at year end £m**	Services provided/ expenses recharged in year £m	Payable at year end £m
Subsidiaries	**211**	**19**	194	36
Other Aviva Group companies	**1**	**157**	2	157
	212	**176**	196	193

Services provided include £1 million (*2009: £2 million*) investment management fees payable to fellow subsidiaries.

Notes to the financial statements continued

29. Related party transactions continued

(iii) Services provided and expenses recharged by related parties continued

Expenses relating to staff and pension costs, facilities charges and other expenses for the UKGI region are initially charged by the Aviva Group's service companies and parent company to Aviva Insurance UK Limited ("AIUK"), a subsidiary of the Company. AIUK then recharges these as a management charge across all the UKGI companies, as a result of which the Company's share was £211 million in 2010 (*2009: £194 million*).

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

(b) Key management compensation

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

(c) Parent entity

The immediate parent undertaking is Aviva International Insurance Limited, registered in the UK.

(d) Ultimate controlling entity

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