

Aviva Life Holdings UK Limited

(formerly Norwich Union Life Holdings Limited)

Registered in England No. 2403518

Registered Office. 2 Rougier Street, York, England, YO90 1UU

Directors and Officers

Directors

M S Hodges

D J R McMillan

C E Riley

T E Strauss

Company Secretary

J J Wilman

Auditor

Ernst & Young LLP

1 More London Place

London

SE1 2AF

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Aviva Life Holdings UK Limited

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Aviva Life Holdings UK Limited

Registered in England No. 2403518

Directors' report

The directors present their annual report and financial statements for Aviva Life Holdings UK Limited (formerly Norwich Union Life Holdings Limited) (the Company) for the year ended 31 December 2009

Directors

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

D B Barral and T E Strauss were appointed as directors of the Company on 2 March 2009

N A Nicandrou resigned as a director of the Company on 27 April 2009

I M Mayer and A Sahay resigned as directors of the Company on 31 December 2009

D B Barral and J R Lister resigned as directors of the Company on 23 February 2010

D J R McMillan and C E Riley were appointed as directors of the Company on 24 February 2010

Business review, principal activities and future outlook

The Company acts as the holding company for subsidiaries (Aviva Life) providing a range of financial services principally in the United Kingdom. Its principal subsidiaries are involved in long-term savings and insurance business. The results of these subsidiary undertakings have not been consolidated in these financial statements as they have been included in the consolidated financial statements of Aviva plc.

In 2007, Aviva Life announced a partnership with Swiss Re to outsource the administration of almost three million policy records to the Swiss Re Alpha platform. By the end of 2009, the migration was over 75% complete, with the final policies due to be migrated by August 2010. This initiative, combined with other simplification activity, has enabled Aviva Life to decommission over two hundred systems.

In 2009, life and pension new business sales were £8,914 million (2008: £11,858 million) with a marginal improvement in our life and pension market share to 10.6% (Q3 2008: 10.5%). An encouraging performance has been seen in the fourth quarter of 2009, with life and pension sales growing 17%. Life and pension sales through our joint venture with the Royal Bank of Scotland grew by 3% to £1,246 million (2008: £1,211 million) underpinned by over 10% growth in both pension and core protection sales compared with previous year.

Aviva Life is a leader in the life and pensions market in the UK sector. Our main operations are based in York, though we have a significant presence in Norwich, Eastleigh, Bristol and Sheffield. We also have outsourcing relationships with a number of partners including Swiss Re, Scottish Friendly and International Financial Data Services (IFDS) in the UK, and WNS in India. We employ over 9,000 people and have more than 7 million customers as at December 2009.

Aviva Life's ambition is to create value for our customers and protect what is important to them. We also aim to improve financial literacy and engage with our customers to provide support and advice whenever it is needed.

Our UK life insurance business is a leading long-term insurance and savings provider in the UK with a market share of 10% based on ABI returns. We aim to maintain market leadership through balanced distribution and broad product mix and the simplification of processes, services and costs.

Aviva Life successfully completed the efficiency review announced in 2006 and delivered the promised £125 million of annualised savings during 2007, £108 million of which contributed to 2007 financial performance. In October 2007, Aviva Life committed to a further £100 million annualised cost savings. In 2008, £40 million of this target was earned through the profit and loss (£60 million annualised) and in 2009 a further £35 million was earned (£56 million annualised), giving a cumulative annualised saving of £116 million. This has resulted in a 2009 year end business expense under-run of £2.4 million (2008: £40 million over-run).

Aviva Life Holdings UK Limited

Directors' report (continued)

In February 2008, Aviva Life announced a special bonus of £2.1 billion for around 1.1 million with profits policyholders who have invested in CGNU Life Assurance Limited (CGNUL) and Commercial Union Life Assurance Company Limited (CULAC) with-profits funds. The second instalment totalling £0.6 billion has been allocated to asset shares as at 1 January 2009 following the first instalment of £0.7 billion allocated as at 1 January 2008. The remaining instalment will be allocated in 2010.

In July 2008, agreement was reached with the policyholder advocate for the proposed reattribution of the inherited estate of CGNUL and CULAC. Market volatility and exceptional investment market conditions during 2008 meant that the original reattribution offer no longer met our criteria of being fair to both policyholders and shareholders. As a consequence, Aviva Life worked closely with the policyholder advocate in order to restructure the offer.

Following the announcement in May 2009 of a new, more flexible offer, and the subsequent FSA and High Court approval in September 2009, the reattribution of our inherited estate commenced on 1 October 2009. Our objective was always to create a reattribution that was fair to both shareholders and policyholders, making sure that customers had a choice of whether they wished to accept the offer, depending on their personal circumstances. As a result, over 87% of eligible policyholders voted during the election process, with 96% of these voting in favour of the offer. By the end of 2009, the majority of the £470 million reattribution payment had been distributed to those policyholders who accepted the offer, with £450m being in the form of cash payments and £20m relating to policy enhancements.

As part of this reorganisation, the long-term business funds of CGNUL and CULAC were merged and transferred to Aviva Life & Pensions UK Limited (UKLAP). This was followed by a reattribution to shareholders of the inherited estates of these funds. The long-term business of Norwich Union Life (RBS) Limited, a subsidiary of CULAC, was also transferred to UKLAP as part of the reorganisation.

