

## SUBSTITUTE

### ORDINANCE

WHEREAS, the City of Chicago (the "City") is a home rule unit of local government as defined in Section 6(a), Article VII of the 1970 Constitution of the State of Illinois, and, as such, may exercise any power and perform any function pertaining to its government and affairs;

WHEREAS, the City owns and operates, through its Chicago Department of Aviation ("CDA"), an airport commonly known as Chicago Midway International Airport (the "Airport") and possesses the power and authority to lease premises and facilities and to grant rights and privileges with respect thereto; and

WHEREAS, the City and Signature Flight Support-Midway, Inc. ("Signature-Midway") entered into a First Amended and Restated Facilities Lease and Use Agreement dated June 4, 1997 ("1997 Agreement") for the lease of various premises at the Airport; and

WHEREAS, the 1997 Agreement was further amended, but not restated, in January 1998, to add Signature as Co-Lessee ("1998 Amendment"); and

WHEREAS, subsequent to the 1998 Amendment, Signature-Midway was merged into Signature so that Signature-Midway no longer exists as a separate company, and Signature has been performing fixed base operator services at the Airport since that time; and

WHEREAS, subsequent to the 1998 Amendment, the City notified Signature that it was converting the term of the lease with respect to the former Chicago Fire Department facility referred to in the 1997 Agreement as Parcel 2(a) to month-to-month; and

WHEREAS, subsequent to the 1998 Amendment, Signature returned to the City (for use by Southwest Airlines) the premises located at 5000 West 63<sup>rd</sup> Street and the premises located at 5036 West 63<sup>rd</sup> Street in exchange for use of other Airport premises located at 5901 South Central Avenue; and

WHEREAS, the premises located at 5713 South Central Avenue have been leased to Aon Corporation for use as a corporate aircraft hangar and Aon Corporation and the City desire to terminate that lease, and Signature and the City desire to add those premises to Signature's leasehold; and

WHEREAS, rather than further amend and restate the 1997 Agreement to reflect the foregoing changes over time, the City and Signature desire to enter into a new agreement ("Agreement") and to terminate the 1997 Agreement upon the commencement of the new Agreement; and

WHEREAS, the City desires that the Mayor, upon recommendation of the Commissioner of CDA ("Commissioner"), have the authority to execute such Agreement; now, therefore;

*Be It Ordained by the City Council of the City of Chicago:*

SECTION 1. The above recitals are incorporated by reference as if fully set forth

herein.

SECTION 2. The Mayor or his proxy, upon recommendation of the Commissioner, is hereby authorized to execute an Agreement with Signature in substantially the form attached hereto as Exhibit 1.

SECTION 3. The Commissioner and other City officials are further authorized to enter into and to execute all documents and perform any and all acts, including promulgation of any standards, rules or regulations, as shall be necessary or advisable to carry out the purpose and intent of this ordinance.

SECTION 4. The Commissioner is hereby authorized to terminate the lease with Aon Corporation for the premises located at 5713 South Central Avenue.

SECTION 5. To the extent that any ordinance, resolution, rule, order or provision of the City, or part thereof, is in conflict with the provisions of this ordinance, the provisions of this ordinance shall control. If any section, paragraph, clause or provision of this ordinance shall be held invalid, the invalidity of such section, paragraph, clause or provision shall not affect any of the other provisions of this ordinance.

SECTION 6. This ordinance shall be in full force and effect from the date of its passage and approval.

**FACILITIES LEASE AND USE AGREEMENT  
BETWEEN THE CITY OF CHICAGO AND SIGNATURE  
FLIGHT SUPPORT CORPORATION AT CHICAGO  
MIDWAY INTERNATIONAL AIRPORT**

## TABLE OF CONTENTS

RECITALS .....	1
ARTICLE I - DEFINITIONS .....	2
Section 1.01 - Definitions .....	2
Section 1.02 - Interpretation .....	5
Section 1.03 - Incorporation of Exhibits.....	5
ARTICLE II - LEASE OF PREMISES .....	5
Section 2.01 - Premises .....	5
Section 2.02 - Adjustment of Area of Premises .....	7
Section 2.03 - Easements and Rights of Entry .....	7
Section 2.04 - Permitted Uses (Mandatory and Discretionary) .....	8
Section 2.05 - First-Class Operation.....	11
Section 2.06 - Quiet Enjoyment.....	11
Section 2.07 - Ingress and Egress.....	12
Section 2.08 - Present Condition of Premises .....	12
Section 2.09 - Accessibility .....	12
Section 2.10- Covenant Against Waste .....	13
ARTICLE III-TERM .....	13
Section 3.01 - Initial Term.....	13
Section 3.02 - Options to Extend .....	13
Section 3.03 - Early Termination.....	14
ARTICLE IV-RENT .....	14
Section 4.01 - Rent .....	14
Section 4.02 - Escalation upon Term Extension .....	15
Section 4.03 - Landing Fees .....	16
Section 4.04 - Method and Manner of Payment.....	16
Section 4.05 - Rent Credits .....	17
Section 4.06 - Late Payments .....	17
Section 4.07 - Security Deposit.....	17
Section 4.08 - Rent Absolute .....	18
Section 4.09 - Signature Books and Records .....	18
Section 4.10 - Abatement in the Event of Closing.....	18
ARTICLE V- CONSTRUCTION, MAINTENANCE & REPAIR.....	18
Section 5.01 - Construction of Improvements Generally .....	19
Section 5.02 - Title to Improvements .....	19
Section 5.03 - City-funded Improvements .....	19
Section 5.04 - Other Improvements .....	20
Section 5.05 - Liens Prohibited .....	20
Section 5.06 - Maintenance and Repair .....	20
Section 5.07 - Repairs Necessitated by Casualty .....	21
Section 5.08 - Inspection .....	22

Section 5.09 - Signs .....	22
Section 5.10 - Non-interference with Airport Operations.....	22
Section 5.11 - Access by City .....	23
ARTICLE VI - MAINTENANCE AND OPERATION OF AIRPORT.....	23
Section 6.01 - City's Obligations .....	23
Section 6.02 - Signature's Remedy .....	23
ARTICLE VII - ADDITIONAL OBLIGATIONS OF SIGNATURE .....	23
Section 7.01 - Taxes.....	23
Section 7.02 - Utilities .....	23
Section 7.03 - Permits, Licenses .....	23
Section 7.04 - Compliance with All Laws .....	24
Section 7.05 - Compliance with City/State Requirements.....	24
Section 7.06 - Non-discrimination .....	26
Section 7.07 - Affirmative Action Program and MBE/WBE Requirements .....	26
Section 7.08 - Compliance With Environmental Laws .....	27
Section 7.09 - Contractors .....	31
Section 7.10 - Indemnification.....	31
ARTICLE VIII - AIRPORT MATTERS.....	32
Section 8.01 - Airport Rules and Regulations .....	32
Section 8.02 - Other Legal Requirements.....	32
Section 8.03 - Airport Agreements .....	33
Section 8.04 - Airport Security Acts .....	33
Section 8.05 - Airport Noise Restrictions .....	34
Section 8.06 - Regulating the Airport; Airport Operation .....	34
ARTICLE IX - EXERCISE BY CITY OF GOVERNMENTAL FUNCTIONS.....	34
ARTICLE X - INSURANCE .....	34
Section 10.01 - Required Insurance Coverage .....	34
Section 10.02 - Additional Obligations of Signature Regarding Insurance .....	35
ARTICLE XI - INDEMNIFICATION BY SIGNATURE .....	37
Section 11.01 - Indemnity .....	37
Section 11.02 - Release of City.....	38
Section 11.03 - Non-Liability of Public Officials.....	38
Section 11.04 - Limitation on City Liability.....	38
Section 11.05 - City Approvals .....	39
Section 11.06 - Survival Beyond Termination of this Agreement .....	39
ARTICLE XII - DEFAULT AND TERMINATION.....	39
Section 12.01 - Events of Default .....	39
Section 12.02 - City's Remedies.....	41
Section 12.03 - Removal of Signature's Property .....	41
Section 12.04 - Condemnation .....	42
Section 12.05 - No Waiver by City.....	43

Section 12.06 - City's Right to Perform Signature's Obligations .....	43
Section 12.07 - Attorneys' Fees and Expenses .....	44
ARTICLE XIII - TRANSFERS .....	44
Section 13.01 - Signature's Right to Transfer .....	44
Section 13.02 - City Right to Transfer .....	45
ARTICLE XIV-NOTICE .....	45
ARTICLE XV - MISCELLANEOUS .....	46
Section 15.01 - Entire Agreement .....	46
Section 15.02 - Counterparts .....	46
Section 15.03 - Amendments .....	46
Section 15.04 - No Partnership or Agency .....	47
Section 15.05 - Representatives .....	47
Section 15.06 - Force Majeure .....	47
Section 15.07 - Governing Law .....	47
Section 15.08 - Consent to Service of Process and Jurisdiction .....	48
Section 15.09 - Severability .....	48
Section 15.10- Assigns .....	48
Section 15.11 - Co-Operation by Parties .....	48
ARTICLE XVI - AUTHORITY .....	49
Section 16.01 - City's Authority .....	49
Section 16.02 - Signature's Authority .....	49

**Exhibits**

- Exhibit A - Premises
- Exhibit B - Rent Schedules and Security Deposit
- Exhibit C - Requirements for Work
- Exhibit D - Insurance Requirements

**FACILITIES LEASE AND USE AGREEMENT  
BETWEEN CITY OF CHICAGO AND SIGNATURE  
FLIGHT SUPPORT CORPORATION AT CHICAGO  
MIDWAY INTERNATIONAL AIRPORT**

This Facilities Lease and Use Agreement ("Agreement") is made and entered into effective as of the \_\_\_\_ day of \_\_\_\_\_, 2013 ("Effective Date"), by and between the City of Chicago, an Illinois municipal corporation and home rule unit of local government under Sections 1 and 6(a), respectively, of Article VII of the 1970 Constitution of the State of Illinois ("City") and Signature Flight Support Corporation, a Delaware corporation ("Signature").

**RECITALS**

WHEREAS, the City owns and, through its Chicago Department of Aviation ("CDA"), operates that certain airport known as Chicago Midway International Airport ("Airport"); and

WHEREAS, the City has the authority to lease premises and facilities and the power to grant rights and privileges with respect to the Airport; and

WHEREAS, the City and Signature Flight Support-Midway, Inc., a former Illinois corporation ("Signature-Midway") entered into a First Amended and Restated Facilities Lease and Use Agreement dated June 4, 1997 ("1997 Agreement") for the lease of various premises at the Airport; and

WHEREAS, the 1997 Agreement was further amended (but not restated) in January, 1998, to add Signature as Co-Lessee ("1998 Amendment"); and

WHEREAS, subsequent to the 1998 Amendment, Signature-Midway was merged into Signature so that Signature-Midway no longer exists as a separate company, and Signature has been performing fixed base operator services at the Airport since that time; and

WHEREAS, subsequent to the 1998 Amendment, a new fuel distribution system was installed at the Airport in connection with the Midway Airport Terminal Development Program, and Signature no longer has need for separate fuel storage facilities as contemplated in the 1997 Agreement, including but not limited to the use of the fuel storage facilities on the parcel referred to in the 1997 Agreement as Parcel 1; and

WHEREAS, subsequent to the 1998 Amendment but prior to June 3, 1999, the City notified Signature that it was converting the term of the lease with respect to the former Chicago Fire Department facility referred to in the 1997 Agreement as Parcel 2(a) to month-to-month; and

WHEREAS, subsequent to the 1998 Amendment, Signature returned to the City (for use by Southwest Airlines) the premises located at 5000 West 63<sup>rd</sup> Street (referred to in the 1997 Agreement as Parcel 4) and the premises located at 5036 West 63<sup>rd</sup> Street (referred to in the 1997 Agreement as Parcel 4A) in exchange for use of other Airport premises located at 5901 South Central Avenue; and

WHEREAS, Section 4.01(D) of the 1997 Agreement contained an inaccurate description of the calculation of the Minimum Annual Guarantee component of Rent that the parties desire to clarify; and

WHEREAS, the rent credit for capital improvements pursuant to Section 4.04 of the 1997 Agreement has since expired; and

WHEREAS, the premises located at 5713 South Central Avenue have been leased to Aon Corporation for use as corporate aircraft hangar, Aon Corporation and the City desire to terminate that lease, and Signature and the City desire to add those premises to Signature's leasehold; and



WHEREAS, the parties agree that, rather than further amend and restate the 1997 Agreement to reflect the foregoing changes over time, it would be less confusing to enter into this new Agreement and terminate the 1997 Agreement upon the commencement of this Agreement; and

WHEREAS, City and Signature acknowledge that the continued operation of the Airport as a safe, convenient and attractive facility is vital to the economic health and welfare of the City, and that the City's right to monitor Signature's performance under this Agreement is a valuable right incapable of quantification;

NOW, THEREFORE, for and in consideration of use of the premises by Signature and payment of rent to the City, and the other promises, mutual covenants and agreements herein contained, and other valuable considerations, the receipt and sufficiency of which are hereby acknowledged, the parties hereto covenant and agree as follows:

## **ARTICLE I - DEFINITIONS**

Section 1.01 - Definitions. The following words, terms, and phrases, shall, for the purposes of this Lease, have the following meanings:

"Abandonment" or "Abandons" means the cessation of the use of the Premises by Signature in accordance with this Agreement, other than for reasons of strikes or force majeure, for a period of ninety (90) days.

"Affiliate" means a person controlling, controlled by, or under the common control of or in partnership or in other active business with Signature.

2

"Agreement" means this Facilities Lease and Use Agreement, as may be hereafter amended or supplemented from time to time in accordance with its terms.

"Airport" means Chicago Midway International Airport, together with any additions thereto, or improvements or enlargements thereof, hereinafter made.

"Airport Rules and Regulations" means those rules and regulations governing the conduct and operations of the Airport promulgated from time to time by City as identified in Section 7.07 hereof.

"Airport Security Acts" means the Aviation and Security Improvement Act of 1990 (P.L. 101-604), as amended, the Aviation and Transportation Security Act of 2001, as amended, and all other federal laws governing security at airports, all as codified at 49 U.S.C. 44901 etseq., including any rules, regulations, and directives promulgated and issued pursuant to them.

"Building Rent" is defined in Section 4.01 herein.

"Commissioner" means, for the purposes of this Agreement, the Commissioner of the CDA (or any successor thereto in whole or in part as to his or her duties as the person in

charge of the operation of the Airport on behalf of the City), or such person as she or he may designate in writing, or any successor to her or his rights and duties.

"Default Rate" means the annual rate of four percent (4%) plus the Prime Rate (hereinafter defined), unless a lesser interest rate shall then be the maximum rate permissible by law with respect thereto, in which event said lesser rate shall be the Default Rate. Changes in the Default Rate based on the Prime Rate shall take effect immediately upon the occurrence of a change in the Prime Rate. As used herein, the term "Prime Rate" at any time shall mean the rate of interest then most recently announced by Chase Bank or its successors at Chicago, Illinois as its "corporate base rate." A certificate made by an officer of Chase Bank stating the "corporate base rate" in effect on any given day shall, for the purposes hereof, be conclusive evidence of the Prime Rate in effect on such day. In the event Chase Bank ceases to use the term "corporate base rate" in setting the base rate of interest for commercial loans, then the Prime Rate herein shall be determined by reference to the rate used by Chase Bank as a base rate of interest for commercial loans as the same shall be designated by Chase Bank. In the event Chase Bank ceases to exist, then the Prime Rate herein shall be determined by reference to the rate used by a lender qualified to be an Institutional Leasehold Mortgagee in Chicago, Illinois, selected by City, as a base rate of interest for commercial loans, as the same shall be designated by such lender.

"Effective Date" means the date first set forth above.

3

"Environmental Condition" is defined in Section 7.08 herein.

"Exempt Transfer" means an agreement between Signature and its patron(s) for aircraft parking, hangar space and office space which is extended by Signature to its patron(s) in the ordinary course of Signature's fixed base operator business and which does not include more than 12,000 square feet of space nor extend beyond one year in its term, including any extensions or options to renew, or any sale of Signature stock which does not result in a change in control of Signature.

"Federal Aviation Administration" (sometimes abbreviated as "FAA") means the Federal Aviation Administration created under the Federal Aviation Act of 1958, as amended, or any successor agency thereto.

"Fuel System" means the Airport fueling system operated by the consortium of airlines serving the Airport known as "MATCO", or any successor thereto.

"Ground Rent" is defined in Section 4.01 herein.

"Improvements" means any structures or other improvements on the Premises, including hangars, aircraft parking apron or ramp and, except as otherwise provided herein, all fixtures now or hereafter located thereon.

"Landing Fees" are defined in Section 4.03 herein.

"Minimum Annual Guarantee" is defined in Section 4.01 herein.

"Percentage Rent" is defined in Section 4.01 herein.

"Pre-Existing Condition" is defined in Section 7.08 herein.

"Premises" is defined in Section 2.01 herein.

"Rent" means, unless the context specifically otherwise requires, Ground Rent, Building Rent, Percentage Rent (or Minimum Annual Guarantee, as applicable), Landing Fees and any other amount which Signature is obligated to pay under this Agreement.

"Signature" means Signature Flight Support Corporation, a corporation duly organized and existing under the laws of the State of Delaware and the lessee of the Premises, or its authorized successors or assigns. Signature Flight Support Corporation is fully responsible for any obligations or liabilities of its former subsidiary, Signature Flight Support-Midway, Inc., arising in connection with this Agreement or in connection with the 1997 Agreement.

"Sustainable Airport Manual" or "SAM" means the manual developed by the CDA regarding environmentally sustainable practices in the construction and operation of the

4

Airports. The manual is available on the CDA website and may be updated from time to time by the CDA. Any amendment of the SAM by the CDA during the Term of this Agreement will be binding on Tenant without need for amendment of this Agreement, provided that the amendment of SAM does not conflict with the other terms and conditions of this Agreement.

"Transfer" is defined in Section 14.01 herein.

"Transportation Security Administration" (sometimes abbreviated as "TSA") means the Transportation Security Administration created under the Aviation and Transportation Security Act of 2001, as amended, or any successor agency thereto.

"Work" means the furnishing by Signature of all labor, materials, equipment, and other incidentals necessary or convenient to the successful completion of Improvements made by Signature from time to time, and the carrying out of all the duties and obligations under the terms and conditions of this Agreement.

"Work Liaison" means the person designated by the Commissioner to coordinate activities between Signature and the City.

Section 1.02 - Interpretation. Any headings preceding the text of the Articles and Sections of this Agreement, and any table of contents or marginal notes appended to copies hereof, shall be solely for convenience or reference and shall not constitute a part of this Agreement, nor shall they affect the meaning, construction, or effect of this Agreement. The term "including" shall be construed to mean "including, without limitation ...." Unless the context otherwise requires, the terms "hereby," "herein," "hereof," "hereto,"

"hereunder" and any similar terms used in this Agreement refer to this Agreement; all section references, unless otherwise expressly indicated, are to sections of this Agreement; words importing persons shall include firms, associations, partnerships, trusts, corporations, and other legal entities, including public bodies, as well as natural persons. Words of any gender shall be deemed and construed to include correlative words of the other genders. Words importing the singular number shall include the plural number and vice versa, unless the context shall otherwise indicate. All references to any exhibit or document shall be deemed to include all supplements and/or amendments to any such exhibits or documents entered into in accordance with the terms and conditions hereof and thereof. All references to any person or entity shall be deemed to include any person or entity succeeding to the rights, duties, and obligations of such persons or entities in accordance with the terms and conditions of this Agreement. All references to a number of days shall mean calendar days, unless otherwise expressly indicated.

Section 1.03 - Incorporation of Exhibits. The following exhibits attached hereto are incorporated by reference and made a part of this Agreement:

Exhibit A - Premises  
Exhibit B - Rent Schedules and Security Deposit

5

Exhibit C - Requirements for Work  
Exhibit D - Insurance Requirements

## **ARTICLE II - LEASE OF PREMISES**

Section 2.01 - Premises. As of the Effective Date, City leases to Signature, and Signature leases from City, the parcels of land ("Land") depicted on Exhibit A, together with the Improvements located thereon (the Land and Improvements being collectively referred to as the APremises"), all located on the east side of Central Avenue on Airport property. For purposes of clarity and information, the following is a brief description of the various parcels by street address, starting at the north end of the Premises:

- 5713 South Central Avenue, is a corporate hangar originally constructed by Beatrice Corporation, and prior to the Effective Date it was leased by Aon Corporation.
- 5821 South Central Avenue, is an FBO hangar previously leased by Signature's predecessor, Butler Aviation-MDW, Inc. ("Butler").
- 5825 South Central Avenue, is a former City of Chicago Fire Department facility.
- 5901 South Central Avenue, is a former Amoco Corporation corporate hangar.
- 5923 South Central Avenue and 5943 South Central Avenue, were formerly leased to Monarch Air Services, Inc. as FBO hangars.

Section 2.02 - Adjustment of Area of Premises. City shall have the right to re-measure the Premises, or any portion thereof, at any time during the Term of this Agreement upon the occurrence of any circumstances, including but not limited to the construction or alteration

of Improvements and modifications to taxiways, taxilanes and service roads, that may, in the opinion of the Commissioner, warrant a re-measurement of the Premises. Any change in the square footage of the Premises resulting from such a re-measurement and any corresponding change in Rent resulting therefrom, shall be indicated on the applicable exhibits hereto without the necessity of an amendment to this Agreement.

### **Section 2.03 - Easements and Rights of Entry.**

A. Signature's leasing of the Premises is subject to any and all easements, licenses and other rights of entry with respect to the Premises granted to or vested in any other governmental entities or agencies, such as the FAA or TSA.