On 31 December 2009, the transfer of the long-term insurance business of Hamilton Life Assurance Company (HLAC) to UKLAP became effective.

During 2009, the equity attributable to the Company's shareholders on an IFRS basis increased by 6.4% to £4,257 million (2008 decrease of 46.0% to £4,001 million). This reflects the increase in ordinary share capital of the Company during the year of £450 million, partly offset by the loss for the period, arising as a result of the reattribution costs less upward movements in the valuation of subsidiaries.

The successful rebrand to Aviva took place on 1 June 2009. Significant advertising campaigns highlighting the full range of Aviva's products and services, emphasising our promise of 'no one recognises you like Aviva', and encouraging customers to 'get the Aviva deal', have driven higher levels of recognition and awareness of the Aviva brand than those of the Norwich Union brand 12 months earlier.

We expect the market to remain challenging in the short term as the impact of the recession continues to influence demand for investment and savings products. Longer term, major regulatory changes including the Retail Distribution Review and Solvency II will be implemented. Our strategies will enable us to exploit the opportunities emerging in our market as we continue to build on our e-commerce and service capability and product and distribution breadth.

We are confident that through our strong brand, extensive product range and distribution reach we will emerge from these economic conditions in a strong position. We also expect that our strategy of simplifying and transforming our business, coupled with the resilience of our compelling business model will provide us with the opportunity to capitalise on our leading position in the market place and create further shareholder value.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing Aviva Life and its risk management policies are set out in note 21 to the financial statements.

Aviva Life Holdings UK Limited

Directors' report (continued)

Key performance indicators (KPIs)

The directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business. The development, performance and position of the Aviva Life business are discussed in the annual report and accounts of Aviva plc, which does not form part of this report.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the business review section of the directors' report on pages 3 to 4.

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The Company participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries.

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

Financial position and performance

The financial position of the Company at 31 December 2009 is shown in the statement of financial position on page 12, with the results shown in the income statement on page 11 and the statement of cash flows on page 14.

Major events/Post balance sheet events

On 1 January 2009, the Company agreed the sale of 50% of its subsidiaries Aviva Investors UK Funds Limited (formerly Norwich Union Investment Funds Limited) and Aviva Investors UK Fund Services Limited (formerly Norwich Union Collective Investments Limited) to Aviva Investors Holdings Limited, for a consideration of £16.0 million.

On 1 June 2009, the Company changed its name from Norwich Union Life Holdings Limited to Aviva Life Holdings UK Limited, following a group-wide re-branding exercise.

On 4 June 2009, a capital reduction was approved to cancel 5,499,000 ordinary shares of £1 in the wholly owned subsidiary London & Edinburgh Life Assurance Company Limited (LELAC). On the same date a further capital reduction was approved to cancel 1,249,000 ordinary shares of £1 in the wholly owned subsidiary Fidelity Life Assurance Limited (FLA).

On 23 June 2009, the wholly owned subsidiaries FLA and LELAC were placed in liquidation.

On 20 October 2009, the Company increased its authorised share capital from 4,792,200,000 to 5,242,200,000 ordinary shares of £1 each, by the creation of an additional 450,000,000 ordinary shares of £1 each. On the same date, the Company allotted 450,000,000 ordinary shares of £1 each to Aviva Group Holdings Limited for a consideration of £450,000,000. The purpose of the allocation was to fund the reattribution payment of £450m.

On 10 December 2009, the wholly owned subsidiary Undershaft (NUCF) Limited (formerly Norwich Union Commercial Finance Limited) was placed in liquidation.

On 6 January 2010, the Company approved a reduction in its authorised share capital from 5,242,200,000 to 3,640,191,000 ordinary shares of £1. On the same date the issued share capital was reduced from £5,230,840,913 to £3,628,831,913 by cancelling and extinguishing in full £1,602,009,000 ordinary shares of £1 each. The Company also resolved to cancel the share premium account in the sum of £597,991,000, in order to reduce the capital of the Company by a total amount of £2,200,000,000.

Dividend

During the year, the Company paid a dividend of £nil (2008: £127.5 million).

Aviva Life Holdings UK Limited

Directors' report (continued)

Employees

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

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 Company's ultimate parent, has granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. 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.

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 they 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.

Statement of directors' responsibilities

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

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

The directors are responsible for maintaining adequate 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.

On behalf of the Board

T E Strauss *Director*



31 March 2010

Aviva Life Holdings UK Limited

Independent auditors' report

Independent auditor's report to the members of Aviva Life Holdings UK Limited

We have audited the financial statements of Aviva Life Holdings UK Limited for the year ended 31 December 2009, which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, Statement of Changes in Equity and the related notes 1 to 23. 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 auditors' 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 statement of directors' responsibilities (set out on page 6), 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 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 2009 and of its loss 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

Stuart Wilson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

1 April 2010

Aviva Life Holdings UK Limited

Accounting policies

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), acts as the holding company for subsidiaries providing a range of financial services principally in the UK. Its principal subsidiaries are involved in long-term savings and insurance business.

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

(A) Basis of presentation

The financial statements have been prepared in accordance with IFRS applicable at 31 December 2009. The financial statements are prepared on the historical cost basis, except for investments in subsidiaries which have been measured at fair value.