B. Signature acknowledges that there currently exist, and that City may grant in the future, easements and rights of entry on, over and/or under the Premises for the benefit of suppliers and/or owners of utilities that service the Airport, and Signature hereby consents

6

to any such easements or rights of entry whether now in existence or granted during the term of this Agreement.

C. The City hereby reserves unto itself and other users of the Airport the rights and easements to those areas of the Premises identified as service roads for ground vehicles and taxiways and taxilanes for aircraft, as may be necessary for the ground vehicles and aircraft of users of the Airport other than Signature to move on or over the Premises on such service roads and taxiways and taxilanes. The City further reserves unto itself the right to relocate such service roads and taxiways and taxilanes from time to time, all at the City's own cost. City shall use all reasonable efforts to minimize the impact of any such relocation upon Signature's operations. In the event that such a relocation renders a portion of the Premises unusable, the City will delete the square footage of that unusable portion from the calculation of Rent for the period that such portion remains unusable. For the purposes of calculating Ground Rent, the square footage within such easements for service roads and taxiways and taxilanes has been and will be excluded from such calculations.

D. The City hereby reserves such rights and such easements as may be necessary to enter onto the Premises for the purpose of conducting any operations related to the function of the Airport without such entering causing or constituting a termination of this Agreement, including, without limitation, the right to do all things necessary to operate and maintain water mains, sewer mains and other utilities that may exist beneath the surface of the Premises and to service any antennas or communications facilities now or hereafter located on the roofs of buildings located on the Premises. (The City shall operate and maintain only its water mains and sewer mains, and assumes no responsibility or liability for the operation or maintenance of any sewer or water laterals within the Premises that are used exclusively by Signature.) The City, its officers, employees, agents, representatives, contractors, and furnishers of utilities and other services, shall have the right at all reasonable times to enter the Premises for the purpose of inspecting the same, for emergency repairs to utilities systems, and for any other purpose necessary for, incidental to, or connected with the performance of City's obligations hereunder, or in the exercise of its governmental functions.

E. City agrees to use reasonable efforts to not unreasonably interfere, or to cause grantees of easements not to unreasonably interfere, with Signature's use and possession of the Premises when exercising any of the rights reserved under this Section 2.03.

Section 2.04 - Permitted Uses (Mandatory and Discretionary). Subject to the terms and provisions contained in this Agreement, all applicable rules, regulations, laws, ordinances, codes and orders of any federal, state or local government or subdivision thereof in connection with the conduct of aeronautical activities by Signature at the Airport, Signature is hereby granted the use of the Premises for the following purposes:

A. Primary (Mandatory) Commercial Support Services. Signature must perform the following enumerated services at the Airport to support general aircraft operating at the

7

Airport and other Airport users soliciting from Signature any of the services usually supplied by a fixed base operator. Signature shall perform its services in accordance with those minimum standards as may be established by the Commissioner pursuant to FAA Circular No. 150/5190-7, "Minimum Standards for Commercial Aeronautical Activities", as it may be amended from time to time, and such other rules and regulations as may be promulgated by the Commissioner from time to time. Signature shall staff qualified personnel to perform such services on a "24/7" basis unless otherwise determined by the Commissioner in writing.

1. Arrival and departure guidance, supervision of parking of aircraft, ramp assistance and fire guard service for departing aircraft, as required.
2. Transport for passengers, crew and ordinary hand baggage between aircraft and Signature's hangar(s) or public passenger terminals on the Airport.
3. Flight line servicing of aircraft, including the sale and into-plane delivery of aviation fuels, lubricants and other related aviation products.
4. Other aircraft services, such as window cleaning, as requested by the aircraft operators.
5. Customer terminal services, including:
  - a. Assisting aircraft passengers and crew in obtaining local transportation, lodging, and general information on the Chicago area;
  - b. Maintaining weather teletype service or similar means of conveying current weather information;
  - c. Conveying messages to arriving or departing passengers and crew using Signature's facilities; and
  - d. Providing a reasonable quantity of telephones for public use.
6. At least one specialized area of airframe, aircraft engine, radio, avionics repair or other specific type of aircraft repair or maintenance service, which specialized area Signature may choose at its discretion, and which service Signature may provide through a subcontractor, provided that the use of a subcontractor, and the subcontractor to be so used, are subject to the prior written

approval of the Commissioner, which consent shall not be unreasonably withheld. Signature shall provide prompt notice of the nature of such services, or any changes thereto, to the Commissioner. The Commissioner hereby consents to the subcontract of aircraft maintenance services to Flight Check Business Aviation Services, LLC.

7. Subject to any restrictions on Transfers which may arise under the terms and conditions of Article XIV hereof, making available hangar and aircraft tie-down space and parking space to aircraft owners and/or operators.

8

8. Subject to any restrictions on Transfers which may arise under the terms and conditions of Article XIV hereof, leasing or rental of office space to aircraft owners and/or operators for support of their aviation activities at the Airport.

9. Removal of disabled general aviation aircraft from the operational movement areas of the Airport. Signature must have equipment available at the Airport to remove and relocate any type of aircraft that Signature services within 30 minutes (or as soon thereafter as reasonably practicable) of it becoming disabled, other than those involved in an accident requiring investigation by federal authorities.

10. Remediation of any fuel spills or other environmental contamination caused by Signature or any of its customers. Signature must have equipment available at the Airport to commence such remediation for any type of aircraft that Signature services within 30 minutes (or as soon thereafter as reasonably practicable) of the event.

11. If requested by the Commissioner, and subject to the terms and conditions of Section 16.02 hereof, collection of landing fees on behalf of the City from any or all users of the Premises and remittance of such landing fees to the City for an administrative fee of not more than thirty percent (30%) of the landing fees payable by such users to the City and collected by Signature. The City reserves the right to revoke any authority granted to Signature to collect any landing fees pursuant to this Section 2.04.A. 10 at any time upon thirty (30) days written notice to Signature.

B. Secondary (Discretionary) Commercial Support Services. Upon written approval of the Commissioner, Signature may engage in any or all of the following activities:

1. Leasing or rental of aircraft or providing air charter, air freight or flight management services;
2. Sale and installation of aircraft parts, engines, radios, avionics equipment or instruments, propellers or any related parts or accessories;
3. Repair and maintenance services for aircraft and aircraft engines, their components and accessories, including executive jet aircraft;
4. Providing equipment and manpower in connection with passenger, baggage or freight handling, or any other ground services;

5. Sale of airman materials and supplies, and other aeronautical items;
6. Leasing or rental of desks, storage or any equipment in connection with the conduct of aviation-related activities;

9

7 Maintenance and repair of ramp vehicles;

8. Associated aviation customer services not otherwise mandated under Section 2.04A.

C. Additional Rights. In addition to the above-described responsibilities and rights, and subject to the approval of the Commissioner, Signature shall have the right to perform and conduct such other activities and operations consistent with the rights, privileges and responsibilities granted to Signature which do not unreasonably interfere or conflict with the rights granted by the City to others on the Airport, but no flight training may be conducted in which student pilots take off or land at the Airport, or use the Airport for any flight activities whatsoever.

D. Rights to Airfield and Other Public Areas of the Airport. Signature has the right to use, in common with others, the public facilities at the Airport, including, but not limited to, landing areas, runways, taxiways, taxilanes and other aeronautical or navigational facilities, subject to the rules and regulations with respect to the use of such facilities imposed by the City or any other governmental agency.

E. Restrictions on Use. Nothing stated in this Section 2.04 shall permit the conduct by Signature of any business other than the performance of fixed base operator services, and the activities described in this Section 2.04 and those related and incidental thereto.

F. Ground Handling Services. The Commissioner hereby consents to Signature's performance of ground handling services for commercial airlines through its affiliated company, Aircraft Service International, Inc. In the event that Signature desires to perform any ground handling services through any other entity, Signature shall only do so after obtaining the prior written consent of the Commissioner, such consent to be given or withheld in each case in the sole and absolute discretion of the Commissioner; provided, however, in an emergency situation, oral approval or consent of the Commissioner shall be sufficient. For the purposes of this Agreement, ground handling services include, but are not limited to, the handling of passengers of commercial or retail flights, including those situations in which traffic at the Airport may prevent the handling of such passengers at the terminal. In the event that the Commissioner approves the handling of retail passenger operations on the Premises, Signature shall provide shuttle services to the terminal for such passengers. In no event shall this provision be construed as permitting retail passenger operations by Signature other than the incidental handling of passengers in irregular operation situations. Nothing in this Section 2.04 shall be construed as limiting Signature's right to provide ground handling services to single entity specialty charters, including, but not limited to, sports teams and musical groups, which do not require passenger check-in, baggage, security or other facilities provided at the Airport's commercial passenger terminal.



G. Fuel System. Signature agrees to use the Airport Fuel System for all aviation fuel. Signature shall not at any time during the Term of this Agreement or any extension thereof

**10**

construct or install any aviation fuel storage facilities on or beneath the Premises without the express prior written consent of the Commissioner, such consent being within the Commissioner's sole and absolute discretion. Signature hereby acknowledges and agrees that Fuel System usage fees that are 125% or less of those fees charged to commercial airline signatories to the Chicago Midway Airport Fuel System Use and Operating Agreement by and between the City and those signatory airlines are reasonable fees.

Section 2.05 - First-Class Operation. The principal purpose of the City in entering into this Agreement is to fulfill the City's obligation to make available to the general aviation users of the Airport the products and services which Signature is required and/or permitted to sell and render hereunder. Signature accordingly agrees to conduct a first class commercial aviation support and fixed base operation, consisting of the primary support services listed in Section 2.04.A above. Signature agrees to provide and maintain a hangar and office/terminal complex with the facilities, equipment, supplies, materials and personnel necessary to adequately provide the sales and services authorized in this Agreement, including a lounge or waiting room for passengers and crews, and accessible restrooms, all to be maintained in a first-class, clean and sanitary manner in accordance with Article V of this Agreement.

Section 2.06 - Quiet Enjoyment. Subject to the provisions of this Agreement, City covenants that, so long as Signature performs all of its obligations hereunder, it shall be entitled to and shall have the use and enjoyment of the Premises, and the rights and privileges granted to it hereunder. Signature shall be entitled to lawfully and quietly occupy and enjoy the Premises during the term of this Agreement, provided Signature is not in default of any of its obligations under this Agreement.

Section 2.07 - Ingress and Egress. Subject to Airport Rules and Regulations, Signature shall have the right and privilege (a) of ingress to and egress from the Premises and the public areas of the Airport, for its employees, agents, guests, patrons, subtenants and invitees, suppliers of materials, furnishers of service, and its equipment, vehicles, machinery and (b) to provide transportation of its employees to, from, and within the Airport. Signature shall not block or otherwise obstruct the common use taxiways, taxilanes or service roads with aircraft or groundside vehicles, respectively, at any time or in any manner which will impair or adversely affect the use or operation of said taxiway, taxilane or service road areas by City or other Airport users.

Section 2.08 - Present Condition of Premises. Subject to those exceptions explicitly set forth in Section 7.08, Signature, by the execution of this Agreement, accepts the Premises "AS IS". Signature shall be responsible for the compliance of the Premises with all applicable Federal, State, and local laws, statutes, codes, ordinances, rules, regulations, and orders, including any and all requirements set forth in Section 7.08. Other than what may be explicitly provided for herein, the City shall have no obligation or responsibility whatsoever to do any work or furnish any improvements of any kind to the Premises or perform any maintenance or repairs on the Premises. City makes no warranty as to the environmental conditions of the Premises or the airfield. CITY MAKES NO WARRANTY,

EITHER EXPRESS OR IMPLIED, AS TO THE CONDITION OF THE PREMISES OR THAT THE PREMISES SHALL BE SUITABLE FOR SIGNATURE'S PURPOSES OR NEEDS. CITY SHALL NOT BE RESPONSIBLE FOR ANY LATENT DEFECT AND SIGNATURE SHALL NOT, UNDER ANY CIRCUMSTANCES, WITHHOLD ANY RENT OR OTHER AMOUNTS PAYABLE TO CITY HEREUNDER ON ACCOUNT OF ANY DEFECT IN THE PREMISES. BY ITS ENTRY ONTO THE PREMISES, SIGNATURE ACCEPTS THE PREMISES AS BEING FREE AND CLEAR FROM ALL DEFECTS AND IN GOOD, SAFE, CLEAN, AND ORDERLY CONDITION AND REPAIR. Signature waives any and all claims against the City regarding the condition of the Premises which may currently exist or which may arise in the future by contract, at common law, in equity, or under statute, now or then currently in effect, including those which relate to environmental conditions on, under, or near the Premises; provided, however, that such waiver does not extend to (i) Signature's right to contribution from the City as may be provided under any Environmental Law, and (ii) fines and penalties for which the City would be liable, and neither Signature nor its predecessors in interest would be liable, under any Environmental Law.

Section 2.09 - Accessibility. City and Signature agree that Signature shall have the responsibility to ensure that the Premises and the services that Signature provides to its customers are in compliance with the Americans with Disabilities Act and related regulations, as amended from time to time. Signature shall submit its certification of such compliance to the Commissioner within thirty (30) days after written request.

Section 2.10 - Covenant Against Waste. Signature will not do or permit or suffer any waste, damage, impairment or injury to or upon the Premises or any part thereof.

### **ARTICLE III - TERM**

Section 3.01 - Initial Term. The initial term of this Agreement ("Initial Term") commences on the Effective Date and shall expire on December 31, 2016, unless extended or earlier terminated in accordance with the provisions of this Agreement. The City's early termination of Signature's lease for any parcel shall in no way diminish Signature's obligations under this Agreement that survive expiration or termination of this Agreement. Signature, and the City agree that the 1997 Agreement is hereby superseded and terminated, except with respect to those obligations and liabilities that survive termination by express provision in the 1997 Agreement or by operation of law.

Section 3.02 - Options to Extend. At the option of Signature and provided that the Initial Term has not already been terminated or been converted to month-to-month for a specific parcel, the Initial Term for the Premises as a whole or a parcel(s) thereof may be extended by for no more than one (1) additional six (6) year period (the Initial Term and such extension being the "Term", not to extend beyond December 31, 2022), provided that:

A. Signature provides the City written notice of its intent to extend the Term for a parcel no less than fifteen (15) months, but not more than twenty-four (24) months, prior to the then current expiration date of the Term for that parcel; and

B. there is no existing event of default, or any condition with which the giving of notice and/or the passage of time could become an event of default, as of the commencement of the extended Term.

The 15-month notice period in (a) is intended to provide the City time to find a replacement tenant. If Signature inadvertently fails to provide timely notice pursuant to (a), the Commissioner may, in his or her sole and absolute discretion, waive the 15 month requirement and allow Signature to exercise its option to extend. Except as provided in Article IV, Signature's occupancy of the Premises during any extension of the Term shall be on the same terms and conditions as otherwise contained herein. If Signature exercises its option to extend the Initial Term of this Agreement, the word "Term" shall be construed to include the extension. Any holding over by Signature after the expiration of the Term shall be on a month-to-month basis, which may be terminated by the Commissioner with 30 days written notice.

Section 3.03 - Early Termination. In addition to an early termination due to an uncured event of default, either party may terminate this Agreement with 30 days' written notice in the event that Signature is no longer authorized to conduct fixed base operations or general aviation functions at the Airport by any governmental agency (other than the City). Further, Signature and the Commissioner may mutually agree to terminate the lease, or convert to a month-to-month lease, for a specific parcel of the Premises if they determine it to be in the best interests of the parties. In such event, Exhibits A and B will be amended prospectively.

#### **ARTICLE IV - RENT**

Section 4.01 - Rent. In consideration of this Agreement for lease and use of the Premises, Signature shall pay City sums in such form and amount as set forth below. For the purposes of this Agreement, all such sums are Rent.

A. Ground Rent and Building Rent. Signature shall pay Ground Rent and Building Rent according to the schedule set forth in Exhibit B, attached hereto and incorporated by reference herein.

B. Percentage Rent. In addition to the Ground Rent and Building Rent, Signature shall pay Percentage Rent consisting of a percentage of gross revenues and a fuel flowage fee, as follows:

1. Signature shall pay City the following percentages of its Gross Revenues (as defined below): two percent (2%) of the first \$1,000,000 of its Gross Revenues; three percent (3%) of Gross Revenues over \$1,000,000 to \$4,000,000 per year, and four percent (4%) of its Gross Revenues over \$4,000,000 per year. "Gross Revenues" means the aggregate amounts of all charges, including but not limited to all facilities/services fees of whatever nature Signature charges its customers for the

use of the Premises (including the Improvements and equipment located thereon) and fees for such Primary Commercial Support Services or Secondary Commercial Support Services Signature may perform. Gross Revenues also includes any usage or access fees and revenue from any Transfer (including any

Exempt Transfers). Gross Revenue does not include revenues from the sale of fuel and any taxes imposed by law which are separately stated and paid by the customer and are directly payable to the taxing authority by Signature. All revenue shall be deemed to be received by Signature at the time of determination of the amount due to Signature, whether for cash or credit, and not at the time of payment, unless otherwise specifically stated in this Agreement, or subsequently authorized in writing by the Commissioner. Revenues shall further be deemed to be received by Signature if received by any of its contractors, sublessees, agents or wholly-owned or affiliated companies using or occupying space on the Premises and supplying any support services authorized in Article II of this Agreement.

2. Signature shall pay a fuel flowage fee of five percent (5%) of the annual average wholesale cost to Signature of all fuel, including but not limited to automotive and aviation gas and jet fuel, sold by Signature at the Airport, or any fuel pumped by Signature on behalf of any person in the event that Signature acts as an into-plane agent for such person, and such person has bought or sold fuel at the Airport, is not in privity with the City, and has not otherwise paid a percentage fee or fuel flowage fee to the City. This fuel flowage fee shall not apply in the event that Signature serves as an into-plane agent for commercial airlines and charter flights that are non-retail customers of Signature. The annual average wholesale cost for purposes of the percentage fee payable to the City shall be calculated each November by averaging the cost paid by Signature, for each type of fuel separately, to its suppliers at the Airport during the preceding twelve months and shall be effective beginning January 1 of the following year. Aviation gas or jet fuel purchased by Signature for its own consumption or purchased by its parent company or any subsidiary in which Signature's parent company has a minimum 50% ownership shall not be subject to this fuel flowage fee.

C. Minimum Annual Guarantee. The Minimum Annual Guarantee of Percentage Rent pursuant to Section 4.01.B above shall be \$192,346.56 through December 31, 2013. Commencing on January 1, 2014, and every January 1 thereafter, the Minimum Annual Guarantee for the forthcoming year shall be the greater of: (1) 85% of the Percentage Rent actually payable for the prior calendar year and (2) the Minimum Annual Guarantee for the prior calendar year.

#### **Section 4.02 - Escalation upon Term Extension.**

A. The Ground Rent and Building Rent payable to the City pursuant to Exhibit B shall increase upon the commencement of an extension pursuant to Section 3.02. The amount of such increase shall be determined by the appraised fair market rent for the Land within the Premises, and each Improvement upon the Premises, respectively; fair market rent to

be initially determined by City's independent appraiser as the rent that would be paid by an unrelated, willing FBO tenant under the otherwise same terms and conditions as this Agreement, and City shall set forth such determination in a written notice to Signature, which determination shall be provided to Signature no later than 120 days prior to the expiration of the Initial Term.

B. In the event that Signature disputes the fair market rent as determined by City, then at any time on or before the date occurring thirty (30) days after Signature has been notified

by City of the fair market rent, Signature may give written notice of such dispute to the City, supported by the report of its own independent appraiser as to the fair market rent. If City and Signature are thereafter unable to reach agreement upon the fair market rent, then the parties shall select a mutually acceptable independent MAI appraiser with at least ten (10) years experience in commercial real estate appraisal of similar properties. The third appraiser shall, within forty-five (45) days of his or her appointment, select one of the two estimates of fair market rent submitted by City and Signature as the one closer to the fair market rent as determined by the third appraiser. The value so selected shall be the fair market rent. The party whose estimate is not chosen by the third appraiser shall pay all costs and expenses of the third appraiser and any experts retained by the third appraiser. Each party shall pay the fees and expenses of the appraiser appointed by or for such party. The time periods in this provision are intended to be approximate guidelines only, and failure of the parties to strictly comply shall not invalidate the process.

C. Upon its receipt of the final determination of the fair market rent pursuant to the foregoing, Signature, by written notice to the City, may elect to rescind its extension of the Term and terminate the Agreement, in which case this Agreement shall expire on the date it would have expired had Signature not provided the City notice of its intent to extend the Term.

Section 4.03 - Landing Fees. Signature shall collect the current landing fees in effect at the Airport for each landing at the Airport of any aircraft being handled by Signature ("Landing Fees"). Landing fees shall not be assessed for any landing of an aircraft returning to the Airport after take-off because of meteorological conditions, mechanical or operating causes, or any similar emergency or cautionary reason.

#### **Section 4.04 - Method and Manner of Payment.**

A. The Rent and Landing Fees (net of Signature's administrative fee) shall be paid to City, without set-off, deduction or discount, in lawful money of the United States, at the Office of the City Comptroller, 333 South State Street, Room 402, Chicago, Illinois 60614, or to such other place or person as City may direct Signature by written notice, and shall be made in monthly installments, due on the first of each calendar month, commencing on the first full calendar month following the Effective Date. Payments for partial months or calendar years may be appropriately prorated.

B. Each month Signature shall pay the greater of the Percentage Rent payable on the

### **15**

prior month's gross revenues and one-twelfth of the Minimum Annual Guarantee. In February of each calendar year, Signature may offset against Rent due to the City the amount, if any, by which the sum of actual monthly payments of Percentage Rent and Minimum Annual Guarantee, if any, for the prior year exceeded the greater of the Percentage Rent payable on the gross revenues of the prior year and the Minimum Annual Guarantee for the prior year.

Section 4.05 - Rent Credits. Signature shall offset no credits against Rent due to the City except as expressly provided in this Agreement or expressly authorized in writing by the Commissioner.

Section 4.06 - Late Payments. Each and every installment of Rent accruing under the provisions of this Agreement which is not paid when due shall bear interest at the Default Rate, from the date when the same is due until the same shall be paid. All other sums becoming due or payable to the City under this Agreement, including, without limitation, all monies expended by the City pursuant to this Agreement or on account of any default by Signature in the performance or observance of any of the covenants and agreements contained in this Agreement shall likewise bear interest from the respective dates when the same shall be advanced or paid by City, or otherwise due to City, at the rate per annum which shall be the lower of (a) the highest rate permitted by law or (b) the Default Rate, until the same shall be paid by Signature to City. All sums so advanced or paid by City shall become so much additional Rent under the terms of this Agreement, due and payable on the date of such advance or payment.

Section 4.07 - Security Deposit. On or before the Effective Date of this Agreement, Signature shall pay to the City a security deposit in an amount of \$300,000. Such security deposit may be in the form of cash or a letter of credit, which letter of credit shall be in the form reasonably acceptable to the Commissioner. The amount of the security deposit may increase with each escalation of Ground Rent, Building Rent or Minimum Annual Guarantee. The security deposit will be refunded to Signature, less any sums which may be due and owing to the City, subsequent to the expiration or termination of this Agreement

Section 4.08 - Rent Absolute. Signature covenants and agrees that the Rent specified in this Article IV shall be absolutely net to the City, to the end that this Agreement shall yield net to City the entire Rent, and so that all costs, fees, interest, charges, expenses, real estate taxes, reimbursements and obligations relating to the Premises which may arise or become due during the Term (other than City's legal fees not otherwise covered by this Agreement) shall be paid or discharged or caused to be discharged by Signature as so much additional Rent, and Signature covenants and agrees that City shall be indemnified and saved harmless by Signature from and against all such costs, fees, interest, charges, expenses, real estate taxes, reimbursements and obligations.

Section 4.09 - Signature Books and Records. Signature shall maintain at its office in Chicago, Illinois, or at the Airport, books, records, and accounts relevant to the determination of Rent or any other sums owed to City under this Agreement, including,

without limitation, records of its operations at the Airport. If such books, records, and accounts are not maintained at such office, Signature shall in any case maintain such books, records, and accounts within the United States, and Signature shall promptly furnish the Commissioner and City Comptroller in Chicago with all information reasonably requested by them with respect to such books, records, and accounts. The Commissioner and City Comptroller, and such persons as may be designated by them, shall have the right, at all reasonable times, subject to prior written notice to Signature, to audit, examine, make copies of, and take extracts from such books, records, and accounts. In the event that (i) an audit reveals any discrepancy of greater than 2.5% of the gross receipts which are the subject of such audit, and (ii) such error resulted in an underpayment by Signature to the City, Signature shall reimburse the City for any and all of its expenditures for such audit. In the event that an audit reveals no irregularities, such audit shall be at the expense of the City. Without limiting the foregoing, City has the right to inspect Signature's records of its operations at the Airport. City shall, to the extent

permitted under applicable law, preserve the confidentiality of all information obtained through such inspections, unless Signature has consented to disclosure or has publicly released such information.

Section 4.10 - Abatement in the Event of Closing. Except as otherwise expressly set forth below, Signature shall have no right to abatement or set-off of Rent of any kind. In the event that, for a period of time in excess of five (5) consecutive days, the Airport is closed by any order or direction of City or any other governmental authority or agency, or by any order or direction of any court of competent jurisdiction and not stayed by way of appeal or otherwise, then the sole and exclusive remedy of Signature shall be that the Ground Rent and Building Rent payable by Signature shall abate for the period of such closing. There shall be no abatement or reduction of Rent or deletion from the Premises where the unusable condition is caused by the willful or negligent act or omission of Signature, its agents, employees, licensees, contractors, subcontractors, or invitees.

## **ARTICLE V- CONSTRUCTION, MAINTENANCE & REPAIR**

### **Section 5.01 - Construction of Improvements Generally.**

In the event that Signature undertakes construction of any new Improvements, the following provisions apply:

A. All Work shall be accomplished in accordance with the terms and conditions of this Agreement and of Exhibit C, attached hereto and incorporated by reference herein, and shall be in conformance with all applicable City codes, ordinances, order and regulations and FAA regulations, whichever are more restrictive. Work shall not be commenced until Signature has obtained all approvals, permits, and licenses required by any governmental authority or by Exhibit C. Signature shall diligently pursue Improvements until fully completed in a condition acceptable to the Commissioner.

B. A construction application together with plans and specifications of any proposed

construction or installation (including any substantial alteration or addition thereto), a proposed schedule and evidence of insurance coverages required by Article X shall be submitted to and received by the Commissioner prior to the issuance of written approval from the Commissioner at least 120 days before commencement of construction. Signature agrees to use best efforts to incorporate sustainable design practices in the development and construction of any Improvements, to engage a LEED® (Leadership in Energy and Environmental Design) accredited professional on its architectural team, to create an operational plan that incorporates sustainable practices in all aspects of the daily operation of the Premises, and to comply to the extent that it is commercially reasonable to the requirements of the Sustainable Airport Manual. Signature shall require each contractor to furnish a payment and performance bond in form and substance acceptable to the Commissioner. The Commissioner's approval shall be absolute and may be withheld in his sole discretion. The Commissioner's approval of or consent to any plans and specifications shall not constitute a zoning approval or approval for other purposes or by other agencies or divisions of the City. No restriction is placed on Signature as to any architect, builder or contractor for Improvements to the Premises other than those requirements set forth in Articles VII and VIII hereof, and any other

applicable local, state or federal law or regulation. Any professionals employed by or contracted with by Signature shall be properly licensed and insured to perform their work. City shall have the right at all times to inspect any and all such work.

C. Notwithstanding its right of review and inspection, the City shall in no way be deemed responsible for any such Work, or the failure of such Work to be completed in accordance with approved plans and specifications, or any applicable laws, codes, statutes, rules or regulations. Any Work performed in connection with Improvements to the Premises at the direction of Signature, even though performed by contractors, subcontractors or others of any and all tiers working through them, shall be the responsibility of Signature. All Work shall be performed in accordance with the plans and specifications and other documents submitted to and approved by the Commissioner, and any applicable federal, state or local laws, codes, ordinances, statutes, rules, regulations and those requirements set forth in Articles VII and VIII hereof.

Section 5.02 - Title to Improvements. City and Signature mutually agree that any and all existing Improvements on the Premises are property of the City. Any new Improvements constructed on the Premises shall become and remain the property of City upon their completion.

Section 5.03 - City-funded Improvements. From time to time the Commissioner may delegate in writing to Signature the responsibility for undertaking Improvements to the Premises and agree to reimburse Signature for costs incurred in connection therewith. Eligible costs are actual, reasonable costs of labor and materials involved in performing the Work and actual, reasonable architectural, engineering, and consulting fees, and no others. Signature must publicly advertise the Work associated with any such Improvements and comply with the then-current City requirements for participation by City residents and Minority and Women's Business Enterprises. Signature must complete all

## 18

such Improvements to the reasonable satisfaction of Commissioner and submit all invoices, sworn statements, lien waivers and any other appropriate documentation requested by the Commissioner to verify the costs paid in good faith by Signature with respect thereto. The Commissioner shall have the right to approve the reasonableness, allocability and allowability of those costs which are to be reimbursed, such approval not to be unreasonably withheld or delayed.

Section 5.04 - Other Improvements. In addition to City-funded Improvements, Signature may from time to time construct or install in the Premises, at its own expense, other Improvements, including pavement, facilities and equipment, and any additions thereto, reasonably necessary in connection with any use permitted under the provisions of this Agreement, subject to the prior written approval of the Commissioner in accordance with Section 5.01.

Section 5.05 - Liens Prohibited. Signature shall keep the Premises free and clear of any and all liens in any way arising out of the construction of Improvements, or use of the Premises by Signature; provided, however, Signature may in good faith contest the validity of any lien, provided such contest does not impair the City's rights with respect to the Premises. City's rights to the Premises and the Airport are and always shall be paramount to the interests of Signature in the Premises. Nothing in this Agreement empowers Signature to commit or engage in any act which can, shall, or may encumber the rights of



City. In no event shall this Agreement or any rights or privileges hereunder be an asset of Signature under any bankruptcy, insolvency, or reorganization proceedings.

Section 5.06 - Maintenance and Repair. Signature shall be responsible for and shall perform or cause to be performed all maintenance and repair of the Premises and shall keep such Premises clean and free from all debris. Signature shall at all times:

- A. Keep the Premises and all fixtures, equipment and personal property in a clean, safe, and orderly condition and appearance;
- B. Maintain the same in good condition (reasonable wear and tear excepted) and perform all ordinary repairs, replacements, and painting; such repairs, replacements, and painting by Signature shall be of a quality not inferior to the standards set forth in any rules and regulations adopted by City for the Airport;
- C. Control all of its vehicular traffic on the Airport and take all precautions reasonably necessary to promote the safety of its passengers, customers, business visitors, and other persons, and employ such means as may be necessary to safely direct the movements of its vehicular traffic;
- D. Remove all snow from all ramps, hangar taxiways and paved areas on the Premises.
- E. Either directly or through a licensed independent contractor, dispose of its garbage,

**19**

debris, and other waste materials at properly permitted facilities.

F. Maintain pavement areas free from cracks and in good condition sufficient to support all types of aircraft that Signature services.

If the performance of any of the foregoing maintenance, repair, replacement, or painting obligations of Signature requires work to be performed near an active taxiway or runway or where safety of airport operations might be involved, Signature shall post guards or erect barriers or other safeguards as required and approved by the Commissioner at such locations prior to Signature's performance of any such maintenance, repair, replacement or painting.

**Section 5.07 - Repairs Necessitated by Casualty.**

A. In the event any Improvement from time to time upon the Premises shall be damaged or destroyed, in whole or in part, (regardless of the cause therefor) Signature covenants and agrees that Signature, at its own expense (notwithstanding insufficiency of insurance proceeds), shall repair, restore or rebuild any such building or other improvement so damaged, injured or partially destroyed, or erect, finish and complete a like new building and Improvements on the Premises. Any such repair, restoration, or rebuilding or construction of a new building is herein sometimes referred to as a "Restoration."

B. Insurance proceeds shall be made available for Restoration on the terms and conditions set forth in this Section. In the event that the Premises, or any portion thereof, are damaged or destroyed by fire or other casualty, Signature, after consultation with City, and subject to the limitations set forth in this Section, shall repair, reconstruct or restore

the damaged or destroyed Premises to (i) substantially the same condition, character and utility value as existed prior to the event causing such damage or destruction, or (ii) such other condition, character and value as may be agreed upon by City and Signature; provided, however, that in the event that the damage, and the insurance proceeds therefor, are less than \$100,000, Signature may effect such repairs, reconstruction or restoration as Signature may deem reasonably necessary. The City and Signature may agree to apply insurance proceeds to the payment of Special Facility Revenue Bonds issued by the City for the benefit of Signature. Signature acknowledges that such a bond issuance will require concurrence of the City Comptroller and action by the City Council, which concurrence and action may be withheld in the Comptroller's and City Council's respective sole and absolute discretion.

C. Signature shall provide prompt written notice to the City of any event that may require a Restoration. Within sixty (60) days of the date of such notice, Signature shall provide to the City plans and specifications for such Restoration, which plans and specifications are subject to City review and approval. Upon approval of such plans and specifications, Signature shall immediately proceed to diligently perform the Restoration and complete such Restoration in a timely manner. In the event that Signature fails to diligently perform the Restoration or complete the Restoration in a timely manner, the City may exercise its

20

rights under Section 13.06 of this Agreement.

D. Prior to making any Restoration of more than \$100,000, Signature shall in good faith estimate the cost of the Restoration and furnish City supporting estimates by a reputable, experienced architect, engineer and contractor qualified to make such estimate.

E. Without limiting any of the other terms hereof, it is expressly understood and agreed that, except and to the extent provided herein, no loss or partial destruction of or damage to the Premises or the buildings or other improvements from whatsoever cause, shall operate to terminate this Agreement or to relieve or discharge Signature from its liability to pay the full Rent and additional charges payable under this Lease, or to relieve Signature from any of its other obligations under this Agreement. Except and to the extent provided herein, Signature waives any right now or hereafter conferred upon it, whether by statute or otherwise, to surrender this Agreement or possession of the Premises or any part thereof, or to obtain any suspension, diminution, abandonment or reduction of Rent, on account of any such loss, damage or destruction to the buildings or any other property at the Premises.

F. Any insurance proceeds greater than \$100,000.00 shall be made payable to both City and Signature. If Signature does not commence a Restoration promptly upon City approval of the plans and specifications for such Restoration, or if the Agreement expires or terminates at anytime for any reason prior to application of all insurance proceeds, then all insurance proceeds shall be payable solely to City.

Section 5.08 - Inspection. City shall have the right to inspect the Premises and direct Signature to make ordinary repairs. City shall provide reasonable notice prior to such inspection, unless in an emergency situation, and shall notify Signature's representative on the Premises at the beginning of any such inspection.

Section 5.09 - Signs. Any signs installed by Signature on the Premises shall be limited to those which advertise the Signature brand and the aircraft support services provided by Signature. The number, general type, size, design, and location of such signs shall be subject to the prior written approval of the Commissioner.

Section 5.10 - Non-interference with Airport Operations. The Work and the operations of Signature and its officials, agents, employees, contractors, guests, patrons, and invitees on the Premises shall be conducted in an orderly and proper manner and shall not otherwise annoy, disturb, or be offensive to others at the Airport. In the event that Signature is not in compliance with this Section, at the written request of the Commissioner, Signature shall immediately conform the demeanor or conduct of Signature or its officials, agents, employees, contractors, guests, patrons, and invitees to the standard set forth in this Section.

Section 5.11 - Access by City. Upon the giving of reasonable notice, which may in certain circumstances determined at the City's sole discretion be only by oral notice,

## 21

Signature shall allow City, its officers, agents or employees, free access to the Premises for the purposes of examining them to ascertain if Signature is performing its obligations under this Agreement, and for conducting such other activities deemed reasonably-necessary by the City.

### **ARTICLE VI - MAINTENANCE AND OPERATION OF AIRPORT**

Section 6.01 - City's Obligations. City shall operate and maintain in a manner consistent with that of a reasonably prudent operator of an Airport, and keep in good condition and repair, the runway and the taxiway, roadways, water lines, sewer lines, drainage ditches, additions, improvements, facilities, and equipment, now or hereafter provided by City, serving the Premises but located outside the Premises, including the removal of snow, ice, vegetation, stones, and other foreign matter, as reasonably as may be done, from the runway and taxiway, connections therefrom, and roadways.

Section 6.02 - Signature's Remedy. In the event that the City fails to cure any failure in its performance of its obligations under Section 6.01 within a reasonable period, and provided that the Airport is not closed at the direction of the City or any other governmental authority or agency as addressed in Section 12.01 hereof, Signature's sole and exclusive remedy is to terminate this Agreement by providing notice to the City pursuant to the terms of Article XIV hereof.

### **ARTICLE VII - ADDITIONAL OBLIGATIONS OF SIGNATURE**

Section 7.01 - Taxes. Signature shall pay such taxes or special assessments, if any, which may be levied or assessed upon Signature's interest in the Premises. Signature shall provide the Commissioner with copies of all notices relating to such taxes within thirty (30) days of request and shall provide the Commissioner with a receipt indicating payment of such taxes. Nothing herein shall preclude Signature from contesting such charge or tax, including those taxes or charges enacted or promulgated by City.

Section 7.02 - Utilities. Signature shall be responsible for payment of all costs of utilities for the Premises, including, but not limited to, electricity and telephone service.

Section 7.03 - Permits, Licenses. Signature shall be responsible for obtaining, at its own expense, all necessary governmental approvals, inspections, permits, or licenses needed in connection with the Premises, any business conducted thereon, or any Work performed thereon.

Section 7.04 - Compliance with All Laws. Signature shall comply with all applicable federal, state, and local laws, codes, regulations, ordinances, rules, and orders; provided, however, that Signature may, without being considered to be in breach hereof, contest any

22

such laws so long as such contest is diligently commenced and prosecuted by Signature and does not jeopardize the health or safety of persons at the Airport or Airport operations.

Section 7.05 - Compliance with City/State Requirements. Signature agrees to execute such certificates as may be necessary to comply with all applicable Federal, State, and local laws, codes, regulations, ordinances, executive orders, rules, and orders, including without limitation such certifications as are listed below.

A. Economic Disclosure Statement and Affidavit ("EDS"). Signature has executed an EDS(s), in compliance with 720 ILCS 5/33E-3, 4 and 11(B), as amended; 65 ILCS 5/11-42.1-1; Chapters 2-56, 2-154, and 2-156 of the Municipal Code; and such other statutes, ordinances, regulations and executive orders as may be in effect from time to time. Signature shall provide updated EDS(s) in the event of any change in circumstance which renders the EDS on file with the City inaccurate or obsolete.

B. Anti-Scofflaw. In accordance with Section 2-92-380 of the Municipal Code of Chicago, and in addition to any other rights and remedies (including any of set-off) available to City under this Agreement or permitted at law or in equity, City shall be entitled to set off a portion of any amounts due Signature by City under this Agreement in an amount equal to the amount of the fines and penalties for each outstanding parking violation complaint and/or the amount of any debt owed by Signature to City. For purposes of this section, "outstanding parking violation complaint" means a parking ticket, notice of parking violation or parking violation complaint on which no payment has been made or appearance filed in the Circuit Court of Cook County within the time specified on the complaint, and "debt" means a specified sum of money owed to City for which the period granted for payment has expired.

Notwithstanding the provisions of the immediately preceding paragraph, no such debt(s) or outstanding parking violation complaints shall be offset from any amounts due Signature from City under this Agreement if one or more of the following conditions are met:

1. Signature has entered into an agreement with the Department of Revenue, or other appropriate City department, for the payment of all outstanding parking

violation complaints and/or debts owed to City and Signature is in compliance with the agreement; or

2. Signature is contesting liability for or the amount of the debt in a pending administrative or judicial proceeding; or

3. Signature has filed a petition in bankruptcy and the debts owed City are dischargeable in bankruptcy.

C. Ethics. Signature shall comply with Chapter 2-156 of the Municipal Code of Chicago, "Governmental Ethics", including, but not limited to, Section 2-156-120 pursuant to which no payment, gratuity, or offer of employment shall be made in connection with any City

23

contract, by or on behalf of a subcontractor to the prime contractor or higher tier subcontractor or any person associated therewith, as an inducement for the award of a subcontract or order. Any contract negotiated, entered into, or performed in violation of any of the provisions of such Chapter shall be voidable as to City.

D. MacBride Principles. City, through the passage of the MacBride Principles Ordinance, seeks to promote fair and equal employment opportunities and labor practices for religious minorities in Northern Ireland and provide a better working environment for all citizens in Northern Ireland. If Signature conducts any business operations in Northern Ireland, it is hereby required that Signature shall make all reasonable and good faith efforts to conduct any business operations in Northern Ireland in accordance with the MacBride Principles for Northern Ireland as defined in Illinois Public Act 85-1390 (1988 Ill. Laws 3220).

E. Inspector General and Legislative Inspector General. It shall be the duty of Signature and all officers, directors, agents, partners, and employees of Signature to cooperate with the Inspector General and Legislative Inspector General of the City in any investigation or hearing undertaken pursuant to Chapter 2-56 or 2-55 of the Code, respectively. Signature understands and will abide by all provisions of Chapters 2-56 and 2-55 of the Code.

F. Americans with Disabilities Act. Any and all design and construction of Improvements shall comply with all Federal, State and local laws and regulations regarding accessibility standards for disabled or environmentally limited persons including, but not limited to, the following: Americans with Disabilities Act, P.L. 101-336, 42 U.S.C. 12101 et seq. and the Uniform Federal Accessibility Guidelines for Buildings and Facilities and the Illinois Environmental Barriers Act, 410 ILCS 25/1 et seq., and the regulations promulgated thereto at 71 Ill. Admin. Code Ch. 1, Sec. 400.110. In the event that the above-cited standards are inconsistent, Signature shall comply with the standard providing greater accessibility.

G. Conflicts of Interest. Signature represents and warrants that no member of the governing body of the City or other unit of government and no other officer, employee or agent of the City or other unit of government who exercises any functions or responsibilities

in connection with this Agreement has any personal interest, direct or indirect, in this Agreement, or in Signature. Signature further covenants that (i) no member of the governing body of the City and no officer, employee or agent of the City or other unit of

government exercising any functions or responsibilities in connection with this Agreement shall acquire any personal, financial or economic interest, direct or indirect, in Signature or this Agreement, and (ii) no member of or delegate to the Congress of the United States or the Illinois General Assembly and no alderman of the City or employee of the City shall be admitted to any share or part of this Lease or any financial benefit to arise from it.