Since 2005, all European Union listed companies have been required to prepare consolidated financial statements using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The date of transition to IFRS was 1 January 2004. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the European Union, the Company has also complied with IFRS as issued by the International Accounting Standards Board and applicable at 31 December 2009.

In 2008, the IASB issued a revised version of IFRS 3, *Business Combinations*, which introduces a number of changes in accounting for such transactions that will impact the amount of goodwill recognised, the reported results in the period an acquisition occurs, and future reported results. A consequential amendment to IAS 27, *Consolidated and Separate Financial Statements*, 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. Other consequential amendments were made to IAS 7, *Statement of Cash Flows*, IAS 12, *Income Taxes*, IAS 21, *The Effects of Changes in Foreign Exchange Rates*, IAS 28, *Investments in Associates*, and IAS 31, *Interests in Joint Ventures*. These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period. On adoption, they will impact the areas noted above in the Company's financial reporting.

In 2009, the IASB issued IFRS 9, *Financial Instruments – Classification and Measurement*, the first part of a replacement standard for IAS 39, *Financial Instruments: Recognition and Measurement*. This is applicable prospectively for accounting periods commencing 1 January 2013 or later, and is therefore not applicable for the current accounting period. It has not yet been endorsed by the EU but, on adoption, will require us to review the classification of certain investments while allowing us to retain the fair value measurement option as we deem necessary.

During 2008 and 2009, the IASB also issued amendments to IFRS 1, *First Time Adoption of IFRS*, IAS 32, *Financial Instruments: Presentation*, IAS 39 and the results of its annual improvements project. Further amendments to IFRS 1, IFRS 2, *Share-Based Payment*, IAS 24, *Related Party Disclosures*, and the results of its second annual improvements project have been issued but have not yet been endorsed by the EU. These are applicable prospectively for accounting periods commencing 1 July 2009 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.

IFRIC interpretation 17, *Distributions of Non-cash Assets to Owners*, and interpretation 19, *Extinguishing Financial Liabilities with Equity Instruments*, as well as an amendment to interpretation 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, were issued during 2008 and 2009 but the latter two have not yet been endorsed by the EU. These are applicable prospectively for accounting periods commencing 1 July 2009 or later, and are therefore not applicable for the current accounting period. On adoption, they will not have any impact on our financial reporting.

In accordance with IFRS 4, *Insurance Contracts*, the Group has applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards.

Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£'000).

As permitted under IAS 27, the Company has elected not to present consolidated financial statements. These financial statements present information about the Company as an individual undertaking and not about its group. Information on the ultimate controlling parent and immediate parent can be found in note 23.

Aviva Life Holdings UK Limited

Accounting policies (continued)

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

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

Item	Accounting policy
Valuation of subsidiaries	C
Provisions	F

(C) Subsidiaries

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

Dividends from subsidiaries are recognised when declared and approved.

(D) Loans

Loans are included at amortised cost using the effective interest rate method.

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

(E) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held on call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values. For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included within payables and other financial liabilities on the statement of financial position.

(F) Provisions and contingent liabilities

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

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 the future obligation is probable and the amount cannot be reasonably estimated, or if they are possible but not probable.

Aviva Life Holdings UK Limited

Accounting policies (continued)

(G) 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.

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, 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.

(H) Borrowings

Borrowings from group undertakings are recognised initially at their issue proceeds less transaction costs incurred. Subsequently, borrowings are stated at amortised cost, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method. All borrowing costs are expensed as they are incurred.

(I) Guarantees

Financial guarantees issued are recognised initially at their fair value, and subsequently measured at the higher of the expected liability (or receivable) under the guarantee and the amount initially recognised less any cumulative amortisation.

(J) Share capital

Equity instruments

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

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and
- (ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

Aviva Life Holdings UK Limited
Income statement
For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Income			
Income from shares in group undertakings		10,623	131,830
Interest receivable and similar income	2	14,042	11,939
Other income		107	1,409
Realised gains – investments		19	8,100
		<u>24,791</u>	<u>153,278</u>
Expenses			
Operating expenses		(645)	(477)
Finance costs	3	(14,405)	(13,205)
Reattribution payment	4	(450,125)	-
Write off of inter-company loans	5	-	(118,400)
Fair value gains/(losses) on investments	9	246,355	(3,313,415)
Loss before tax		<u>(194,029)</u>	<u>(3,292,219)</u>
Tax credit	G & 8	89	589
Loss for the year		<u>(193,940)</u>	<u>(3,291,630)</u>

Statement of comprehensive income
For the year ended 31 December 2009

The Company has no other comprehensive income

The accounting policies (identified alphabetically) on pages 8 to 10 and the notes (identified numerically) on pages 15 to 28 are an integral part of these financial statements

Aviva Life Holdings UK Limited
Statement of financial position
As at 31 December 2009