#### H. Shakman Accord.

24

1. The City is subject to the May 31, 2007 Order entitled "Agreed Settlement Order and Accord" (the "Shakman Accord") and the June 24, 2011 "City of Chicago Hiring Plan" (the "City Hiring Plan") entered in *Shakman v. Democratic Organization of Cook County*, Case No 69 C 2145 (United State District Court for the Northern District of Illinois). Among other things, the Shakman Accord and the City Hiring Plan prohibit the City from hiring persons as governmental employees in non-exempt positions on the basis of political reasons or factors.
2. Signature is aware that City policy prohibits City employees from directing any individual to apply for a position with tenants, either as an employee or as a subcontractor, and from directing tenants to hire an individual as an employee or as a subcontractor. Accordingly, Signature must follow its own hiring and contracting procedures, without being influenced by City employees. Any and all personnel provided by Signature under this Agreement are employees or subcontractors of Signature, not employees of the City of Chicago. This Agreement is not intended to and does not constitute, create, give rise to, or otherwise recognize an employer-employee relationship of any kind between the City and any personnel provided by Signature.
3. Signature will not condition, base, or knowingly prejudice or affect any term or aspect of the employment of any personnel provided under the Agreement, or offer employment to any individual to provide services under the Agreement, based upon or because of any political reason or factor, including, without limitation, any individual's political affiliation, membership in a political organization or party, political support or activity, political financial contributions, promises of such political support, activity or financial contributions, or such individual's political sponsorship or recommendation. For purposes of this policy, a political organization or party is an identifiable group or entity that has as its primary purpose the support of or opposition to candidates for elected public office. Individual political activities are the activities of individual persons in support of or in opposition to political organizations or parties or candidates for elected public office.
4. In the event of any communication to Signature by a City employee or City official in violation of paragraph (2) above, or advocating a violation of paragraph (3) above, Signature will, as soon as is reasonably practicable, report such communication to the Hiring Oversight Section of the City's Office of the Inspector General, and also to the Commissioner of the Chicago Department of Aviation.

Mayoral Contributions; Executive Order 2011-4.

1. Signature agrees that it, and any person or entity who directly or indirectly has an ownership or beneficial interest in it of more than 7.5 percent ("Owners"), spouses and domestic partners of such Owners, its Subcontractors, any person or

25

entity who directly or indirectly has an ownership or beneficial interest in any Subcontractor of more than 7.5 percent ("Sub-owners") and spouses and domestic partners of such Sub-owners (Signature and all the other preceding classes of persons and entities are together, the "Identified Parties"), shall not make a contribution of any amount to the Mayor of the City of Chicago (the "Mayor") or to his political fund-raising committee (i) after execution of this Agreement by Signature, (ii) while this Agreement or any Other Contract is executory, (iii) during the term of this Agreement or any Other Contract between Signature and the City, or (iv) during any period while an extension of this Agreement or any Other Contract is being sought or negotiated.

2. Signature represents and warrants that since the date of public advertisement of the specification, request for qualifications, request for proposals or request for information (or any combination of those requests) or, if not competitively procured, from the date the City approached Signature or the date the Signature approached the City, as applicable, regarding the formulation of this Agreement, no Identified Parties have made a contribution of any amount to the Mayor or to his political fund-raising committee.

3. Signature agrees that it shall not: (a) coerce, compel or intimidate its employees to make a contribution of any amount to the Mayor or to the Mayor's political fund-raising committee; (b) reimburse its employees for a contribution of any amount made to the Mayor or to the Mayor's political fund-raising committee; or (c) bundle or solicit others to bundle contributions to the Mayor or to his political fund-raising committee.

4. Signature agrees that the Identified Parties must not engage in any conduct whatsoever designed to intentionally violate this provision or Mayoral Executive Order No. 2011-4 or to entice, direct or solicit others to intentionally violate this provision or Mayoral Executive Order No. 2011-4.

5. Signature agrees that a violation of, non-compliance with, misrepresentation with respect to, or breach of any covenant or warranty under this provision or violation of Mayoral Executive Order No. 2011-4 constitutes a breach and default under this Agreement, and under any Other Contract for which no opportunity to cure will be granted. Such breach and default entitles the City to all remedies (including without limitation termination for default) under this Agreement, under Other Contract, at law and in equity. This provision amends any Other Contract and supersedes any inconsistent provision contained therein.

6. If Signature violates this provision or Mayoral Executive Order No. 2011 -4 prior to award of the Agreement, the Commissioner may rescind this Agreement.

7. For purposes of this provision:

26

"Bundle" means to collect contributions from more than one source which are then delivered by one person to the Mayor or to his political fund-raising committee.

"Other Contract" means any other agreement with the City of Chicago to which Tenant is a party that is (i) formed under the authority of chapter 2-92 of the Municipal Code of Chicago; (ii) entered into for the purchase or lease of real or personal property; or (iii) for materials, supplies, equipment or services which are approved or authorized by the city council.

"Contribution" means a "political contribution" as defined in Chapter 2-156 of the Municipal Code of Chicago, as amended.

Individuals are "Domestic Partners" if they satisfy the following criteria:

- (a) they are each other's sole domestic partner, responsible for each other's common welfare; and
- (b) neither party is married; and
- (c) the partners are not related by blood closer than would bar marriage in the State of Illinois; and
- (d) each partner is at least 18 years of age, and the partners are the same sex, and the partners reside at the same residence; and
- (e) two of the following four conditions exist for the partners:
  - (i) The partners have been residing together for at least 12 months.
  - (ii) The partners have common or joint ownership of a residence.
  - (iii) The partners have at least two of the following arrangements:
    - a. joint ownership of a motor vehicle;
    - b. a joint credit account;
    - c. a joint checking account;
    - d. a lease for a residence identifying both domestic partners as tenants.
  - (iv) Each partner identifies the other partner as a primary beneficiary in a will.

"Political fund-raising committee" means a "political fund-raising committee" as defined in Chapter 2-156 of the Municipal code of Chicago, as amended.

#### **Section 7.06 - Non-discrimination.**

A. Federal Requirements. It shall be an unlawful employment practice for Signature (1) to fail or refuse to hire or to discharge any individual, or otherwise to discriminate against any individual with respect to his compensation, or the terms, conditions, or privileges of his employment, because of such individual's race, color, religion, sex, age, handicap, or national origin; or (2) to limit, segregate, or classify his employees or applicants for employment in any way which would deprive or tend to deprive any individual of employment opportunities or otherwise adversely affect his status as an employee, because of such individual's race, color, religion, sex, age, handicap, or national origin.



Signature shall comply with The Civil Rights Act of 1964, 42 U.S.C. sec. 2000 et seq. (1981), as amended. Attention is called to: Exec. Order No. 11,246, 30 Fed. Reg. 12,319

27

(1965), reprinted in 42 U.S.C. 2000(e) note, as amended by Exec. Order No. 11,375, 32 Fed. Reg. 14,303 (1967) and by Exec. Order No. 12,086, 43 Fed. Reg. 46,501 (1978); Age Discrimination Act, 42 U.S.C. sec. 6101-6106 (1981); Rehabilitation Act of 1973, 29 U.S.C. sec. 793794 (1981); Americans with Disabilities Act, P.L. 101-336; and 41 C.F.R. Part 60, etseq. (1990).

B. State Requirements. Signature shall comply with the Illinois Human Rights Act, 775 ILCS 5/1-101, et seq., as amended, and any rules and regulations promulgated in accordance therewith, including, but not limited to the Equal Employment Opportunity Clause, 5 Ill. Admin. Code 1750 Appendix A. Furthermore, Signature shall comply with the Discrimination in Public Contracts Act, 775 ILCS 10/0.01 etseq., as amended.

C. City Requirements. Signature shall comply with the Chicago Human Rights Ordinance, Chapter 2-160, Section 2-160-010 et seq. of the Municipal Code of Chicago, as amended. Further, Signature shall furnish and shall cause each of its contractors to furnish such reports and information as requested by the Chicago Commission on Human Relations.

Section 7.07 - Affirmative Action Program and MBE/WBE Requirements. Signature assures that it will undertake an affirmative action program which sets forth all applicable Federal standards as required by 14 C.F.R. Part 152, Subpart E, to insure that no person shall on the grounds of race, creed, color, religion, age, national origin, or sex be excluded from participating in any employment activities covered in 14 C.F.R. Part 152, Subpart E. Signature assures that no person shall be excluded on these grounds from participating in or receiving the services or benefits of any program or activity covered by Subpart E. Signature assures that it will require that its covered suborganizations provide assurances to Signature that they similarly will undertake an affirmative action program and that they will require assurances from their organizations, as required by 14 C.F.R., Part 152, Subpart E, to the same effect. In furtherance thereof, Signature also agrees to coordinate with the City's Department of Procurement Services so as to comply with the then current City requirements for participation of Minority Business Enterprises and Women's Business Enterprises on construction of any Improvements.

### **Section 7.08 - Compliance with Environmental Laws**

A. Pre-Existing Conditions. For the purposes of this Section 7.08, the presence of any Hazardous Material or Special Waste on the Premises that would give rise to liability to any person on the part of Signature or City, or violate any Environmental Law, shall be known as an Environmental Condition. In light of the fact that the City has not controlled any of the Premises for many years and that Signature has occupied and controlled almost all of the Premises for at least ten or more years (with the exception of 5713 South Central Avenue), Signature accepts the Premises "as is" with respect to any Environmental Conditions existing as of the Effective Date ("Pre-Existing Conditions"), and the City shall have no obligation to Signature to address or remediate any such Pre-Existing Conditions. With respect to 5713 South Central Avenue, Signature acknowledges and agrees that it has had adequate opportunity to investigate the Environmental Condition of that parcel with

the permission and cooperation of Aon Corporation and accepts it "as is".

## B. Compliance with Environmental Laws

1. Signature shall comply with all laws relating to the environment, including, without limitation, those relating to fines, orders, injunctions, penalties, damages, contribution, cost recovery, compensation, losses or injuries resulting from the release or threatened release of Hazardous Materials, Special Wastes or other contaminants into the environment and to the generation, use, storage, transportation, or disposal of solid wastes, Hazardous Materials, Special Wastes or other contaminants including, without limitation, the Comprehensive Environmental

Response and Compensation Liability Act (42 USC ' 9601 et seq.), the Hazardous Material Transportation Act (49 USC ' 1801 et seq.), the Resource Conservation and Recovery Act of 1976 (42 USC ' 6901 et seq.), the Clean Water Act (33 USC ' 1251 et seq.), the Clean Air Act (42 USC ' 7401 et seq.), the Toxic Substances Control Act of 1976 (15 USC ' 2601 et seq.), the Safe Drinking Water Act (42 USC ' 300f), the Occupational Safety and Health Act of 1970 (29 USC ' 651 et seq.), the Emergency Planning and Community Right-to-Know Act (42 USC ' 11001 et seq.), the Illinois Environmental Protection Act (415 ILCS 5/1 et seq.), and the Municipal Code of Chicago; additionally, any analogous future or present local, state

or federal ordinance or statute, rule and regulation promulgated under or pursuant to the foregoing, and any other present or future law, ordinance, rule, regulation, permit or permit condition, order, or directive which regulates, relates to, imposes liability for or establishes standards of conduct concerning any Hazardous Materials

that may be set forth by the Federal government, any state or any political subdivision thereof, or any agency, court or body of the Federal government, any state or any political subdivision thereof exercising executive, legislative, judicial, regulatory or administrative functions (collectively, "Environmental Laws").

2. If Signature is required pursuant to any Environmental Laws to file any notice or report of a release or threatened release of Hazardous Materials or Special Wastes on, under or about the Premises, Signature shall provide a copy of such report or notice to the City. In the event of a release or threatened release of Hazardous Materials or Special Waste into the environment, or in the event of any claim, demand, action or notice is made against Signature regarding Signature's failure or alleged failure to comply with any Environmental Law, Signature shall immediately notify the City.

3. City shall have reasonable access to the Premises to inspect the same to confirm that Signature is using the Premises in accordance with Environmental Laws. Signature, at the reasonable request of City and at Signature's expense, shall conduct such testing and analysis as is necessary to ascertain whether Signature is using the Premises in compliance with all Environment Laws. Any such tests shall be conducted by qualified independent environmental consultants

chosen by Signature and subject to City's reasonable approval. Copies of any reports or test results shall be provided to City.

4. In addition to any other remedy afforded at law, in equity or by the terms of this Agreement, if Signature fails to comply with any Environmental Law which results in, or may result in, a material adverse impact to the Premises or potential liability to the City, the City may (i) enter the Premises and take necessary measures to insure compliance with Environmental Laws, including, but not limited to, testing and soil sampling, all at Signature's expense, and/or (ii) terminate this Agreement in accordance with the default provisions of this Agreement.

5. City makes no warranty, express or implied, regarding the condition of any underground storage tanks on the Premises, the presence of Hazardous Materials and Special Wastes on the Premises, that the Premises are free of Hazardous Materials and Special Wastes, or any other environmental contaminant. Subject to the limitations set forth in Section 7.08(a), in the event that City is named in any enforcement action or lawsuit by any party in connection with the environmental condition of the Premises or Improvements thereon, Signature shall defend City and indemnify City for any costs, damages or fines that might be found against City; provided, however, that Signature shall not be held accountable by the City under this Agreement in the event that contamination is the result of a third party traversing a right of way on the Premises or the negligence of the City. Signature's obligation to indemnify the City pursuant to this section in no other way limits nor is limited by any other indemnification provided in this Agreement.

6. Signature's liability and obligations under this Section 7.08 shall survive the termination of this Agreement, in whole or in part. Signature hereby waives any right of action or claim pursuant to any Environmental Law against the City, its officers, officials, agents or employees except for any Environmental Condition directly caused by the City after the Effective Date.

### C. Environmental Permits

1. Signature must show evidence of, and keep current throughout the term of this Agreement, all waste hauling, Special Waste hauling, disposal permits and insurance certificates required by Federal, state, City or other local governmental body or agency pursuant to any Environmental Law.

2. When requested by the Commissioner, Signature shall submit copies of all hauling permits required by any Environmental Law. Copies of all permits and insurance certificates that require periodic renewal must be forwarded to the Commissioner throughout the duration of this Agreement. Non-compliance with this requirement may be cause for termination of this Agreement.

3. Environmental Records and Reports: Signature shall be required to prepare and

maintain proper, accurate and complete records of accounts of all transactions related to the operations of this Agreement, including, but not limited to, the following:

- a. Vehicle maintenance records
- b. Safety and accident reports
- c. IEPA or OSHA manifests
- d. Disposal records, including disposal site used, date, truck number and disposal weight.
- e. Permit documentation and all other documentation and transactions pertaining to all Environmental Laws.

All such records and accounts shall be subject to review by the City and shall be made available to the City upon the request of the Commissioner: The City's review of any such records and accounts shall in no way serve to limit Signature's obligations or liability under the terms and conditions of this Agreement or any Environmental Law.

#### Disposal of Materials, Construction and Demolition Debris, Soil and Waste

1. Signature shall be responsible for the proper disposal of all materials, construction and demolition debris, soil and other waste generated by Signature's business operations, including but not limited to the construction of Improvements, or Signature's activities as set forth in Section 7.08. Hauling and disposal by a subcontractor does not relieve Signature from responsibility for proper disposal. Disposal of all materials, construction debris, soil, and other wastes shall be at a disposal site that is properly licensed and permitted to accept the particular materials, construction debris, soil and other wastes delivered to it in accordance with all Environmental Laws. Signature shall identify the disposal site(s) or transfer station(s) to which it has contractual access and for which proper, sanitary landfill permits and/or licenses have been obtained. Failure to identify disposal site(s) for materials, construction debris, soil and other wastes or to submit such information when requested by the Commissioner may be cause to terminate this Agreement.

2. Upon request by the Commissioner, Signature shall provide the Commissioner with copies of all load tickets, manifests, bills of lading, scale tickets and other pertinent documents, including copies of all permits and/or licenses for the proposed transfer station and/or landfill. In the event that the transfer station and/or landfill proposed for use by Signature does not possess the necessary permits and/or licenses to accept the materials, construction debris, soil or other wastes, Signature will replace the transfer station and/or landfill submitted as part of their bid

proposal at no additional cost to the City. If Signature disposes of materials, construction debris, soil or other wastes at a site which is not properly permitted, Signature shall be responsible for all costs associated with the removal of the waste to a properly licensed/permitted landfill or disposal site.

3. Signature shall accept full responsibility for compliance with all Environmental Laws and must comply with all present and future laws, orders and regulations and any rules and regulations promulgated by the Commissioner regarding the

separation, sorting and recycling of garbage, refuse and trash, including but not limited to those policies, rules and regulations incorporated in the Sustainable Airport Manual.

4. Signature shall notify the Commissioner within 24 hours of receipt of any environmental complaints, fines, citations, violations or notices of violation ("Claim") by any governmental body or regulatory agency against Signature or by any third party relating to the loading, hauling or disposal of materials, construction debris, soil or other wastes. Signature will provide evidence to the Commissioner that any such Claim has been addressed to the satisfaction of the issuer or initiator of such Claim.

5. Signature shall notify the City of any community meetings, media involvement or media coverage related to the loading, hauling or disposal of materials, construction debris, soil and other wastes under this Agreement in which Signature is asked to participate.

6. Signature shall verify, in writing, whenever requested by the Commissioner, that all materials, construction debris, and other waste accepted by Signature from the City of Chicago, has been disposed of in compliance with all Environmental Laws.

7. Non-compliance with these terms and conditions may affect Signature's eligibility for future contracts.

E. Equipment and Environmental Control During Transport. Signature shall haul materials, including but not limited to fuel of any nature, any construction debris, soil and other wastes in vehicles and/or containers complying with all applicable Environmental Laws, All equipment used to transfer materials, construction and demolition debris, soil and other wastes shall be designed to prevent spillage during the hauling operation. Signature's equipment shall fully comply with all City, state and federal regulations, laws and ordinances pertaining to size, load weight, safety and any Environmental Law.

F. Open Dumping Prohibited. Signature's must identify debris and waste disposal/handling site(s) and acknowledge terms and conditions relating thereto in a form approved by the Commissioner (the "Form") and provided to the Commissioner before any debris or waste is removed from the Premises for disposal or handling elsewhere. In addition to the representations and requirements that may be contained in the Form, Signature understands and agrees that Signature, unless otherwise authorized in writing by

the City's Commissioner of Environment, shall not continue to use a disposal/handling site identified in the Form that (i) has been cited as being in violation of any environmental law or regulation or of any City ordinance or (ii) does not have a necessary permit. If only one

site was identified in the Form, Signature shall arrange for a substitute disposal/handling site which meets the requirements specified in the Form and provide a revised Form to the Commissioner of Environment. Signature further understands and agrees that any such substitution shall be at no additional cost to the City, regardless of the reason necessitating such substitution.

Section 7.09 - Contractors. Signature agrees that all of the provisions set forth in Sections 7.03 through and including 7.07 of this Article 7 will be incorporated in all contracts entered into with any suppliers of materials, furnishers of services, contractors of any tier, and labor organizations which furnish skilled, unskilled, and craft union skilled labor, or which may provide any materials, labor, or services in connection with this Agreement for amounts of \$10,000 or more. Signature agrees to cause its contractors to execute such certificates as may be necessary in furtherance of these provisions. Such certifications shall be attached and incorporated by reference in the contracts. In the event that any contractor is a partnership or joint venture, Signature shall also include provisions in its contract insuring that the entities comprising such partnership or joint venture shall be jointly and severally liable for its obligations thereunder.

Section 7.10 - Indemnification. Subject to those limitations set forth in Section 7.08(a) hereof, and in addition to the indemnifications set forth in Article XI hereof, Signature hereby indemnifies and agrees to defend and hold harmless the City, its agents, partners, officers, representatives and employees, from all Claims arising from or attributable to: (a) the presence due to Signature's operations of Hazardous Materials and Special Wastes on the Premises or the subsurface thereof or the violation of any Environmental Laws due to Signature's operations (including, without limiting the generality thereof, any cost, claim, liability, or defense expended in remediation required by a governmental authority, or by reason of any release of any Hazardous Material or Special Waste due to Signature's operations or violation of any Environmental Laws), or (b) any aggravation of any condition on the Premises caused, directly or indirectly, by Signature's operations, or (c) any breach by Signature of any of its warranties, representations or covenants in this Article VII. Signature's obligations hereunder shall survive the termination or expiration of this Agreement, and shall not be affected in any way by the amount of or absence in any case of covering insurance or by the failure or refusal of any insurance carrier to perform any obligation on its part under any insurance policies affecting the Premises or Signature's operations at the Airport.

## **ARTICLE VIII - AIRPORT MATTERS**

Section 8.01 - Airport Rules and Regulations. Signature shall observe and obey all Airport rules and regulations governing the conduct and operations of the Airport, promulgated from time to time by City, provided, however, that such Airport rules and regulations must be neither (i) inconsistent with the exercise by Signature of any right or privilege granted to it hereunder or under any other agreement between Signature and City relating to the Airport, nor (ii) inconsistent with the rules and regulations or orders of any

33

Federal or State agency having jurisdiction over the Airport. Except in cases of emergency, no such rule or regulation shall be applicable to Signature unless it has been given fifteen (15) days prior written notice of the adoption thereof.

Section 8.02 - Other Legal Requirements. Signature shall comply, and shall cause its contractors to comply, with all applicable federal, state and local laws, codes, regulations, ordinances, rules and orders including, without limitation, those promulgated by the FAA and the TSA, which shall include, but not be limited to, the following:

A. Prohibition Against Exclusive Rights. It is hereby specifically understood and agreed that nothing contained in this Agreement shall be construed to grant or authorize the grant to Signature of an exclusive right to use Airport facilities or to provide aeronautical services to the public as prohibited by Section 308(a) of the Federal Aviation Act of 1958, as amended, and City reserves the right to grant to others at the Airport similar privileges and rights.

B. Subordination of Agreement. Signature covenants and agrees that this Agreement shall be subordinated to the provisions of any existing or future agreement between the City and the United States Government, the execution of which has been or will be required as a condition precedent to the granting of Federal funds for the development of the Airport. Signature further agrees that it shall not cause the City to violate any assurances made by the City to the Federal government in connection with the granting of such Federal funds.