	Note	2009 £'000	2008 £'000
Assets			
Investments in subsidiaries	C & 9	4,646,339	4,268,464
Loans to group undertakings	D & 10	218,189	209,500
Tax assets	G & 15	200	495
Receivables	11	14,811	16,087
Cash and cash equivalents	E	52,958	4,964
Total assets		4,932,497	4,499,510
Equity			
Ordinary share capital	J & 12	5,230,841	4,780,841
Share premium	13	597,991	597,991
Retained earnings	13	(1,572,110)	(1,378,170)
Total equity		4,256,722	4,000,662
Liabilities			
Provisions	F & 16	10,525	1,344
Borrowings from group undertakings	H & 17	521,504	417,504
Payables and other financial liabilities	18	143,746	80,000
Total liabilities		675,775	498,848
Total equity and liabilities		4,932,497	4,499,510

Approved by the Board on 31 March 2010

T E Strauss *Director*



The accounting policies (identified alphabetically) on pages 8 to 10 and the notes (identified numerically) on pages 15 to 28 are an integral part of these financial statements

Aviva Life Holdings UK Limited
Statement of changes in equity
For the year ended 31 December 2009

	Note	Ordinary share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2008		4,780,841	597,991	2,040,960	7,419,792
Loss for the year	13	-	-	(3,291,630)	(3,291,630)
Dividends	J & 13	-	-	(127,500)	(127,500)
Balance at 31 December 2008		4,780,841	597,991	(1,378,170)	4,000,662
Loss for the year	13	-	-	(193,940)	(193,940)
Issue of share capital	12	450,000	-	-	450,000
Balance at 31 December 2009		5,230,841	597,991	(1,572,110)	4,256,722

The accounting policies (identified alphabetically) on pages 8 to 10 and the notes (identified numerically) on pages 15 to 28 are an integral part of these financial statements

Aviva Life Holdings UK Limited
Statement of cash flows
For the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Cash flows used in operating activities			
Cash used in operations	19(a)	(362,034)	(126,742)
Dividends received		10,623	131,830
Tax paid		-	(7,601)
Net cash used in operating activities		(351,411)	(2,513)
Cash flows used in investing activities			
Acquisition of subsidiaries		(147,000)	(32,156)
Disposal of subsidiaries		15,499	1
Loans granted		(8,689)	(99,830)
Net cash used in investing activities		(140,190)	(131,985)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		450,000	-
New borrowings drawn down		104,000	277,174
Interest paid on borrowings		(14,405)	(13,205)
Dividends paid		-	(127,500)
Net cash from financing activities		539,595	136,469
Net increase in cash and cash equivalents		47,994	1,971
Cash and cash equivalents at 1 January		4,964	2,993
Cash and cash equivalents at 31 December	19(b)	52,958	4,964

The accounting policies (identified alphabetically) on pages 8 to 10 and the notes (identified numerically) on pages 15 to 28 are an integral part of these financial statements

Aviva Life Holdings UK Limited
Notes to the financial statements
For the year ended 31 December 2009

1. Presentation changes

The Company has adopted IAS 1 (Revised), *Presentation of Financial Statements*, as of 1 January 2009. The principal impact of this has been in the following areas:

- (a) The titles of some of the prime statements have changed, so that the balance sheet is now called the statement of financial position and the cash flow statement is renamed the statement of cash flows.
- (b) Changes in the year in each element of equity must now be shown on the face of the statement of changes in equity, rather than in the notes.
- (c) The standard requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in the financial statements. None of these conditions applies, so the Company has not presented three statements of financial position in these financial statements.

2. Interest receivable and similar income

	2009 £'000	2008 £'000
Interest receivable from group undertakings	13,770	11,287
Other interest	272	652
	14,042	11,939

3. Finance costs

	2009 £'000	2008 £'000
Interest payable to group undertakings	14,405	13,205

4. Reattribution payment

During 2009, Aviva Life has continued to work towards the proposed reattribution of the inherited estate and, following the announcement in May 2009 of a new, more flexible offer, and the subsequent FSA and High Court approval in September 2009, the reattribution of our inherited estate commenced on 1 October 2009.

	2009 £'000	2008 £'000
Reattribution payment	450,000	-
Foreign exchange loss on transfer of cash	125	-
	450,125	-

By the end of 2009, the majority of the £450 million reattribution cash payments had been distributed to those policyholders who accepted the offer.

5. Write off of inter-company loans

Inter-company loans written off during the year were £nil (2008: £118,400,000).

Aviva Life Holdings UK Limited
Notes to the financial statements
For the year ended 31 December 2009 (continued)

6. Directors' emoluments

A management charge in respect of administration services has been made by Aviva Life Services UK Limited (UKLS, formerly Norwich Union Life Services Limited), a fellow group undertaking, which includes a negligible element in respect of directors' time spent in managing the Company

M S Hodges was a director of Aviva plc, and details of his remuneration are given in the financial statements of that company

Emoluments of the other directors were

	2009 £'000	2008 £'000
Aggregate emoluments in respect of services as directors	3,481	3,645
Emoluments of the highest paid director		
Aggregate emoluments and benefits	947	1,130
Accrued pension at end of year from defined benefit pension scheme	-	-
	947	1,130

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

No lump sum in relation to the defined benefit pension scheme had accrued at the end of the current or previous year Retirement benefits are accruing to two of the directors under a defined benefit scheme

During the year two directors exercised share options and none of the directors received shares under long term incentive schemes

7. Auditor's remuneration

	2009 £'000	2008 £'000
Fees for the statutory audit of the Company's financial statements	92	82