C. Non-discrimination in the Use of the Premises. This Agreement involves the use of or access to space on, over, or under real property acquired or improved under the Airport Development Aid Program of the Federal Aviation Administration, and therefore involves activity which serves the public. Signature, for itself, its personal representatives, successors in interest, and assigns, as part of the consideration hereof, does hereby covenant and agree, as a covenant running with the land, that (a) no person on the grounds of race, creed, color, religion, age, sex, or national origin shall be excluded from participation in, denied the benefits of, or otherwise be subjected to discrimination in the use of said facilities; (b) that no person on the grounds of race, creed, color, religion, age, sex, or national origin shall be excluded from participation in, denied the benefits of, or otherwise be subjected to discrimination in the construction of Improvements on, over, or under such land and the furnishing of services thereon; and (c) that Signature shall use the Premises in compliance with all other requirements imposed by or pursuant to regulations of the U.S. Department of Transportation. In the event of a breach of the above nondiscrimination-covenants by Signature, City shall have the right to terminate this Agreement and to reenter and repossess the Premises and the facilities thereon, and hold the same as if this Agreement had never been executed.

D. Non-Discrimination in Furnishing Services. Signature agrees that it shall provide its services and products promptly, efficiently and adequately to meet all reasonable demands therefor, all on a fair and non-discriminatory basis to all users thereof, at charges which are

fair, reasonable and non-discriminatory; provided that reasonable discounts, rebates or other similar types of price reductions may be made to volume purchasers.

Section 8.03 - Airport Agreements. Signature's use and occupancy of the Premises shall be and remain subject to (i) the provisions of any existing or future agreements between City and the United States government, FAA or other governmental authority, relative to the operation or maintenance of the Airport, the execution of which has been or will be required as a condition precedent to the granting of federal or other government funds, including, without limitation, grant agreements, and (ii) any use agreement heretofore or hereafter executed by the City with airlines operating at the Airport, including, without limitation, the Midway Airport Use Agreement and Facilities Lease and any ordinance or indenture, or both, authorizing bond anticipation notes or bonds or other obligations

adopted by the City Council of the City authorizing the issuance of notes, bonds or other obligations for the Airport and securing such obligations by a pledge of revenues or net revenues of the Airport and any ordinance or indenture supplemental thereto, which shall also include any master indenture.

Section 8.04 - Airport Security Acts. This Agreement is expressly subject to the Airport Security Acts, as amended from time to time, the provisions of which are hereby incorporated by reference, including, without limitation all rules and regulations promulgated thereunder. Signature and its employees, contractors, subcontractors, suppliers of materials, or providers of services are subject to such employment investigations, including criminal history record checks, as the Commissioner, the TSA or the FAA may deem necessary. Further, in the event of any threat to civil aviation, as defined in the Airport Security Acts, Signature shall promptly report any information in accordance with those regulations promulgated by the Secretary of the United States Department of Transportation, the Secretary of the Department of Homeland Security and the City. Signature shall, notwithstanding anything contained herein to the contrary, at no additional cost to City, perform under this Agreement in compliance with those directives guidelines developed by City, the TSA and the FAA with the objective of maximum security enhancement, including without limitation any confidentiality directives and guidelines established by the TSA with respect to information that has been deemed by the TSA to be Security Sensitive Information.

Section 8.05 - Airport Noise Restrictions. Signature agrees to abide by any guidelines, rules or regulations for the Airport which result from any Part 150 study or any other restrictions imposed on noise and which are applicable to the use of the Premises as an aircraft maintenance facility or otherwise.

Section 8.06 - Regulating the Airport; Airport Operation. City reserves the right to regulate, police and further develop, improve, reconstruct, modify or otherwise alter the Airport in City's sole discretion. City reserves the right, but shall not be obligated to Signature, to maintain and keep in repair the landing area of the Airport and all publicly-owned facilities of the Airport. City shall not have any obligation to continue to operate the Airport or any part as an airport for passenger or freight air transportation or at any

particular level of operation and may at any time limit or discontinue use of the Airport or any means of access to or within the Airport in whole or in part. This provision shall not be interpreted to grant a right to limit or discontinue means of access to the Premises by Signature from outside the Airport from dedicated public streets.

## **ARTICLE IX - EXERCISE BY CITY OF GOVERNMENTAL FUNCTIONS**

Nothing contained herein shall impair the right of City, in the exercise of its governmental functions, to require Signature to pay any tax or inspection fees or to procure necessary permits or licenses. Nothing herein shall be construed to prevent Signature from contesting in good faith any tax or inspection fee so long as such contest is diligently commenced and prosecuted by Signature.

Nothing contained herein shall be deemed to be the grant of any franchise, license, permit or consent to Signature to operate motor coaches, buses, taxicabs or other



vehicles carrying passengers or property for hire or other consideration over the public ways to and from the Airport.

## **ARTICLE X - INSURANCE**

Signature shall provide and maintain at all times, at Signature's own expense during the term of the Agreement and during any period subsequent to the expiration of the Term if Signature is required to return to perform Work or perform any activities to comply with any Environmental Law, the types of insurance specified in Exhibit D, with insurance companies authorized to do business in the State of Illinois, covering all operations under this Agreement, whether performed by Signature, its contractors or subcontractors.

## **ARTICLE XI - INDEMNIFICATION BY SIGNATURE**

Section 11.01 - Indemnity. Signature agrees to protect, defend, indemnify, keep, save and hold the City of Chicago, its officers, officials, employees and agents (collectively "Indemnified Parties") free and harmless from and against any and all liabilities, losses, penalties, damages, settlements, costs, charges, professional fees or other expenses or liabilities of every kind, nature and character arising out of or relating to any and all claims, liens, demands, obligations, actions, suits, judgments or settlements, proceedings or causes of action of every kind, nature and character (collectively "Claims") in connection with or arising directly or indirectly out of the performance or failure to perform hereunder by Signature, its officials, agents, employees, and subcontractors, including but not limited to, the enforcement of this indemnification provision, except for Claims shown by final judgment to have been caused by or attributable to the Indemnified Parties' negligence, in which event the Indemnified Parties shall contribute to the payment of damages decreed by judgment, and the actual costs of defense borne by Signature not otherwise covered by insurance, to the extent the Indemnified Parties are found liable by such judgment. Without limiting the foregoing, any and all such Claims relating to personal injury, death,

36

damage to property, defects in materials or workmanship, actual or alleged infringement of any patent, trademark, copyright or of any other tangible or intangible personal property right, actual or alleged employment discrimination or wrongful discharge, or any actual or alleged violation of any applicable statute, ordinance, order, rule or regulation, or decree of any court, shall be included in the indemnity hereunder. The foregoing indemnity provision excludes the negligence of the Indemnified Parties to the extent prohibited by 740 ILCS 35/1 et seq. (Construction Contract for Indemnification Act) and/or 740 ILCS 150/0.01 et seq. (Structural Work Act), respectively. Signature further agrees to investigate, handle, respond to, provide defense for and defend all suits for any and all Claims, at its sole expense and agrees to bear all other costs and expenses related thereto, even if the Claims are considered groundless, false or fraudulent.

The Indemnified Parties shall have the right, at their respective options and cost, to participate in the defense of any suit, without relieving Signature of any of its obligations under this indemnity provision, provided that the Indemnified Parties and their respective attorneys shall coordinate and cooperate with Signature's attorneys. Signature further expressly understands and agrees that the requirements set forth in this indemnity to protect, defend, indemnify, keep, save and hold the Indemnified Parties free and harmless

are separate from and not limited by Signature's responsibility to obtain insurance pursuant to other Sections in this Agreement. Further, the indemnities contained in this Section shall survive the expiration or termination of this Agreement.

### **Section 11.02 - Release of City.**

A. The City shall not be liable to Signature, or to Signature's agents, representatives, contractors, subcontractors, or employees, for any injury to, or death of, any of them or of any other person, or for any damage to any of Signature's property, or loss of revenue caused by any third person in the maintenance, construction, or operation of facilities at the Airport, or caused by City or any third person using the Airport or navigating any aircraft on or over the Airport, except where there has been a final determination by a court of competent jurisdiction that any injury, death, or damage is due to the negligence or willful misconduct of City, and only to the extent Signature or any of the above described parties is not covered by insurance.

B. The City shall not be liable to Signature for damage to property of Signature or any loss of revenues to Signature resulting from City's acts or omissions in the maintenance and operation of the Airport, except where there has been a final determination by a court of competent jurisdiction that such damage or loss has been caused by the negligence or willful misconduct of City, and then only to the extent Signature is not reimbursed by insurance.

C. Notwithstanding any reference herein to Signature's release and indemnification being ineffective in certain instances where City or its agents, employees or representatives have been negligent, nothing herein shall be construed to make City liable in any case or instance where City would otherwise be immune from any tort liability because of its being

a municipal corporation.

Section 11.03 - Non-Liability of Public Officials. No official, employee, or agent of City shall be charged personally by Signature, or by any assignee or contractor of Signature, with any liability or expenses of defense, or be held personally liable to them under any term or provision of this Agreement, or because of City's execution or attempted execution hereof, or because of any breach hereof.

Section 11.04 - Limitation on City Liability. City, its officers, directors, commissioners, agents and employees, shall, to the extent permitted by law, have absolutely no personal liability with respect to any provision of this Agreement or any obligation or liability arising from this Agreement or in connection with this Agreement or the Premises in the event of a breach or default by City of any of its obligations. Signature (and any person claiming by or through Signature) shall look solely to legally available Airport discretionary funds from time to time up to the Maximum Limit. The term "Maximum Limit" means the fair market value of the City's interest in the Premises, as encumbered by this Agreement. The Maximum Limit shall be an aggregate limit over the term of this Agreement and shall be reduced by any prior payments or credits by City on account of a breach or default (or alleged breach or default) made with respect to the Premises. The Maximum Limit shall be determined as of the date of the City's liability for any breach or default is adjudicated. Such limitation of liability shall be absolute to the full extent permitted by law and without any exception whatsoever.

Section 11.05 - City Approvals. Nothing herein is intended nor shall it be construed to provide any limitation upon Signature's obligation to comply with the terms and conditions of this Agreement. No City review or approval of any act of Signature or document provided by Signature, including, but not limited to, plans and specifications, shall in any way serve to attenuate, diminish or otherwise limit Signature's obligations hereunder, nor shall any such review or approval constitute a waiver by the City of any non-compliance with the terms and conditions of this Agreement. Unless otherwise required by law or as expressly provided otherwise in this Agreement, any City review or approval required by this Agreement is deemed to mean the review or approval of the Commissioner.

Section 11.06 - Survival Beyond Termination of this Agreement. Signature's obligations under Section 7.08, Section 7.10, and Article XI shall survive the termination or expiration of this Agreement.

## **ARTICLE XII - DEFAULT AND TERMINATION**

Section 12.01 - Events of Default. Each of the following is an event of default under this Agreement:

A. Signature becomes insolvent (as such terms is defined under Section 101 of the Federal Bankruptcy Code, 11 U.S.C. 101 et seq. (the "Code"), or any successor statute

38

thereto); or fails to pay its debts generally as they mature; or takes the benefits of any present or future federal or state insolvency statute; or makes a general assignment for the benefit of creditors.

B. Signature files a voluntary petition in bankruptcy or a petition or answer seeking an arrangement of its indebtedness under the Code or under any other law or statute of the United States or of any State thereof; or consent to the appointment of a receiver trustee, custodian, liquidator, or other similar official, of all or substantially all of its property; or an order for relief is entered by or against Signature under any chapter of the Code.

C. By order or decree of a court, Signature is adjudged a debtor or bankrupt, or an order is made approving a petition filed by any of its creditors or by any of its stockholders, seeking its reorganization or the restructuring of its indebtedness under the Code or under any other law or statute of the United States or any state thereof and such order or decree is not stayed or vacated within sixty (60) days of its issuance.

D. A petition under any chapter of the Code or an action under any federal or state insolvency statute is filed against Signature and is not dismissed or stayed within sixty (60) days after being filed.

E. By or pursuant to, or under authority of any legislative act, resolution or rule, or order or decree of any court or governmental board, agency or officer, a receiver, trustee, custodian, liquidator, or other similar official takes possession or control of all or substantially all of the property of Signature and such possession or control continues in effect for a period of sixty (60) days.

F. Signature becomes a corporation in dissolution.

G. The letting, license, or other interest of or rights of Signature hereunder is transferred to, passed to, or devolved upon, by operation of law or otherwise, any other person, firm, corporation, or other entity, by, in connection with, or as a result of any bankruptcy, insolvency, trusteeship, liquidation or other proceedings or occurrence described in Subparagraphs (A) through (E) of this Section 12.01.

H. Signature fails to duly and punctually pay any Rent required to be paid hereunder or fails to make payment when due of any other sum required to be paid to City pursuant to this Agreement, for a period of ten(10) business days after written notice specifying such failure and requesting that it be remedied is given to Signature by City.

I. Signature fails to keep, perform, and observe any promise, covenant, or other provision of this Agreement, other than the obligation to pay Rent, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to Signature by City; provided, however, that any such failure which can be remedied, but which cannot with due diligence be remedied within such thirty (30) day period, shall not - give rise to City's right to terminate this Agreement if corrective action is instituted by

**39**

Signature within such thirty (30) day period and diligently pursued until the failure is remedied.

J. Any lien is filed against the Premises or any portion thereof resulting from any act or omission of Signature, and is not discharged within thirty (30) days, unless Signature within the aforesaid thirty (30) days furnishes the City such security as the Commissioner in his discretion determines to be adequate to protect the interests of City.

K. Signature ceases using or abandons substantially all of the Premises for a period of ninety (90) consecutive days.

L. Signature makes any purported Transfer without the consent of City as set forth in Article XIV.

M. Signature fails to maintain its corporate existence, or fails to remain duly qualified to do business in the State of Illinois, or Signature dissolves or otherwise disposes of all or substantially all of its assets, or consolidates with or merges into another corporation; provided, however, that it shall not be an Event of Default if Signature consolidates with or merges into an Affiliate; or

N. Signature fails to receive authorization to conduct fixed base operations or general aviation functions at the Airport by any governmental entity, or the FAA objects to or disapproves this Agreement.

O. Signature defaults on any Loan Agreement pertaining to Special Facility Revenue Bonds issued by the City for use and repayment by Signature.

**Section 12.02 - City's Remedies.**

A. Whenever an Event of Default has occurred and is continuing, City may, at its option, immediately and without prior notice of such Event of Default:

1. terminate this Agreement and the licenses and other rights of Signature hereunder, without discharging any of Signature's obligations hereunder and, at City's further option, exclude Signature from the Premises; or

2. without terminating this Agreement, exclude Signature from the Premises and attempt to grant such Premises to another party for the account of Signature, holding Signature liable for all payments due hereunder up to the effective date of such grant and for the excess over the Rent and other amounts which are paid by such new party under such new agreement, if any, of other amounts payable by Signature under this Agreement for the remainder of the term of this Agreement.

B. The remedies set forth in this Article are in addition to all other remedies which are or may be available to City at law or in equity. In addition, City may, from time to time, take

40

whatever action at law or in equity appears necessary or desirable to collect Rent and any other amounts payable by Signature hereunder then due and thereafter to become due, and to enforce the performance and observance of any obligation, agreement, or covenant of Signature under this Agreement.

C. All rights and remedies hereinbefore given to City and all rights and remedies given to City by law, shall be cumulative and concurrent. No termination of this Agreement or the taking or recovering of the Premises shall deprive City of any of City's remedies or actions against Signature for Rent or for any other sum required to be paid to City pursuant to this Agreement, or for damages or for the breach of any covenant herein contained, nor shall the bringing of any action for fees or breach of covenant, or the resort to any other remedy herein provided for the recovery of fees be construed as a waiver of the right to obtain possession of the Premises.

### **Section 12.03 - Removal of Signature's Property.**

A. The personal property financed with funds other than Special Facility Revenue Bonds or other City funds and placed or installed by Signature in the Premises shall remain the property of Signature and must be removed on or before the expiration of the Term or the expiration of any extension or renewal thereof at Signature's sole risk and expense. Any damage to the Airport, the Premises, or any fixtures located therein, resulting from such removal shall be paid for by Signature. In the event of the termination of this Agreement, by default or otherwise, Signature shall have thirty (30) days after such termination during which to remove such property; provided, however, City shall have the right to assert such liens against said property as City may by law be permitted. So long as any such property remains in the Premises, Signature's obligation to pay City Rent and any other sums which may be due the City under the Agreement shall continue.

B. If Signature's property is not removed as herein provided, City may, at its option, deem such property abandoned and keep such property or after written notice to Signature and at Signature's sole risk and expense, remove such property to a public warehouse for deposit, or retain the same in City's possession and after the expiration of thirty (30) days sell the same, with notice and in accordance with applicable law, the proceeds of which

shall be applied first to the expenses of such removal and sale, second to any sum owed by Signature to City, and any balance remaining shall be paid to Signature.

#### **Section 12.04 - Condemnation.**

A. Any condemnation or taking of such a substantial part of the Premises that results in the Premises being unsuitable or incapable of being used for the purposes stated herein, is hereafter referred to as a "Total Taking." In the event of a Total Taking, this Agreement shall be terminated as of the date of the filing of the petition to condemn. Signature may thereafter petition the Court for an award of the value of its interest, which may include the amount of the unamortized construction costs under Section 4.05. Signature shall apply any such award to the defeasance of any outstanding Special Facility Revenue Bonds

#### **41**

issued by the City for use and repayment by Signature.

B. In the event of a taking of the Premises other than a Total Taking (a "Partial Taking"), this Agreement shall remain in effect as to the remaining portion of the Premises and, if the proceeds of any award received by City on account of such Partial Taking are sufficient to restore or replace the Premises so taken, City shall deposit the proceeds of the award with respect to the Premises in a construction fund and City shall forthwith (subject to unavoidable delays) apply such proceeds to the restoration or replacement of the Premises so taken as nearly as possible to (i) such condition, character, and utility value as existed prior to such Partial Taking or (ii) to such other condition, character, and value as may be agreed upon by City and Signature. If for any reason the proceeds of an award received by City for a Partial Taking are in excess of the amount necessary to restore or replace the Premises, the amount of such excess shall be paid to City. If such proceeds are insufficient to replace or restore the Premises as provided in (i) and (ii) above, City shall not be required to restore or replace in excess of the proceeds of such awards.

Section 12.05 - No Waiver by City. Failure by City to take any action with respect to any default or violation by Signature of any of the terms, covenants, or conditions of this Agreement shall not in any respect limit, prejudice, diminish, or constitute a waiver of any rights of City to act with respect to any prior, contemporaneous, or subsequent violation or default. The acceptance by City of payment for any period or periods after a default or violation of any of the terms, conditions, and covenants of this Agreement shall not constitute a waiver or diminution of, nor create any limitation upon any right of City pursuant to this Agreement to terminate this Agreement for subsequent violation or default, or for continuation or repetition of the original violation or default.

#### **Section 12.06 - City's Right to Perform Signature's Obligations.**

A. In the event that Signature fails to perform any of its obligations under this Agreement, the City may, but is not obligated to, and without waiving or releasing Signature from any of its obligations hereunder, make any payment or perform any other act which Signature is obligated to make or perform under this Agreement in such manner and to such extent as City may deem desirable; and in so doing city shall also have the right to enter upon the Premises, including any Improvement to the Premises, for any purpose reasonably necessary in connection therewith and to pay or incur any other necessary and incidental costs and expenses, including reasonable attorneys' fees. All

sums so paid and all liabilities so incurred by City, together with interest thereon at the lesser of the then current Default Rate or the highest interest rate permitted by law, shall be deemed additional Rent hereunder and shall be payable to City upon demand as additional Rent. City shall use reasonable efforts to give prior notice, which may be oral, of its performance, if reasonably feasible under the circumstances.

B. The performance of any such obligation by City shall not constitute a waiver of Signature's default in failing to perform the same. Inaction of City shall never be considered as a waiver of any right accruing to it pursuant to this Agreement. City, in

42

making any payment hereby authorized: (a) relating to taxes, may do so according to any bill, statement or estimate, without inquiry into the validity of any tax, assessment, sale, forfeiture, tax lien or title or claim thereof; (b) for the discharge, compromise or settlement of any lien, may do so without inquiry as to the validity or amount of any claim for lien which may be asserted; or (c) in connection with the completion of construction of Improvements to the Premises or the repair, maintenance or reconstruction of Improvements to the Premises or payment of operating costs thereof, may do so in such amounts and to such persons as City may reasonably deem appropriate. Nothing contained herein shall be construed to require the City to advance monies for any purpose. City shall not in any event be liable for inconvenience, annoyance, disturbance, loss of business or other damage to Signature or any other occupant of the Premises or any part thereof, by reason of making repairs or the performance of any work on the Premises or on account of bringing materials, supplies and equipment into or through the Premises during the course thereof and the obligations of Signature under this Lease shall not thereby be affected in any manner. In doing so, however, City shall use reasonable efforts not to interfere with Signature's operations.

Section 12.07 - Attorneys' Fees and Expenses. In the event Signature defaults under this Agreement and City employs attorneys or incurs other expenses for the collection of Rent or any other amounts due hereunder, or for the enforcement or performance or observance of any obligation or agreement on the part of Signature herein contained, Signature shall, on demand, pay to City the reasonable fees and expenses of such attorneys and any such other reasonable expenses incurred by City as a result of such default.

## **ARTICLE XIII - TRANSFERS**

### **Section 13.01 - Signature's Right to Transfer.**

A. Transfers Generally. Except for Exempt Transfers, Signature covenants that it will not assign, sublet, transfer, convey, sell, mortgage, pledge, or encumber (any of the foregoing events being referred to as a "Transfer") the Premises or any part thereof, or any rights of Signature hereunder or any interest of Signature in this Agreement, or effect any sale of Signature stock that may have the effect of a Transfer, nor will Signature allow the use of such Premises hereunder by any other person, except as otherwise provided in Article II of this Agreement, without in each instance having first obtained the prior written consent of City as set forth below. Where the consent the City may be granted by the Commissioner, the City agrees such consent will not be withheld or delayed unreasonably.

B. Transfer to an Affiliate. Transfers of this Agreement, in whole or in part, to an Affiliate of Signature are subject to consent of the Commissioner. The Commissioner will not withhold his consent to such Transfer provided that: (i) the proposed transferee is in compliance with all of the legal requirements of this Agreement, (ii) the proposed transferee demonstrates to the Commissioner's satisfaction that it is sufficiently financially

43

responsible, experienced and capable to perform those obligations of Signature under this Agreement that Signature seeks to Transfer, (iii) the proposed transferee assumes all of Signature's obligations under this Agreement that Signature seeks to Transfer, (iv) in the Commissioner's sole opinion, the Transfer will not have a material adverse effect upon the Airport, (v) no event of default then exists, and (vi) the transferee executes the City's Economic Disclosure Statement and Affidavit.

C. City Consent. Except where the Transfer is to an Affiliate, the consent of the City Council on behalf of City shall be required for any Transfer of (i) all of the Premises, (ii) all rights of Signature hereunder, or (iii) all of Signature's interest in this Agreement. The consent of the Commissioner on behalf of City shall be required for any other Transfer. Consent by City to any type of Transfer described in this Article or elsewhere in this Agreement shall not in any way be construed to relieve Signature from obtaining further authorization from City for any subsequent Transfer of any nature whatsoever. In determining whether or not to consent to a Transfer, City will take into account those factors (i) through (vi) set forth in the immediately preceding paragraph and, without limitation, the promotion of a competitive environment at the Airport in light of the then-existing circumstances, the proposed use of the Premises by any transferee, the balanced utilization of the Airport facilities, operational considerations relating to the characteristics of the proposed transferee, the financial condition of the proposed transferee, and the impact on City's ability to exercise control over the Airport.

D. Signature to Remain Primarily Liable. Notwithstanding any Transfer, with or without City consent, Signature shall remain fully liable for the payment of all of its fees and fully responsible for the performance of all of its other obligations hereunder.

E. Request for City Consent. Any and all requests by Signature for consent to a Transfer shall be made in writing by certified mail to City and shall include copies of the proposed documents of Transfer. Said documents of Transfer shall completely disclose any and all considerations made or to be made to Signature for said Transfer.

F. City's Right to Collect from Transferee. City may collect Rent and other sums to be paid from any assignee, sublessee, or other transferee of Signature, and in such event shall apply the net amount collected to the Rent and other sums payable by Signature hereunder without such action by City releasing Signature from this Agreement or any of its obligations hereunder. If any Transfer requiring City consent occurs without such consent and City collects Rent or other sums payable by Signature from the transferee and applies the net amount collected in the manner described in the preceding sentence, such actions by City shall not be deemed to be consent to the Transfer.

G. Transfers Without City Consent Void. Any Transfer without the written consent of the City as provided for herein shall be void and of no effect.



Section 13.02 - City Right to Transfer. The City reserves the right to transfer all or any part of its interests hereunder, including but not limited to the assignment of this Agreement

44

in its entirety to a private operator of the Airport.

#### **ARTICLE XIV - NOTICE**

Any notices or other communications pertaining to this Agreement shall be in writing and shall be deemed to have been duly given by a party if sent by nationally recognized commercial overnight courier or registered or certified mail, return receipt requested, postage prepaid and addressed to the other party. Notices shall be deemed given on the date of receipt if by personal service, or one day after deposit with a nationally recognized commercial overnight courier, three days after deposit in the U.S. mails, or otherwise upon refusal of receipt. All notices or communications intended for Signature shall be addressed to:

Signature Flight Support Corporation  
5821 South Central Avenue Chicago,  
Illinois 60638 Attn: General Manager

with a copy to:

Signature Flight Support Corporation

201 South Orange Avenue  
Suite 1100S Orlando, Florida  
32801 Attn: General Counsel

All notices or communications intended for the City shall be addressed to:

Commissioner, Chicago Department of Aviation  
City of Chicago  
O'Hare International Airport  
10510 Zemke Road  
Chicago, Illinois 60666

with a copy to:

City Comptroller  
City of Chicago Room 501 City  
Hall 121 North LaSalle Street  
Chicago, Illinois 60602

and with a copy to: Corporation Counsel

Department of Law  
City of Chicago Room  
610  
121 North LaSalle Street  
Chicago, Illinois 60602

45

Attention: Deputy Corporation Counsel - Aviation

Either party may change its address or the individual to whom such notices are to be given by a notice given to the other party in the manner set forth above.

## **ARTICLE XV - MISCELLANEOUS**

Section 15.01 - Entire Agreement. This Agreement, and the exhibits attached hereto and incorporated hereby, shall constitute the entire agreement between the parties and no other warranties, inducements, considerations, promises, or interpretations shall be implied or impressed upon this Agreement that are not expressly addressed herein and therein.

Section 15.02 - Counterparts. This Agreement is comprised of several identical counterparts, each to be fully executed by the parties and each to be deemed an original having identical legal effect.

Section 15.03 - Amendments. No changes, amendments, modifications, cancellation, or discharge of this Agreement, or any part thereof, shall be valid unless in writing and signed by the parties hereto, or their respective successors and assigns.

Section 15.04 - No Partnership or Agency. Nothing herein contained as intended or shall be construed to in any respect create or establish any relationship other than that of lessor and lessee, and nothing herein shall be construed to establish any partnership, joint venture, or association or to make Signature the general representative or agent of City for any purpose whatsoever.

Section 15.05 - Representatives. City and Signature shall each designate a representative who, except as otherwise provided hereunder, shall be authorized to act for City and Signature, respectively, with respect to any actions to be taken by either of them under the terms of this Agreement. Except as specifically set forth herein, for the purposes of actions to be taken by it or by the Commissioner, City's representative shall be the Commissioner. Signature's representative shall be designated in a written notice delivered to City. Any party hereto may change its designated representative by notice to the other party.

### **Section 15.06 - Force Majeure.**

A. Neither party hereto shall be liable to the other for any failure, delay, or interruption in performing its obligations hereunder due to causes or conditions beyond its control, including, without limiting the generality hereof, strikes, boycotts, picketing, slow-downs, work stoppages, or other labor actions affecting City or Signature, their respective contractors or subcontractors, except to the extent that such failure, delay or interruption is the result of the negligence of that party; provided that nothing in this Section is intended or shall be construed to abate, postpone, or in any respect diminish Signature's obligations to

make any payments due City pursuant to this Agreement.

B. City shall be under no obligation to supply any service if and to the extent and during any period that the supplying of any such service or the use of any component necessary

therefor shall be prohibited or rationed by any federal, state, county, or municipal law, rule, regulation, requirement, order, or directive.

C. Signature shall not be liable for the performance of any obligation of Signature hereunder if such performance is prohibited or materially affected by the issuance of any order, rule, or regulation, or the taking of any action by the Federal Aviation Administration, the Transportation Security Administration or other government authority substantially affecting, for a period of at least thirty (30) days, Signature's use of the Airport, provided, however, that none of the foregoing is due to any fault of Signature.

Section 15.07 - Governing Law. This Agreement shall be governed in accordance with the laws of the State of Illinois. Signature hereby irrevocably submits, and shall cause its subcontractors to submit, to the original jurisdiction of those State or Federal courts located within the County of Cook, State of Illinois, with regard to any controversy arising out of, relating to, or in any way concerning the execution or performance of this Agreement. Signature agrees that service of process on Signature may be made, at the option of City, either by registered or certified mail addressed to the applicable office as provided for, in this Agreement, by registered or certified mail addressed to the office actually maintained by Signature, or by personal delivery on any officer, director, or managing or general agent of Signature.

Section 15.08 - Consent to Service of Process and Jurisdiction. All judicial proceedings brought by Signature with respect to this Agreement shall be brought in Cook County, Illinois, and by execution and delivery of this Agreement, Signature accepts, for itself and in connection with its properties, generally and unconditionally, the nonexclusive jurisdiction of the aforesaid courts, and irrevocably agrees to be bound by any final judgment rendered thereby from which no appeal has been taken or is available. Signature irrevocably waives any objection (including without limitation any objection of the laying of venue or based on the grounds of forum nonconveniens) which it may now or hereafter have to the bringing of any action or proceeding with respect to this Agreement in the jurisdiction set forth above. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of City to bring proceedings against Signature in the courts of any other jurisdiction.

Section 15.09 - Severability. If any provisions of this Agreement shall be held or deemed to be or shall in fact be inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions or in all cases because it conflicts with any other provision or provisions hereof or of any constitution, statute, ordinance, rule of law, or public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstances, or of rendering any other provision or provisions herein contained invalid, inoperative, or

unenforceable to any extent whatever. The invalidity of any one or more phrases, sentences, clauses, or sections contained in this Agreement shall not affect the remaining portions of this Agreement or any part thereof.

Section 15.10 - Assigns. All of the terms and conditions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective legal representatives, successors, transferees, and assigns.

Section 15.11 - Co-Operation by Parties. The parties hereby agree to use good faith in the performance of this Agreement and to co-operate with each other. City must be expressly identified as a third party beneficiary in any of Signature's contracts for construction of Improvements or performance of Primary Commercial Support Services and must be granted a direct right of enforcement thereunder. If this Agreement is terminated for any reason, or if it expires by its own terms, Signature shall make every reasonable effort to assure an orderly transition to another fixed base operator or provider of general aviation services, if any; orderly demobilization of its own operation; and the uninterrupted provision of fixed base operations and general aviation services. During any transition period Signature shall otherwise comply with the reasonable requests and requirements of the Commissioner in connection with the termination or expiration of this Agreement.

#### **ARTICLE XVI - AUTHORITY**

Section 16.01 - City's Authority. This Agreement is authorized by an Ordinance passed by City of Chicago City Council on \_\_\_\_\_ (C.J.P. \_\_\_\_\_). Wherever this Agreement provides that an act is to be taken or performed, or approval or consent is to be given by City, such act may be taken or performed, or approval or consent may be given, by the Commissioner, without further action by the City Council of Chicago, as long as such act, approval or consent does not result in either (i) an extension of the Term (beyond any permitted renewals), (ii) a decrease in the Rent other than such decreases expressly provided for herein, or (iii) expansion of the Premises; provided, however, that non-material changes may be made to the boundaries of the Premises to conform to a survey. The Commissioner may execute an amendment to the Agreement provided that he or she is authorized to take or perform the act, or provide the consent or approval, giving rise to such amendment.

Section 16.02 - Signature's Authority. Execution of this Agreement by Signature is authorized by corporate resolution, and the signatures of each person signing on behalf of Signature have been made with complete and full authority to commit Signature to all terms and conditions of this Agreement, including each and every representation, certification, and warranty contained herein, attached hereto and collectively incorporated by reference herein, or as may be required by the terms and conditions hereof.

IN WITNESS WHEREOF, City of Chicago has caused this Agreement to be executed on its behalf by its Mayor, pursuant to due authorization of City Council of City of Chicago, and Signature Flight Support Corporation has caused this Agreement to be executed on its behalf by its \_\_\_\_\_ and witnessed by its \_\_\_\_\_ pursuant to due authorization of its Board of Directors.

**CITY OF CHICAGO**

Rahm Emanuel, Mayor

Recommended by:

Rosemarie S. Andolino  
Commissioner  
Chicago Department of Aviation

**SIGNATURE FLIGHT SUPPORT CORPORATION**

By:

Attest:

Signature:

Signature

**By:** \_\_\_\_\_

:

Its: \_\_\_\_\_

By: \_\_\_\_\_

Its: \_\_\_\_\_

Designation of Agent for City  
Clerk Service of Process

Name: \_

Address:

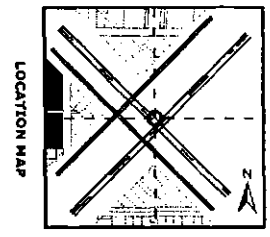
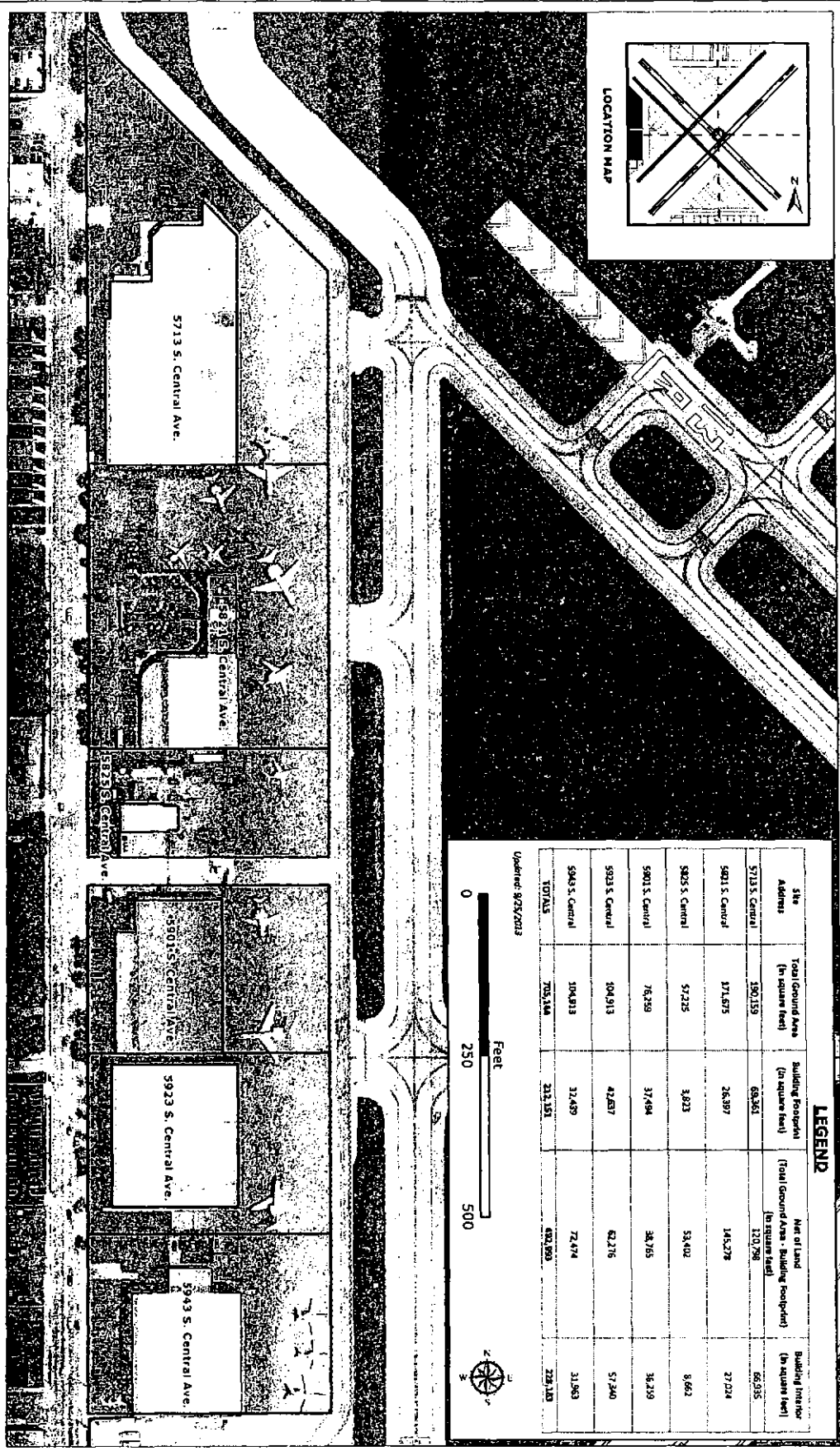
EXHIBIT  
A  
PREMISE  
S

Chicago Midway International Airport  
 City of Chicago  
 Rahm Emanuel Mayor  
 Department of Aviation  
 Rosemarie S. Anselino  
 Commissioner of Aviation



**FINAL LEASED PREMISES  
 SIGNATURE FLIGHT SUPPORT**

Effective Date:  
 Scale: 3"=155'  
 Exhibit **A**



**LEGEND**

Site Address	Total Ground Area (in square feet)	Building Footprint (in square feet)	Net of Land (Total Ground Area - Building Footprint) (in square feet)	Building Interior (in square feet)
5713 S. Central	150,159	69,361	120,798	66,335
5921 S. Central	171,875	26,897	144,978	27,224
5923 S. Central	57,225	3,823	53,402	8,662
5943 S. Central	76,739	37,494	39,245	36,239
5923 S. Central	104,913	42,817	62,096	57,240
5943 S. Central	104,913	32,489	72,424	31,263
<b>TOTALS</b>	<b>705,144</b>	<b>213,181</b>	<b>491,963</b>	<b>229,183</b>

Updated: 9/25/2013



**EXHIBIT B  
 RENT SCHEDULES AND SECURITY DEPOSIT**

**RENT SCHEDULES AND SECURITY DEPOSIT**

**Rent Schedule**

Tenant/Property Description	Address	land sq. ft.	Net Land sf	Ground Rental Rate (PSF) based on appraisal	Ground Rent Total	Building sq. ft.	Building Rent (PSF) based on appraisal	Building Rent Total
1 Signature Flight Support (FBO) --	5943 S. Central	104,913	104,913 - 32,439 = 72,474 sf	\$1.05	\$76,097.70	31,963 sf hangar and office	\$3,600.00	\$271,695.50
2 Signature Flight Support (FBO) -- <i>formerly Monarch Air Services</i>	5923 S. Central	104,913	104,913 - 42,637 = 62,276 sf	\$1.05	\$65,389.80	34,000 sf = hangar 7,780 sf = 1st fl. 7,780 sf = 2nd fl 7,780 sf = 3rd fl 57,340 sf	\$1,900.00	\$487,390.00
3 Signature Flight Support (FBO) --	5821 S. Central	171,675	171,675 - 26,397 = 145,278 sf	\$1.05	\$152,541.90	27,024 sf hangar, office and public areas	\$1,050.00	\$283,752.00
4 Signature Flight Support (FBO) -- <i>Formerly Chicago Fire Dept.</i>	5825 S. Central	57,225	57,225 - 3,823 sf = 53,402 sf	\$1.05	\$56,072.10	8662 sf support service and repair shop	\$1,142.00	\$9,874.68
5 Signature Flight Support (FBO) -- <i>Formerly Amoco Corporation</i>	5901 S. Central	76,259 sf	76,259 - 37,494 = 38,765 sf	\$1.05	\$40,703.25	36,259 sf = hangar and office	\$1,050.00	\$380,719.50
6 Aon Corporation (Hangar) --	5713 S. Central	190,159	190,159 - 69,361 = 120,798 sf	\$1.05	\$126,837.90	44,770 sf - hangar 12,353 sf - office 9,812 sf - shop 66,935 sf	\$7,500.00	\$502,012.50
<b>Total Rent</b>					<b>\$517,642.65</b>			<b>\$1,935,434.18</b>
<b>Total Sq. Ft.</b>		<b>705,144 sf</b>			<b>492,993</b>	<b>228,183</b>		

**Security Deposit**

Security Deposit	\$300,000
------------------	-----------

EXHIBIT C  
REQUIREMENTS FOR  
WORK



1 ■ Project Description

Prior to providing any Work for improvements to the Premises (a "Project")- Signatures shall provide the Commissioner with a written description of the Work to be performed, including drawings, plans and specifications, the estimated cost to complete, and the proposed Work schedule.

2- Signature Coordination with City

- (a) Signature shall designate a "Project Manager" who shall manage and coordinate the Work. City shall direct all communications regarding the Work to the Project Manager.
- (b) The Commissioner shall designate a "Work Liaison" to represent City in all matters relating to the performance of the Work and to constitute the point of receipt for all submittals, unless expressly specified otherwise herein. In all provisions of this Exhibit in which City's written approval or consent is required; such approval or consent must be that of the Work Liaison, unless Signature is notified in writing by the Commissioner otherwise. Any approval or consent by the Work Liaison hereunder shall not create any liability on City, in whole or in part, for the professional or technical accuracy of Signature's Work. The Commissioner shall be the final arbiter of any decision to be made or consent or approval to be given under this Exhibit. The Work Liaison shall further assist Signature in coordinating Signature's Work with other projects and operations at O'Hare Airport and in Signature's contacts with any Federal, State, or local government agencies. If requested, Signature shall provide reasonable administrative space for the Work Liaison on or contiguous to the work site. The Work Liaison shall provide such personnel as may be needed from time to time.

3. Standard of Performance

Signature shall perform, or cause to be performed, all Work on the Project with that degree of skill, care and diligence normally exercised by professional performing equivalent Work in projects of a scope and magnitude comparable to the Work hereunder.

Signature shall further perform, or cause to be performed, all Work hereunder according to those standards for Work at the Airport promulgated by CDA, FAA, and any other interested Federal, State, or local governmental units, including, without limitation, any Airport Design and O'Hare Modernization Program ("OMP") Construction Standards.

Signature shall further require its contractors to perform all Work required of them in accordance with the above standards and in a safe, efficient, good and workmanlike manner. Signature shall require its Project Contractors to replace all damaged or defective Work. Subject to the terms and conditions stated herein, Signature shall replace or correct such Work not so corrected or replaced by any contractor, or shall cause such Work to be replaced or corrected by another contractor, and thereafter shall prosecute, or shall assign its rights to so prosecute to City upon reasonable request therefore, any and all claims it may have against any contractor for failure by such contractor to comply with the standards of performance imposed upon them hereunder.

If the even! Signature or its contractors fail to comply with the above-referenced standards, Signature shall perform again, or cause to be performed again, at its own expense, for any "Work" which is required to be re-performed. Notwithstanding any review; approval, acceptance, or payment for any and all of the Work by the City, Signature shall remain solely and exclusively responsible for the technical accuracy of all of the Work, as defined herein and furnished under this Lease. This provision shall in no way be considered as limiting the rights of City against Signature or its contractors, either under this Agreement, at law, or in equity.