The fees are payable to Ernst & Young LLP, and form part of the recharge from UKLS

Fees paid for services other than the statutory audit of this Company are not disclosed in these financial statements since the consolidated financial statements of the ultimate parent, Aviva plc, are required to disclose non-audit fees on a consolidated basis

8. Tax

(a) Tax credited to the income statement

(i) The total tax credit comprises

	2009 £'000	2008 £'000
Current tax		
For the year	200	495
Prior year adjustments	(111)	94
Total tax credit to the income statement (note 8(b))	89	589

Aviva Life Holdings UK Limited
Notes to the financial statements
For the year ended 31 December 2009 (continued)

(b) Tax reconciliation

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

	2009 £'000	2008 £'000
Loss before tax	(194,029)	(3,292,219)
Tax calculated at standard UK corporation tax rate of 28% (2008 28.5%)	54,328	938,282
Adjustment to tax charge in respect of prior years	(111)	94
Non-assessable dividends	2,975	37,572
Disallowed expenses	(83)	(2)
Non-taxable fair value gains on subsidiaries	68,985	(944,323)
Non-taxable income	30	2,710
Non-deductible loan impairment	-	(33,744)
Non-deductible reattribution payment	(126,035)	-
Total tax credit to income statement (note 8(a))	89	589

9. Investments in subsidiaries

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

	2009 £'000	2008 £'000
Carrying amount at 1 January	4,268,464	7,521,724
Additions	147,000	60,156
Disposals	(15,480)	(1)
Fair value gains/(losses)	246,355	(3,313,415)
At 31 December	4,646,339	4,268,464

In the absence of any comparable market transactions, fair value is based on valuation techniques. Where applicable, multiples of MCEV or IFRS NAV have been used. The embedded value is the total net worth of a business and the value of in-force business. The value of in-force business is the present value of the distributable profits to shareholders.

The Company's approach to managing its investments and associated risks is given in note 21.

(b) Additions

On 14 May 2009, the Company agreed to subscribe for 45,000,000 ordinary shares of £1 each in the share capital of Aviva Life Services UK Limited (UKLS) at a total subscription price of £45,000,000.

On 28 August 2009, the Company agreed to subscribe for 30,000,000 ordinary shares of £1 each in the share capital of UKLS at a total subscription price of £30,000,000.

On 30 September 2009, the Company agreed to subscribe for 5,000,000 ordinary shares of £1 each in the share capital of UKLS at a total subscription price of £5,000,000.

On 30 October 2009, the Company agreed to subscribe for 41,000,000 ordinary shares of £1 each in the share capital of UKLS at a total subscription price of £41,000,000.

On 22 December 2009, the Company agreed to subscribe for 17,000,000 ordinary shares of £1 each in the share capital of UKLS at a total subscription price of £17,000,000.

Aviva Life Holdings UK Limited
Notes to the financial statements
For the year ended 31 December 2009 (continued)

(c) Disposals

On 1 January 2009, the Company agreed the sale of 50% of its subsidiaries Aviva Investors UK Funds Limited (formerly Norwich Union Investment Funds Limited) and Aviva Investors UK Fund Services Limited (formerly Norwich Union Collective Investments Limited) to Aviva Investors Holdings Limited for a consideration of £16.0 million

On 23 June 2009, the Company placed two of its subsidiary undertakings, London & Edinburgh Life Assurance Company Limited (LELAC) and Fidelity Life Assurance Limited (FLA) in liquidation. This followed a capital reduction of 5,499,000 ordinary shares of £1 in LELAC and 1,249,000 ordinary shares of £1 in FLA.

On 10 December 2009, the company placed the subsidiary Undershaft (NUCF) Limited (formerly Norwich Union Commercial Finance Limited) in liquidation.

(d) The Company's principal subsidiaries are shown below. They are all wholly-owned (unless otherwise stated) and incorporated in England.

Subsidiary	Principal activity
CGNU Life Assurance Limited	Long-term insurance
Commercial Union Life Assurance Company Limited	Long-term insurance
Hamilton Life Assurance Company Limited	Long-term assurance
Aviva Wrap Group UK Limited (formerly Lifetime Group Limited)	Personal portfolio 'wrap' products
Aviva Annuity UK Limited (formerly Norwich Union Annuity Limited)	Annuity life assurance
Aviva Equity Release UK Limited (formerly Norwich Union Equity Release Limited)	Equity release mortgage provider
Aviva Health UK Limited (formerly Norwich Union Healthcare Limited)	Marketing and administration of healthcare products
Aviva Occupational Health UK Limited (formerly Norwich Union Occupational Health Limited)	Provision of occupational health services
Aviva Investors UK Funds Limited (formerly Norwich Union Investment Funds Limited)	Investment management (50% owned)
Aviva Investors UK Fund Services Limited (formerly Norwich Union Collective Investments Limited)	Investment management (50% owned)
Aviva Life & Pensions UK Limited (formerly Norwich Union Life & Pensions Limited)	Long-term insurance
Aviva Life Services UK Limited (formerly Norwich Union Life Services Limited)	Corporate administration services

10. Loans

Carrying amounts:

	2009	2008
	£'000	£'000
Loans to group undertakings	218,189	209,500

Of the above total, £212.7 million (2008: £69.5 million) is expected to be recovered more than one year after the statement of financial position date.