#### 4. Approval of Contractors

Prior to the hiring by Signature of any contractors, Signature shall submit a list of pre-qualified contractors to City for review and approval. In addition, City shall have the right (but not the obligation) to review, and approve the form of Signature's construction contract with any person or firm hired to act as a contractor in connection with the performance of Work. Signature shall include in its construction contracts all provisions required by this Agreement, such provisions as may be required by law at the time any such contract is awarded and such provisions as may be reasonably requested by City, its Risk Manager, its Purchasing Agent and its legal counsel.

#### Assignment of Contracts

All construction contracts shall contain provisions making them assignable to City. Upon the occurrence of an Event of Default under this Agreement, City shall have the right to require that Signature complete the assignment to City of any and all construction contracts. Such assignment shall be in writing and in a form and substance acceptable to City. Signature agrees that all such contracts shall further contain a clause which provides that in the case of any contract so assigned, the Project Contractor shall be deemed to have waived any and all claims, suits, and causes of action arising out of or relating to the performance of such contract prior to the effective date of such assignment, unless such contractor notifies City in writing of such claim, suit, or cause of action prior to the effective date of such assignment. City shall not be responsible for any claims relating to such contracts arising from or related to any fraud, misrepresentation, negligence or willful or intentionally tortious conduct by Signature, its officials, employees, agents or other Signature contractors.

#### 6. Requirements for Work

- (a) Project Planning, Design, and Publication Phase: Signature shall submit, or cause to be submitted, at such levels as may be reasonably required by the Work Liaison, proposed drawings, plans and specifications for review and comment by the Work Liaison. Such drawings, plans, and specifications, and all amendments thereto, and the cost and schedule information to be provided by Signature under this Paragraph 6 (a), shall be subject to the approval of the Work Liaison, which approval shall not be unreasonably withheld or delayed. Any conditional approval or disapproval shall be accompanied by an explanation. If Signature intends to adopt fast track construction procedures, Signature must still complete each contract package to a reasonable level of detail (including alternate designs selected by Signature for major structural, mechanical, electrical and architectural elements) that will provide the Work Liaison adequate information upon which to base its review and approval. Signature shall not proceed with construction operations until all necessary approvals have been obtained.
- (b) Signature to Provide Information: Prior to the commencement of any Work, and thereafter as often as may be necessary to provide the Work Liaison with current and complete information about the Work, Signature shall submit the Work Liaison (!)

initial and updated construction schedules (which shall be reviewed by the Work Liaison for the impact and relation to other projects or operations at the Airport) including the proposed and/or actual sequence... of all Work, and the estimated date of completion of the Work for each of Signature's contracts; (ii) initial and updated site utilization plans, including limit lines, on-site storage and office areas, and proposed temporary alterations or detours and support detours intended to maintain public access and support services to, from, through or passed operating facilities at the Airport; and (iii) Signature's initial and updated cost estimates for the Work, individually and aggregated.

#### Installation, Construction, Start-Up and Testing Phase:

- (i) The Work Liaison shall have the right to monitor the Work to assure the Project is installed and constructed in conformity with the approved drawings, plans and specifications, and in accordance with the applicable standards thereto. In order to assist the Work Liaison in

monitoring the installation, construction, start-up and testing, Signature shall submit, or cause to be submitted, to the Work Liaison copies of all

- surveys, soil borings, and field test reports;
- contracts;
- material certificates and samples; - approved shop drawings;
- lien waivers, payrolls, and requests for payment by Contractors of any tier;
- progress reports;
- notification of substantial completion of the Work;
- maintenance and operations manuals in connection with building systems;
- as-built warranties,
- test and start-up results; and
- any other documents related to the Work which may be reasonably requested by City.

(ii) No change order which materially changes the scope of the Work or the Project shall be implemented by Signature without review and approval by the Work Liaison. Any conditional approval or disapproval shall be accompanied by an explanation.

(iii) In the event the Work Liaison determines that the Work is at material variance from the approved cost, schedule, drawings, plans, and specifications or applicable standards. Signature shall use its best efforts to expeditiously resolve such variance through immediate consultation with its contractors. Until it has been determined by the Work Liaison that the Work has been performed without material variance from the approved cost, schedule, drawings, plans and specifications and applicable standards, the Work Liaison may, by written notice to Signature, (i) suggest to Signature that Signature withhold payments from any contractor with has performed, in the judgment of the Work Liaison, Work which is at material variance from the approved cost, schedule, drawings, plans, and specifications, or applicable standards or (ii) suggest to Signature that it stop Work where it is directly affected by such variance from the approved costs, schedule, drawings, plans, specifications and applicable standards, if Signature's response is unacceptable in the reasonable opinion of the

Work Liaison, the Work Liaison shall have the right to direct Signature to stop any other Work that is at variance with the approved cost, schedule,

drawings, plans and specifications or applicable standards until the drawings, plans and specifications are corrected or replaced;

Any work which is at material variance from the approved cost, schedule, drawings, plans and specifications or applicable standards shall be corrected or replaced by Signature directly or through its contractors, provided that the Work Liaison has informed Signature of such variance within ten (10) business days following the performance of such Work, unless the variance affects the structural, integrity or safety of the Work or the variance could not have been discovered with due diligence, in which case the Work Liaison shall inform Signature of such variance as soon as reasonably practicable. If such Work is not corrected or replaced with City's own forces or otherwise at the expense of Signature, provided that in the event such Work cannot be corrected or replaced within said thirty (30) day period, Signature shall be afforded with such additional time as the Work Liaison may determine to be reasonably necessary to correct or replace such Work.

7. Ownership

City shall be and become the owner of the Work upon the City's acceptance thereof.

8. No Damages for Delay

Signature agrees and shall cause its contractors to agree that Claims for damages or charges for additional costs or fees shall not be made against City by Signature or its contractors, absent bad faith, fraud, or direct tortious interference, for costs incurred by reason of delays, disruptions, or hindrances in the contractors' Work. In the event that any contractor is delayed by causes beyond the reasonable control of such contractor, the Work schedule for the performance of the Work may be extended by Signature with City approval to reflect the extent of such delay, provided that Signature shall be given City written notice within ten (10) days of the commencement of such delay and shall have received City's written approval of the extension, which approval shall not be unreasonably withheld. Such notice by Signature shall include a description of the reasons for the delay and the steps to be taken by Signature and Contractor to mitigate the effect of such delay on the Project schedule. City's permitting any Contractor to proceed with its Work, or any part thereof, alter such extension shall in no way operate as a waiver of any other rights on the part of City. City shall not be responsible to Signature or its contractors for any claims for damages or charges for additional costs or fees incurred by reason of delays, disruptions, or hindrances caused by Signature's bad faith, fraud, or direct tortious interference with its contractor.

9. Performance and Payment Bonds

Signature shall require each of its contractors performing construction at or related to the Airport to post a performance and payment bond in the value of the construction Work to be performed under its contract. Such bonds shall comply with the provisions of 30 ILCS 550/1, as amended and Section 2-19-030 of the Chicago Municipal Code. The bond shall be in the same form and content as provided by City. The surety issuing such bond shall be acceptable to City's Risk Manager. City and Signature shall be named as co-obligees on all such bonds; provided, however, that City shall be named as primary co-obligee.

10. Protection of FAA Facilities

if trenching, jacking of pipe or "casing, excavation for pavements or structures, site grading and vehicular traffic over earth areas will occur over, around and under FAA facilities such as equipment houses, direct buried cables and duct banks, all possible steps must be taken to ensure to insure their integrity throughout the period of construction activity.

The contractor shall notify the Commissioner not less than 72 hours prior to any excavation in the vicinity of FAA cables or ducts to arrange for a joint walking tour with cable location equipment to identify precisely such cables and locations in order to assure the preservation of their vital functions during construction.

11. Protection of Utilities

- (a) The contractor shall take suitable care to protect and prevent damage to all utilities from its operations on the Airport.
- (b) When performing Work adjacent to existing sewers, drains, water and gas lines, electric or telephone or telegraph conduits or cables, pole lines or poles, or other utility equipment or structures which are to remain in operation, the contractor shall maintain such utility equipment and structures in place at its own expense and shall cooperate with the City department, utility company or other part owning or operating such utility equipment or structures in the maintenance thereof.
- (c) The contractor shall be responsible for and shall repair all damage to any such utility, equipment or structures caused by its acts, whether negligent or

otherwise, or its omission to act, whether negligent- or otherwise and shall leave such utility, equipment or structures in as good condition as they were in prior to the commencement of its operations. However, it is hereby agreed that any such, utility equipment or structures damaged as a result of any act, or omission to act, of the contractor may, at the option of the City department, utility company, or other party owning or operating such utility, equipment or structures damaged, be repaired by such City department, utility company, or other party and in such event the cost of such repairs shall be borne by the contractor.

## 12. General Conditions

Signature shall conduct any Work, or cause such Work to be conducted by its contractors, in accordance with those standards for construction operations at the Airport set forth in the City's "General Conditions", dated January 1, 1997, as may be revised, including without limitation, Articles VI, XIV, XV and XIX.

## 13. Additional Legal Requirements:

### (a) Veterans Preference:

- (i) Signature shall insure that the following provision is inserted in all contracts entered into with any contractors and labor organizations which furnish skilled, unskilled and craft union skilled labor, or which may provide any material, labor, or services in connection with the improvements.
- (ii) Signature shall comply with the provisions of 330 ILCS 55/0.01 et seq., which requires that a preference be given to veterans in the employment

and appointment to fill positions in the construction, addition, or alteration of all public Works. In the employment of labor (except executive, administrative and supervisory positions) preference shall be given to veterans of the Vietnam era and disabled veterans. This preference may be given only where the individuals are available and qualified to perform the Work to which the employment relates.

### (b) Steel Products:

- (i) This Lease shall be subject to all provisions of the "Steel Products Procurement Act", 30 ILCS 5051/1 et seq., as it may be amended from time to time. Steel products used in the improvements shall be manufactured or produced in the United States.
- (ii) For the purposes of this Section, "United States" means the United States and any place subject to the jurisdiction (Hereof and "Steel Products" means products rolled, formed, shaped, drawn, extruded, forged, cast, fabricated, or otherwise similarly processed or processed by a combination of two or more such operations, from Steel made in the United States by the open hearth, basic oxygen, electric furnace, Bessemer or other steel making processes. Knowing violation of this Section may result in the filing and prosecution of complaint by the Attorney General of the State of Illinois and shall subject violators to a fine of the greater of \$5,000 or the payment price as received as a result of such violation.

### (c) MacBride Principles Ordinance

- (i) The City of Chicago through the passage of the MacBride Principles Ordinance seeks to promote fair and equal employment opportunities and labor practices for religious minorities in Northern Ireland and provides a better Working environment for all citizens in Northern Ireland.

(ji) In accordance with Section 2-92-580 of the Code, if Signature conducts any business operations, it shall make all reasonable and good faith efforts to conduct any business operations in Northern Ireland in accordance with the MacBride Principles for Northern Ireland as defined in Illinois Public Act 85-1390 (1988 111. Laws 3220).

(d) Occupational Safety and Health Act, 40 U.S.C. 333; 29 C.F.R. 1926.1.

(e) Hazard Communication Standard, 29 C.F.R. Part 1926

58. (0 Illinois Environmental Protection Act, 415 ILCS 5/1.

(g) Illinois Public Mechanics' Lien Act, 770 ILCS 60/23 (waiver of liens).

(h) Criminal Code provisions applicable to public Works contracts, 720 ILCS 5/33E.

(i) Public Works Projects Act, 30 ILCS 570/0.01.

(j) Deduction from Wages, 820 ILCS 115/9.

(k) Section 2-92-250 of the Municipal Code of Chicago (Retainage). (l)

Section 2-92-415 of the Municipal Code of Chicago (Child Support);

(m) Prevailing Wage Act, 820 ILCS 130/1.

(n) Section 2-92-415 of the Municipal Code of Chicago (Child Support Requirement).

EXHIBIT D INSURANCE  
REQUIREMENTS

## EXHIBIT D

### **INSURANCE REQUIREMENTS**

#### **Chicago Department of Aviation Signature Flight Support Corporation Lease at Chicago Midway Airport**

Signature must provide and maintain at Signature's own expense or cause to be maintained, during the term of the Lease and on any earlier date Signature is permitted to enter onto the Leased Premises, and until each and every obligation of Signature contained in this Lease has been fully performed (including any time period following expiration if Signature is required to return and perform any additional work), the insurance coverages and requirements specified below, insuring all operations under this Lease.

#### **A. INSURANCE TO BE PROVIDED BY SIGNATURE**

##### 1) Workers Compensation and Employers Liability

Workers Compensation Insurance, as prescribed by applicable law covering all employees who are to provide a service under this Lease and Employers Liability coverage with limits of not less than \$500,000 each accident, illness or disease.

##### 2) Commercial General Liability (Primary and Umbrella)

Commercial General Liability Insurance or equivalent with limits of not less than \$50,000,000 per occurrence for bodily injury, personal injury, and property damage liability. Coverages must include the following: All premises and operations, products/completed operations, independent contractors, explosion, collapse, underground, separation of insured, defense, and contractual liability (not to include Endorsement CG 21 39 or equivalent). The City of Chicago is to be named as an additional insured on a primary, non-contributory basis for any liability arising directly or indirectly under or in connection with this Lease.

Contractors and subcontractors performing work for Signature must maintain limits of not less than \$5,000,000 with the same terms herein.

##### 3) Automobile Liability (Primary and Umbrella)

When any motor vehicles (owned, non-owned and hired) are used in connection with this Agreement, the Signature must provide Automobile Liability Insurance with limits of not less than \$5,000,000 per occurrence for bodily injury and property damage. The City of Chicago is to be named as an additional insured on a primary, non-contributory basis.

Contractors and subcontractors performing work for Signature must maintain limits of not less than \$5,000,000 with the same terms herein.

##### 4) Pollution Legal Liability

Pollution Legal Liability Insurance must be provided covering bodily injury, property damage and other losses caused by pollution conditions that arise from the Agreement scope of

services with limits of not less than \$5,000,000 per occurrence. Coverage must include completed operations, contractual liability, defense, excavation, environmental cleanup, remediation and disposal. When policies are renewed or replaced, the policy retroactive date must coincide with or precede start of work in connection with the Lease. A



claims-made, policy, which is not renewed or replaced must have an extended reporting period of two (2) years. The City of Chicago is to be named as an additional insured.

5) All Risk Property

Signature must maintain All Risk Property Insurance including improvements and betterments at full replacement cost covering all loss, damage or destruction to the Leased Premises. Coverage must include but are not limited to the following: Business income, water including leakage, overflow, sewer backup and seepage, collapse, boiler and machinery, earth movement and flood. The City of Chicago is to be named as an additional insured and loss payee.

Signature is responsible for all loss or damage to personal property (including but not limited to materials, equipment, tools and supplies), owned, rented or used by Signature.

Signature is responsible for all loss or damage to City of Chicago property at full replacement cost that results from this Lease.

6) Builders Risk

When Signature undertakes any construction, including improvements, betterments, and/or repairs, Signature must provide or cause to be provided, All Risk Builders Risk Insurance at replacement cost for materials, supplies, equipment, machinery and fixtures that are or will be part of the permanent facility/project. Coverages must include but are not limited to the following: material stored off-site and in-transit, right to partial occupancy, boiler and machinery, earth movement, flood, water including overflow, leakage, sewer backup or seepage, utility services, collapse, debris removal, faulty workmanship or materials, testing, mechanical-electrical breakdown and other consequential loss, when applicable. The City of Chicago is to be named as an additional insured and loss payee.

7) Professional Liability

When any architects, engineers, construction managers or other professional consultants perform work in connection with this Lease, Professional Liability Insurance covering acts, errors, or omissions must be maintained with limits of not less than \$2,000,000. When policies are renewed or replaced, the policy retroactive date must coincide with, or precede start of work or services related to the Lease. A claims-made policy which is not renewed or replaced must have an extended reporting period of two (2) years.

8) Valuable Papers

When any plans, designs, drawings, specifications and documents are produced or used under this Lease, Valuable Papers Insurance must be maintained in an amount to insure against any loss whatsoever, and must have limits sufficient to pay for the re-creation and reconstruction of such records.

9) Contractors Pollution Liability

When any remediation work is performed which may cause a pollution exposure, Contractors Pollution Liability must be provided, covering bodily injury, property damage and other losses caused by pollution conditions that arise from the work-perform

must include underground storage tanks, completed operations, contractual liability, defense, excavation, environmental cleanup, remediation and disposal. When policies are renewed or replaced, the policy retroactive date must coincide with or precede start of work under the Lease. A claims-made policy which is not renewed or replaced must have an extended reporting period of two (2) years. The City of Chicago is to be named as an additional insured.

## **B. ADDITIONAL REQUIREMENTS**

Signature must furnish the City of Chicago, Department of Finance, Risk Management Division, 333 South State Street, Room 400, Chicago, Illinois 60604 and Department of Aviation, O' Hare Airport, 10510 West Zemke Road, Chicago, Illinois 60666, original Certificates of Insurance, or such similar evidence, to be in force on the date of this Lease, and Renewal Certificates of Insurance, or such similar evidence, if the coverages have an expiration or renewal date occurring during the term of this Lease. Signature must submit evidence of insurance on the City of Chicago Insurance Certificate Form or another form acceptable to the City prior to execution of Lease. The receipt of any certificate does not constitute agreement by the City that the insurance requirements in the Lease have been fully met or that the insurance policies indicated on the certificate are in compliance with all Lease requirements. The failure of the City to obtain certificates or other insurance evidence from Signature is not a waiver by the City of any requirements for Signature to obtain and maintain the specified coverages. Signature must advise all insurers of the Lease provisions regarding insurance. Non-conforming insurance does not relieve Signature of the obligation to provide insurance as specified herein. Non-fulfillment of the insurance conditions may constitute a violation of the Lease, and the City retains the right to stop work until proper evidence of insurance is provided, or the Lease may be terminated.

Signature must provide for 60 days prior written notice to be given to the City in the event coverage is substantially changed, canceled, or non-renewed.

Any deductibles or self-insured retentions on referenced insurance coverages must be borne by Signature, Contractors and/or Subcontractors.

Signature hereby waives and agrees to require their insurers to waive their rights of subrogation against the City of Chicago, its employees, elected officials, agents, or representatives.

The coverages and limits furnished by Signature, Contractors and/or Subcontractors in no way limit Signature's, Contractor's and/or Subcontractor's liabilities and responsibilities specified within the Lease documents or by law.

Any insurance or self-insurance programs maintained by the City of Chicago do not contribute with insurance provided by Signature under the Lease.

The required insurance to be carried is not limited by any limitations expressed in the indemnification language herein or any limitation placed on the indemnity therein given as a matter of law.

If Signature is a joint venture or limited liability company, the insurance policies must name the joint venture or limited liability company as a named insured.

Signature must require Contractors and Subcontractors to provide the insurance required herein, or Signature may provide the coverages for the Contractors and/or Subcontractors. The Contractors and Subcontractors are subject to the same insurance requirements of Signature unless otherwise specified herein.

If Signature, Contractors and/or Subcontractors desire additional coverages, Signature/arid each Contractor and/or Subcontractor are responsible for the acquisition and cost of such additional protection.

Notwithstanding any provisions in the Agreement to the contrary, the City of Chicago Risk Management Division maintains the right to modify, delete, alter or change these requirements.

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable:

SIGNATURE FLIGHT SUPPORT CORPORATION

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant  
OR
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: \*  
OR
3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 201 South Orange Avenue, Suite 1100S  
Orlando, FL 32801

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email:  
susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): <sup>1</sup>

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification # N/A

Contract U N/A

**SECTION H - DISCLOSURE OF OWNERSHD? INTEREST**

A. NATURE OF THE DISCLOSING PARTY

- I. Indicate the nature of the Disclosing
- |   |  |
|---|--|
| <input type="checkbox"/> Person   | <input type="checkbox"/> Limited liability company       |
| <input type="checkbox"/> Publicly registered business corporation       | <input type="checkbox"/> Limited liability partnership   |
| <input checked="" type="checkbox"/> Privately held business corporation | <input type="checkbox"/> Joint venture                   |
| <input type="checkbox"/> Sole proprietorship                            | <input type="checkbox"/> Not-for-profit corporation      |
| <input type="checkbox"/> General partnership                            | (is the not-for-profit corporation also a 501(cX3))?     |
| <input type="checkbox"/> Limited partnership                            | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Trust  | <input type="checkbox"/> Other (please specify)          |

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

Delaware

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes

No

N/A

**B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:**

1. List below the full names and titles of all executive officers and all directors of the entity.

NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title

See attached. \_\_\_\_\_

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

**OFFICERS AND DIRECTORS OF**

**SIGNATURE FLIGHT SUPPORT CORPORATION**

S. Michael  
Scheeringa Mara A.  
Sastre Sami Teittinen  
Richard D. Rector  
Patrick D. Moylan  
Daniel Marcinik  
Joseph I. Goldstein

Christa Click Barbara Bresnan Constance L.  
Alden Jeffrey T. Bankowitz

Chief Executive  
Officer and  
Director  
President and Chief  
Operating Officer  
Chief Financial  
Officer, Treasurer  
and Director

Assistant Treasurer  
Senior Director Security  
Assistant Secretary  
Vice President, Secretary, Director  
Assistant Treasurer  
Assistant Treasurer  
Chief Human Resource Officer  
General Counsel, Assistant Secretary

Address and Telephone  
Number: 201 South Orange  
Avenue Suite 1100S Orlando,  
FL 32801



not an acceptable response.

Aircraft Service International. Inc. - Subcontractor \_\_\_\_\_None \_\_\_\_\_

201 South Orange Avenue. Suite 1100A \_\_\_\_\_

Orlando. FL 32801 \_\_\_\_\_

"Retained" \_\_\_\_\_

(Add sheets if necessary)

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or

entities. SECTION V - CERTIFICATIONS

A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                     No                     No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                     No

B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1-23, Article I ("Article I")(which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section II.B.1. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;

- b. have not, within a five-year period preceding the date of this EDS, been convicted or a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local)terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

- the Disclosing Party;
  - any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
  - any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity);
- with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;
- » any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;



- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ELCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none,

indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient.  
N/A \_\_\_\_\_

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages I necessary):

Page 7 of 13

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed diat the Disclosing Party certified to the above statements.