Aviva Life Holdings UK Limited
Notes to the financial statements
For the year ended 31 December 2009 (continued)

11. Receivables

	2009 £'000	2008 £'000
Amounts owed by group undertakings	14,762	16,080
Other debtors	49	7
	14,811	16,087

Of the above total, £nil (2008 £nil) is expected to be received more than one year after the statement of financial position date

12. Ordinary share capital

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

	2009 £'000	2008 £'000
The authorised share capital of the Company was 5,242,200,000 Ordinary shares of £1 each	5,242,200	4,792,200
The allotted, called up and fully paid share capital of the Company was 5,230,840,913 Ordinary shares of £1 each	5,230,841	4,780,841

All shares are of the same class and rank *pari passu*

(b) Details of share movements are as follows:

During 2009, 450,000,000 ordinary shares of £1 each (2008 none) were allotted and issued by the Company

	2009 Number of shares	2009 Share capital £'000	2008 Number of shares	2008 Share capital £'000
At 1 January	4,780,840,913	4,780,841	4,780,840,913	4,780,841
New shares issued	450,000,000	450,000	-	-
At 31 December	5,230,840,913	5,230,841	4,780,840,913	4,780,841

13. Share premium and retained earnings

	2009 Share premium £'000	2009 Retained earnings £'000	2008 Share premium £'000	2008 Retained earnings £'000
At 1 January	597,991	(1,378,170)	597,991	2,040,960
Loss for the year	-	(193,940)	-	(3,291,630)
Dividends	-	-	-	(127,500)
At 31 December	597,991	(1,572,110)	597,991	(1,378,170)

Aviva Life Holdings UK Limited
Notes to the financial statements
For the year ended 31 December 2009 (continued)

14. Guarantees

Several of the Company's subsidiaries have guaranteed the overdrafts and borrowings of certain subsidiaries and associates. In the opinion of the directors, no material loss will arise in respect of these guarantees and indemnities.

In addition, in line with standard business practice, various Group companies have given guarantees, indemnities and warranties in connection with disposals in recent years of subsidiaries and associates to parties outside the Aviva Group. In the opinion of the directors, no material loss will arise in respect of these guarantees, indemnities and warranties.

15. Tax assets & liabilities

(a) General

Tax assets receivable in more than one year are £200,000 (2008 £495,000)

(b) Deferred tax

The Company has no provided or un-provided deferred tax (2008 £nil)

16. Provisions

	2009 £'000	2008 £'000
At 1 January	1,344	1,586
Provisions made in year	9,902	449
Amounts utilised	(201)	(111)
Amounts released	(520)	(580)
At 31 December	10,525	1,344

As part of the e sur v limited sale agreement, the Company became liable for professional indemnity claims arising after 30 June 2004, in respect of advice given by e sur v limited up to 30 June 2004. A provision has been made in respect of ongoing legal claims, which are the directors' best estimate of the likely outcome of such claims.

The Company acquired Hamilton Life Assurance Company Limited (HLAC) from HFC Bank Limited (HFC) in 2007, paying £21 million of contingent consideration in respect of unrecognised deferred tax assets which could not be utilised or recognised at the time. Following the transfer of the long-term insurance business of HLAC to UKLAP on 31 December 2009, the deferred tax assets can now be recognised within UKLAP. As such, a further consideration of £9 million will become payable to HFC in this respect within the next 2 to 3 years.

17. Borrowings from group undertakings

	2009 £'000	2008 £'000
Loan from parent	7,504	7,504
Loans from subsidiaries	514,000	410,000
	521,504	417,504

The loan from parent is repayable within 2 to 5 years. In relation to the loans from subsidiaries, £314 million is repayable within one year, with the balance of £200 million being due after 5 years.

Aviva Life Holdings UK Limited
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For the year ended 31 December 2009 (continued)

The increase in loans from group undertakings during 2009 is partly due to the novation of the Aviva loans, which has resulted in increased borrowings from Aviva Life & Pensions UK Limited (UKLAP). The Company has also continued to meet additional funding requirements for UKLS.

18. Payables and other financial liabilities

	2009 £'000	2008 £'000
Amounts owed to group undertakings	96,064	80,000
Other payables	47,682	-
	143,746	80,000

Of the above total, £nil (2008 £nil) is expected to be paid more than one year after the statement of financial position date.

All payables are carried at cost, which approximates to fair value.

19. Statement of cash flows

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

	2009 £'000	2008 £'000
Loss before tax	(194,029)	(3,292,219)
Adjustments for		
Dividends received	(10,623)	(131,830)
Net gain on disposal of subsidiaries	(19)	-
Fair value losses on investments	(246,355)	3,313,415
Interest expense on borrowings	14,405	13,205
Changes in working capital		
(Increase)/decrease in receivables	1,660	1,817
Increase in other assets	-	(4,301)
Increase/(decrease) in provisions	9,181	(242)
Increase/(decrease) in payables	63,746	(26,587)
Cash used in operations	(362,034)	(126,742)

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

	2009 £'000	2008 £'000
Cash at bank and in hand	52,958	4,964

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Notes to the financial statements
For the year ended 31 December 2009 (continued)

20. Capital

In managing its capital, the Company seeks to

- Take account of the risks inherent in the business,
- Retain financial flexibility by maintaining liquidity, and
- Allocate capital efficiently to support growth and repatriate excess capital where appropriate

The Company is not a regulated company and hence not subject to any regulatory capital requirements

The Company mostly considers the traditional sources of capital funding, including loans and capital injections from its parent company. The analysis below sets out the Company's capital resources available to meet its liabilities

	2009 £'000	2008 £'000
Total IFRS shareholders' funds and available capital resources	4,256,722	4,000,662

Further details on risk and capital management are given in note 21

21. Risk management

(a) Risk management framework

The primary objective of the Company's risk and financial management framework is to protect it and its subsidiaries (collectively Aviva Life) from events that hinder the sustainable achievement of its performance objectives, including failing to exploit opportunities. Financial risk is categorised as follows:

- Market
- Credit
- Life insurance
- Liquidity

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

- Defined terms of reference for the Board, its committees, and the associated executive management committees,
- A clear organisational structure with documented delegated authorities and responsibilities from the Board to executive management committees and senior management, and
- A policy framework that sets out risk appetite, risk management, control and business conduct standards for the Company's operations. Each policy has a member of senior management who is charged with overseeing compliance with the policy throughout the Company.

Regulatory impact on risk and risk assessments

A significant proportion of the principal subsidiaries' long-term savings business involves insurance products where the majority of investment risks are borne by its policyholders. These risks are actively and prudently managed in order to satisfy the policyholders' risk and reward objectives. In addition, the insurance operations are subject to numerous regulatory requirements that prescribe the type, quality, and concentration of investments, and the level of assets to be maintained in order to meet insurance liabilities. Meeting these requirements helps to ensure the market risk is maintained at an acceptable level.

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Notes to the financial statements
For the year ended 31 December 2009 (continued)

The Company operates a number of oversight committees that monitor aggregate risk data and take overall risk management decisions

(b) Market risk

The Company is exposed to fair value movements on its investments in subsidiaries. The fair value will fluctuate as the underlying assets, including the value of in-force business where appropriate, and liabilities held by the companies within Aviva Life change.

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices and property prices. Market risk arises within the Company's subsidiaries due to fluctuations in the relationship between the values of the liabilities and the value of investments held, as a result of movements in market prices.

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

Aviva Life manages market risks within the asset/liability management (ALM) framework and within regulatory constraints.

The financial impact of market risk is examined through stress tests adopted in Individual Capital Assessment (ICA), Financial Condition Reports (FCR) and Risk Based Capital (RBC), which consider the impact on capital from variations in financial circumstances on either a remote scenario, or to changes from the central operating scenario. Management actions that may be taken in mitigation of the change in circumstances are also considered.

The sensitivity of earnings to changes in economic markets is regularly monitored through sensitivities to investment returns and asset values in MCEV reporting.

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

(i) Equity price risk

Aviva Life is subject to equity price risk due to changes in the market values of its equity funds portfolio. The underlying Companies are exposed to direct equity holdings in shareholder assets, to indirect impacts in the value of equities from which management charges or a share of performance are taken, and to interest in the free assets of long-term funds.

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

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

Aviva Life actively monitors its directly owned equity assets including subsidiary investments and shareholdings in strategic business partners, with regular management information presented to the Investment Governance Committee. The principal subsidiaries are given in note 9 and are valued on a fair value basis. The fair values will fluctuate as the underlying assets and liabilities held by the subsidiaries, including the in-force business where applicable, change in value.

Aviva Life Holdings UK Limited
Notes to the financial statements
For the year ended 31 December 2009 (continued)

(ii) Property price risk

Aviva Life is subject to property price risk due to holdings of investment properties. The investment in property is managed and is subject to regulations on asset admissibility, liquidity requirements and the expectations of policyholders. The financial impact from changes in property values is examined through stress tests adopted in the ICA and FCR.

(iii) Interest rate risk

Interest rate risk arises primarily from Aviva Life's nominal and real yield curve exposure within both assets and liabilities.

Interest rate risk also exists in policies that carry investment guarantees on early surrender or at maturity, where claim values can become higher than the value of backing assets when interest rates rise or fall. Aviva Life manages this risk by adopting close asset liability matching techniques, to minimise the impact of mismatches between the value of assets and liabilities from interest rate movements. However where any mismatch is within our risk appetite, the impact is monitored through economic capital measures such as ICA.

The impact of exposure to sustained low interest rates is regularly monitored.

(iv) Derivative risk

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

(v) Correlation risk

Lapse behaviour and potential increases in consumer expectations are sensitive to and interdependent with market movements and interest rates. These interdependencies are taken into consideration in the ICA in the aggregation of the financial stress tests with the operational risk assessment. FCRs also consider scenarios involving a number of correlated events.

(c) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations, or changes to the market value of assets caused by changed perceptions of the credit worthiness of such counterparties. Aviva Life's management of credit risk, under the oversight of ALCO, includes the articulation of risk appetite, exposure limit frameworks and investment and lending criteria within credit risk policies and management agreements.

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure.

In cases where a subsidiary is particularly exposed to credit risk, this risk is translated into a more conservative discount rate used to value the liabilities held by the subsidiary, creating a greater capital requirement, and this credit risk is actively managed. The impact of aggregation of credit risk is monitored as described above.

(d) Life insurance risk

(i) Type of risk

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

Aviva Life Holdings UK Limited
Notes to the financial statements
For the year ended 31 December 2009 (continued)

(ii) Risk management

Aviva Life has developed a policy for the management of life insurance risk and guidelines for the practical application of key areas of life insurance practice. The impact of life insurance risk is monitored by Aviva Life as part of the control cycle of business management. Exposure is monitored through the assessment of liabilities, the asset liability management framework, profit reporting (under both IFRS and MCEV), FCR, and the ICA process. Significant insurance risks will be overseen by the Insurance Risk Committee.

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

Longevity risk is carefully monitored against the latest external industry data and emerging trends. Aviva Life has used reinsurance solutions to reduce the risks from longevity where desirable and continually monitors emerging market solutions to mitigate this risk further.

Persistency risk is managed through frequent monitoring of Company experience, benchmarked against local market information. Where possible the financial impact of lapses is reduced through appropriate product design.

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

In addition to ICA and FCR, sensitivity testing is widely used to measure the capital required and volatility in earnings due to exposure to life insurance risks, typically through MCEV reporting. This enables Aviva Life to determine whether action is required to reduce risk, or whether that risk is within the overall risk appetite.

(iii) Concentration risk

Aviva Life writes a diverse mix of business that is subject to similar risks (mortality, persistency etc). It assesses the relative costs and concentrations of each type of risk through the ICA requirements and material issues are escalated to and addressed at the Insurance Risk committee. This analysis enables Aviva Life to assess whether accumulations of risk exceed risk appetite.

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

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

(iv) Embedded derivatives within insurance contracts

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

Examples of each type of embedded derivative affecting Aviva Life are

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

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

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

The impact of these is reflected in ICA and MCEV reporting and managed as a part of the asset liability framework.

(e) Liquidity risk

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

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(f) Risk and capital management

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

Some results of sensitivity testing for MCEV subsidiary valuations 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 consequential 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%.
Assurance and annuitant mortality/morbidity	The impact of an increase in mortality/morbidity rates for assurance and annuitant contracts by +/- 5%.

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

Impact on profit and shareholders' equity

	Interest rates +1% £m	Interest rates -1% £m	Equity/ property +10% £m	Equity/ property -10% £m	Mortality/ morbidity +5% £m	Mortality/ morbidity -5% £m
2009	(155)	83	204	(216)	202	(207)
2008	(100)	86	398	(407)	127	(119)

Limitations of sensitivity analysis

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

The sensitivity analyses do not take into consideration that Aviva Life's assets and liabilities are actively managed and may be different at the time that any actual market movement occurs.

Other limitations in the above sensitivity analyses include the assumption that all interest rates move in an identical fashion. Also, hypothetical market movements have been used representing Aviva Life's view of possible near-term market changes, but these cannot be predicted with any certainty.

22. Contingent liabilities

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

23. Related party transactions

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

Aviva Life Holdings UK Limited
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For the year ended 31 December 2009 (continued)

(b) Income receivable from related parties

During the year, the Company received dividend income of £10,623,000 (2008 £131,830,000) from its subsidiaries

During the year, the Company received interest of £13,757,000 (2008 £9,055,000) from subsidiaries and £13,000 (2008 £2,232,000) from parent

Loans receivable at year end are due from the following

	2009 £'000	2008 £'000
Parent	12,748	-
Subsidiaries	205,441	209,500
	218,189	209,500

Other amounts receivable at year end are due from the following

	2009 £'000	2008 £'000
Parent	2,807	2,724
Subsidiaries	7,763	6,367
Fellow group undertakings	4,192	6,989
	14,762	16,080

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.

(c) Services provided by related parties

Under a management agreement, UKLS supplies and makes charges for the provision of operational assets and staff to the Company. The agreement specifies the amounts payable to UKLS in respect of these expenses, which were £350,000 (2008 £470,000).

During the year the Company paid interest of £nil (2008 £1,258,000) to its ultimate parent, £158,000 (2008 £1,314,000) to its parent and £14,247,000 (2008 £10,633,000) to its subsidiaries.

Loans payable at year end are due to the following

	2009 £'000	2008 £'000
Parent	7,504	7,504
Subsidiaries	514,000	410,000
	521,504	417,504

Other amounts payable at year end are due to the following

	2009 £'000	2008 £'000
Subsidiaries	95,757	79,752
Fellow group undertakings	307	248
	96,064	80,000

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.

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(d) Key management compensation

The total compensation to those employees classified as key management of Aviva Life, including the executive directors, is as follows

	2009	2008
	£'000	£'000
Salary and other short-term benefits	7,380	4,625
Post-employment benefits	694	67
Other long-term benefits	501	714
Termination benefits	-	419
Equity compensation plans	-	1,222
Total	8,575	7,047

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

Information concerning directors' emoluments is given in note 6

(e) Parent entity

The immediate holding company is Aviva Group Holdings Limited, a company registered in England

(f) Ultimate controlling entity

The ultimate controlling entity is Aviva plc, a company registered in England. Its Group financial statements are available on www.aviva.com or by application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