D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

Yes  No

NOTE: If you checked "Yes" to Item D. 1, proceed to Items D.2. and D.3. If you checked "No" to Item D. 1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes

No

3. If you checked "Yes" to Item D.L, provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

Page 8 of 13

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X 1. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A.1. above for his or her lobbying activities or go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making an federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A. 1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

#### B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes                       No

If you checked "No" to question 1. or 2. above, please provide an explanation:

Page 10 of 13

**SECTION VII - ACKNOWLEDGMENTS, CONTRACT  
INFORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE**

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, JL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain

specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

- F. 1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,
- F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,
- F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F. 1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

SIGNATURE FLIGHT SUPPORT  
CORPORATION (Print or type name of Disclosing Party)

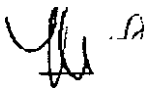
By: (sign here)

Joseph I, Goldstein  
(Print or type name of the person signing)

Vice President & Secretary (Print or type title of the person signing)

Signed and sworn to before me on (date) Sipl IS,QQ\^>

at 0<sup>y</sup> 0<sup>^</sup> <|( \_\_\_\_\_ County, ^pvi ci A (state).



Notary Public.

Commission expires:

MICHEUE L DADISMAN  
M ^ COMMISSION I EE  
009881  
EXPIRES: November 18, 2014 "Citif"<sup>1</sup>  
Bonited thm N\*»r Public Undawlten

**FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS**

**This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.**

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship" exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B. 1 .a., if the Disclosing Party is a cooperation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.



A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable:

BBA AVIATION USA, INC.

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

- 1.  the Applicant  
OR
- 2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation  
OR
- 3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 201 South Orange Avenue, Suite 1205  
Orlando, FL 32801

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email:  
susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one):

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specifications N/A Contract # N/A

SECTION II - DISCLOSURE OF OWNERSHIP INTEREST

A. NATURE OF THE DISCLOSING PARTY

- I. Indicate the nature of the Disclosing Person  Sole proprietorship  
 Person  General partnership  
 Publicly registered business corporation  Limited partnership  
 Privately held business corporation  Trust  
 Privately held business corporation  Limited liability company

- Limited liability partnership (is the not-for-profit corporation also a  
 Joint venture 501(c)(3))?  
 Not-for-profit corporation  Yes  No  
 Other (please specify)

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable: Delaware

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes  No  N/A

**B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:**

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title  
See attached. \_\_\_\_\_

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of 13

**OFFICERS AND DIRECTORS OF**

**BBA Aviation USA, Inc.**

Joseph I. Goldstein	President,	Secretary	and
Jeffrey T. Bankowitz	Director		
Mark	Assistant	Secretary	and
Hoad Barbara A.	Director		
Bresnan Same	Director		
Teittinen Richard	Treasurer		
D. Rector	Director		
	Assistant Treasurer		

Address:

201 South Orange  
Avenue Orlando, FL  
32801

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or other similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
BBA US Holdings. Inc.	_____	100% _____
	201 South Orange Avenue. Suite 1100 _____	
	Orlando. FL 32801 _____	

**SECTION HI - BUSINESS RELATIONSHBPS WITH CITY ELECTED OFFICIALS**

Has the Disclosing Party had a "business relationship," as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

Yes                       No

If yes, please identify below the names of such City elected official(s) and describe such relationship(s):

**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself. "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

Name (indicate whether Retained or anticipated To be retained)	Business Address	Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.)	Fees (indicate whether paid or estimated.) NOTE: "hourly rate" or "t.b.d." is not an acceptable response.
--	------------------	--	---

(Add sheets if necessary)

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

## SECTION V - CERTIFICATIONS

### A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrears on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

### B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1-23, Article I ("Article I")(which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section II.B.1. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;

- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local)terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

- the Disclosing Party;
- any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section rV, "Disclosure of Subcontractors and Other Retained Parties");
- any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity); with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;
- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither die Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging

in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and die Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

Page 6 of 13

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient. N/A

### C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages I necessary):

Page 7 of 13

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

**D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS**

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

Yes

No

NOTE: If you checked "Yes" to Item D.1, proceed to Items D.2. and D.3. If you checked "No" to Item D.1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes

No

3. If you checked "Yes" to Item D.1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------



4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

Page 8 of 13

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X  1. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A. 1. above for his or her lobbying activities or go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee

of a member of Congress, in connection with the award of any federally funded contract, making an federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs and event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

#### B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes  No

If you checked "No" to question 1. or 2. above, please provide an explanation:

**SECTION VII - ACKNOWLEDGMENTS, CONTRACT  
INFORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE**

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St, Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

F. 1. The Disclosing Party is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,

F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,


F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F. 1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

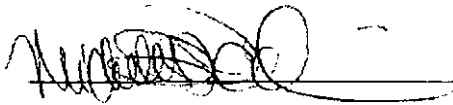
BBA AVIATION USA. INC.  
(Print or type name of Disclosing Party)

By:   
\_\_\_\_\_ (sign here)

Joseph I. Goldstein (Print or type name of the person signing)

President & Secretary  
(Print or type title of the person signing)

Signed and sworn to before me on (date) \_\_\_\_\_,  
at (County, State) \_\_\_\_\_ County, \_\_\_\_\_ (state).

  
\_\_\_\_\_  
Notary Public.  
Commission

MICHELLE L MY  
DADISMAN I" (3\*  
COMMISSION ( EE 008881 "Efgf  
EXPIRES: November 18, 2014 "tiffi  
^«<sup>dT</sup>fr»N<^\*^P(iMictJn<lsYmiere

**FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS**

**This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.**

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship" exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B.1.a., if the Disclosing Party is a cooperation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

**A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if**

**applicable: BBA US HOLDINGS, INC.**

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant

**OR**

2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation

**OR**

3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 201 South Orange Avenue, Suite 1100  
Orlando, FL 32801

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email:

susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one):

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification # N/A Contract # N/A

**SECTION II - DISCLOSURE OF OWNERSHIP INTEREST**

**A. NATURE OF THE DISCLOSING PARTY**

- |   |  |
|---|--|
| 1. Indicate the nature of the Disclosing Person                         | <input type="checkbox"/> Sole proprietorship       |
| <input type="checkbox"/> Publicly registered business corporation       | <input type="checkbox"/> General partnership       |
|   | <input type="checkbox"/> Limited partnership       |
|   | <input type="checkbox"/> Trust                     |
| <input checked="" type="checkbox"/> Privately held business corporation | <input type="checkbox"/> Limited liability company |

- Limited liability partnership (is the not-for-profit corporation also a  
 Joint venture 501(c)(3))?  
 Not-for-profit corporation  Yes  No  
 Other (please specify)

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

Delaware

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes  No  N/A

**B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:**

1. List below the full names and titles of all executive officers and all directors of the entity.

NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title

See attached. \_\_\_\_\_

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of 13

Officers and Directors of  
BBA US Holdings, Inc.

Margaret S. Bilson	Director
Joseph I. Goldstein Paul	Director,
A. Hecherberger Mark	President
Hoad S. Michael	Director,
Scheeringa Jeffrey T.	Secretary
Bankowitz Daniel	Director Director
Marcinik	Assistant
	Secretary
Address:	Treasurer

201 South Orange  
Avenue Suite 1100  
Orlando, FL 32801

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or other similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
------	------------------	---

See attached. \_\_\_\_\_

**SECTION III - BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIALS**

Has the Disclosing Party had a "business relationship," as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

Yes  No

If yes, please identify below the names of such City elected official(s) and describe such relationship(s):



**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself. "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

**OWNERSHI INTERESTS IN BBA US HOLDINGS, INC.**

ENTITY NAME	ADDRESS	PERCENTAGE	OF
BBA Aviation Lynton Group,	105 Wigmore Street London W1U 1QY England	8.4%	INEREST
Ltd. BBA Aviation ASIG	105 Wigmore Street London W1U 1QY England	11.3%	
Europe, Ltd. BBA US	2 <sup>nd</sup> Floor Avenue Pasteur L-2310 Luxembourg	8.4%	
Investments SARL			

Name (indicate whether Retained or anticipated To be retained)	Business Address	Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.)	Fees (indicate whether paid or estimated.) NOTE: "hourly rate" or "t.b.d." is not an acceptable response.
--	------------------	--	---

(Add sheets if necessary)

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

SECTION V - CERTIFICATIONS

A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the

## Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

### B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1-23, Article I ("Article I")(which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section II.B.I. of this EDS:
- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
  - b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
  - c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
  - d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local)terminated for cause or default; and
  - e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.
3. The certifications in subparts 3, 4 and 5

concern: . the Disclosing Party;

◆ any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");

. any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation;

interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as die ineligible entity);  
with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;  
» any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of die Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of die U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, die Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient. N/A

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages if necessary):

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

**D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS**

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

Yes  No

NOTE: If you checked "Yes" to Item D. 1., proceed to Items D.2. and D.3. If you checked "No" to Item D. 1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in die purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes  No

3. If you checked "Yes" to Item D. 1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

**E. CERTIFICATION REGARDING SLAVERY ERA BUSPNESS**

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X \_\_ 1. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_ 2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

## SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

### A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A. 1. above for his or her lobbying activities or go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making an federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs and event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section

501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

**B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY**

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes  No

If you checked "No" to question 1. or 2. above, please provide an explanation:

**SECTION VII - ACKNOWLEDGMENTS, CONTRACT  
INFORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE**

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party



understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cirotvofchicago.org/Ethics](http://www.cirotvofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, JL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If die City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in odier transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on die Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also audiorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

Page 11 of 13

F.1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,

F.2. If the Disclosing Party is die Applicant, the Disclosing Party and its Affiliated Entities will not use,

F.3. If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.


NOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

BBA US HOLDINGS, INC.

(Print or type name of Disclosing Party)

By:   
(sign here)

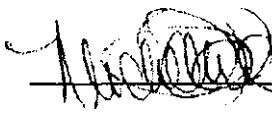
Joseph I. Goldstein \_\_\_\_\_  
(Print or type name of the person signing)

President \_\_\_\_\_  
(Print or type title of the person signing)

Signed and sworn to before me on (date) QoCA Q^o .OK>A3)

County, \_\_\_\_\_ V (state).  
\(SUrU<-.

at Chicago

 \_\_\_\_\_ Notary Public.

Commission expires:



**CITY OF CHICAGO ECONOMIC DISCLOSURE  
STATEMENT AND AFFIDAVIT  
APPENDIX A**

**FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS**

**This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.**

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship" exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the mayor, any alderman, the city clerk, the city

treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B.1.a., if the Disclosing Party is a corporation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party.

"Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

Page 13 of 13

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable: BBA

AVIATION LYNTON GROUP. LTD

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant  
OR
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation  
OR
3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 2<sup>nd</sup> Floor. 6 Avenue Pasteur

L-2310 Luxembourg

C. Telephone: 407-648-7200 Fax:407-648-7352 Email: susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): \_\_\_\_\_

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification # N/A Contract U N/A

Page I of 13

Ver. 01-fll-12

## SECTION II - DISCLOSURE OF OWNERSHIP INTEREST

### A. NATURE OF THE DISCLOSING PARTY I.

Indicate the nature of the Disclosing Party:

- |  |  |
|--|--|
| <input type="checkbox"/> Person  | <input type="checkbox"/> Limited liability company       |
| <input checked="" type="checkbox"/> Publicly registered business corporation | <input type="checkbox"/> Limited liability partnership   |
| <input checked="" type="checkbox"/> Privately held business corporation      | <input checked="" type="checkbox"/> Joint venture        |
| <input type="checkbox"/> Sole proprietorship                                 | <input type="checkbox"/> Not-for-profit corporation      |
| <input type="checkbox"/> General partnership                                 | (is the not-for-profit corporation also a 501(c)(3))?    |
| <input type="checkbox"/> Limited partnership                                 | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Trust   | <input type="checkbox"/> Other (please specify)          |

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

England

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes  No  N/A

### B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members."<sup>1</sup> For trusts, estates or other similar entities, list below the legal titleholders).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf .

Name Title See attached.

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership ) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of .13

**Officers and Directors of**  
**BBA Aviation Lynton Group, Ltd.**

Daniel Marcinik Iain	Directo
Fraser Macleod	r
Michal Friedrich	Directo
Lange	r
	Directo
	r

Address:  
BBA Aviation Lynton Group  
Ltd.  
2<sup>nd</sup> Floor  
6 Avenue Pasteur  
L-2310 Luxembourg

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or other similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
Signature Flight Support Corporation_____ .. _____		100% _____
201 South Orange Avenue, Suite 1100S _____		
Orlando. FL 32801 _____		

**SECTION III - BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIALS**

Has the Disclosing Party had a ■ "business relationship" as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

Yes  No

If yes, please identify below the names of such City elected official(s) and describe such relationship(s):

**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself. "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

Name (indicate whether whether Retained or anticipated NOTE:	Business Address	Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.)	Fees (indicate paid or estimated.)
To be retained)			"hourly rate" or "t.b.d." is not an acceptable response.

(Add sheets if necessary)

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

**SECTION V - CERTIFICATIONS**

A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrears on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1 -23, Article I ("Article I")(which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section II.B.1. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public ( federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local)terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

- the Disclosing Party;
- any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties<sup>1</sup>");
- any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity);
- with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it. or. with the Contractor, is under common control of another person or entity;
- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially-Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.



6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

Page 6 of 13

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient.

N/A \_\_\_\_\_

#### C CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages 1 necessary):

Page 7 of 13

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

**D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS**

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?  
 Yes  No

NOTE: If you checked "Yes" to Item D. 1. proceed to Items D.2. and D.3. If you checked "No" to Item D. 1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes  No

3. If you checked "Yes" to Item D.1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

**E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS**

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

Page 8 of 13

comply with these disclosure requirements may make any contract entered into with the City in connection with the Mailer voidable by the City.

X \_\_\_ 1. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_\_ 2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

## **SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER**

**NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII.** For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

### **A. CERTIFICATION REGARDING LOBBYING**

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A. 1. above for his or her lobbying activities or go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making an federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

**B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY**

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes  No

If you checked "No" to question 1. or 2. above, please provide an explanation:

**SECTION VII - ACKNOWLEDGMENTS, CONTRACT INCORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE**

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Eihics](http://www.cityofchicago.org/Eihics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

(- I. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue.

F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,

F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F. 1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

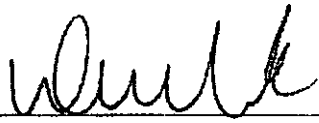
NOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

CERTIFICATION

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

BBA AVIATION LYNTON GROUP LTD.

(Print or type name of Disclosing Party)

By:   
(sign here)

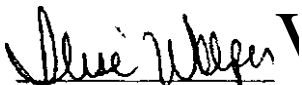
(Print or type name of the person signing)

(Print or type person signing)

**r**  
type title of the i

Signed and sworn to before me on (date)

at V?\*\*\*^ County, /rM5>|>VU^ M(V (state).

  
Commission expires:

Notary Public.



**ILISE WOLPERT g**  
NOTARY PUBLIC |  
Commonwealth of Massachusetts  
My Commission Expires Sept. 1,  
2017 |

CITY OF CHICAGO ECONOMIC DISCLOSURE STATEMENT  
AND AFFIDAVIT  
APPENDIX A

FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS

This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship" exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the mayor, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B. I .a., if the Disclosing Party is a corporation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers" means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

**A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable:**

**BBA AVIATION AS1G EUROPE. LTD**

**Check ONE of the following three boxes:**

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant  
OR
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation  
OR
3.  a legal entity with a right of control (see H.B. 1.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 2<sup>nd</sup> Floor. 6 Avenue Pasteur  
L-2310 Luxembourg

C. Telephone: 407-648-7200 Fax:407-648-7352 Email: susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): \_\_\_\_\_

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification # N/A Contract ti N/A

**SECTION U - DISCLOSURE OF OWNERSHIP INTEREST**

**A. NATURE OF THE DISCLOSING PARTY**

1. Indicate the nature of the Disclosing Party: Sole proprietorship  General partnership   
 Person Limited partnership  Trust  
 Publicly registered business corporation j Limited liability company  Limited liability  
 Privately held business corporation  partnership  Joint venture  Not-for-profit  
corporation (is the not-for-profit corporation also a  
501(c)(3))?  Yes  No  Other (please specify)

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

England



3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes

No

N/A

**B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:**

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write 'no members.' For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title See attached.

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership ) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of 13

**Officers and Directors of**  
**BBA Aviation ASIC Europe Ltd.**

Dan Marcinik	Director
Ian Fraser Macleod	r
Michael Friedrich	Director
Lange	r
	Director
	r

Address:  
BBA Aviation ASIG Europe  
Ltd.  
2<sup>nd</sup> Floor  
6 Avenue Pasteur  
L-2310 Luxembourg

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust estate or other similar entity. If none, state -'None.' Note: Pursuant to Section 2-154-030 of the Municipal Code of

Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
Aircraft Service International Group, Inc.	_____	100% _____
	201 South Orange Avenue, Suite 1295 _____	
	Orlando, FL. 32801 _____	

**SECTION III - BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIALS**

Has the Disclosing Party had a "business relationship." as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

[ J Yes [X]No

If yes, please identify below the names of such City elected official(s) and describe such relationship(s):

**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself. "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

Retained or anticipated To be retained) Address ^ lobb>,St, CtC) . "hourly rate 01 t.b.d. not an acceptable response.

(Add sheets if necessary)

[X] Check here if the Disclosing Party has not retained, nor expects to retain, any such persons entities.

## SECTION V - CERTIFICATIONS

### A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

### B. FURTHER CERTIFICATIONS

I. Pursuant to Municipal Code Chapter I -23, Article I ("Article I") (which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article 1 is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article 1 supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section I I.B.I, of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property ;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal, state or local) with committing any of the offenses set forth in clauses B.2.b of this Section V;

- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local) terminated for cause or default: and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

- the Disclosing Party:
- any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
- any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity):  
with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;
- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise: or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

Page (> of 13

presumed that the Disclosing Party certified to the above statements.

S To the best of the Disclosing Party's knowledge after reasonable inquiry the following is a complete list of all current employees of the Disclosing Party who were employed during the P-month period preceding the execution date of this CDS. an employee, or elected or appointed official, of the City of Chicago ( if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_ .. ..

9 To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the P-month period preceding the execution date of this EDS. to an employee, or elected or appointed official of the City of Chicago. For purposes of this statement, a "gift" does not include: (.) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient.

N/A \_\_\_\_\_

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is .  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."



comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X \_\_\_1.The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_\_ 2. The Disclosing Party verifies that, as a result of conducting the search in step I above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

## **SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER**

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

### **A. CERTIFICATION REGARDING LOBBYING**

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary ):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A.1. above for his or her lobbying activities or go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making an federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A. 1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A. 1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

**B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY**

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes                       No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes                       No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes                       No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes                       No

If you checked "No" to question 1. or 2. above, please provide an explanation:

**SECTION VII - ACKNOWLEDGMENTS, CONTRACT INCORPORATION,  
COMPLIANCE, PENALTIES, DISCLOSURE**

The Disclosing Party understands and agrees that:



A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cilvofchicago.org/Ethics](http://www.cilvofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article 1 of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

F. 1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue.

F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,

F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

**BBA AVIATION ASIC EUROPE LTD.**

(Print or type name of Disclosing Party)

By: [Signature]  
(sign here)

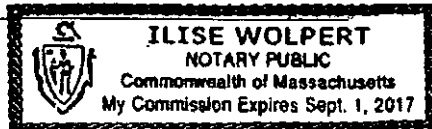
Daniel Marciniak  
(Print or type name of die person signing)

(Print or type title of the person signing)

Signed and sworn to before me on (date) 10/11/13  
at Essex County, Amesbury MA (state).

Notary Public.

Commission expires: \_\_\_\_\_



This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship" exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the mayor, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B.1.a., if the Disclosing Party is a corporation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers" means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

Page 13 of 13

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable:

AIRCRAFT SERVICE INTERNATIONAL GROUP, INC.

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant  
OR
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation and Aircraft Service International Inc.  
OR
3.  a legal entity with a right of control (see II.B.1.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 201 South Orange Avenue, Suite 1205  
Orlando, FL 32801

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email:

susan.scort@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one):

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification # N/A

Contract ti N/A

Page 1 of 13

Ver. 01-01-12

## SECTION n - DISCLOSURE OF OWNERSHD? INTEREST

### A. NATURE OF THE DISCLOSING PARTY

1. Indicate the nature of the Disclosing
 

<input type="checkbox"/> Person <input type="checkbox"/> Publicly registered business corporation <input checked="" type="checkbox"/> Privately held business corporation <input type="checkbox"/> Sole proprietorship <input type="checkbox"/> General partnership <input type="checkbox"/> Limited partnership <input type="checkbox"/> Trust	<input type="checkbox"/> Limited liability company <input type="checkbox"/> Limited liability partnership <input type="checkbox"/> Joint venture <input type="checkbox"/> Not-for-profit corporation (is the not-for-profit corporation also a 501(c)(3))? <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Other (please specify)
---	---

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable: Delaware

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes

No

N/A

**B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:**

1. List below the full names and titles of all executive officers and all directors of the entity.

NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title See attached.

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of 13

**Officers and Directors of**  
**AIRCRAFT SERVICE INTERNATIONAL GROUP, INC.**

Joseph I. Goldstein S.	Director, Secretary
Michael Scheeringa	Director
Sami Teittinen	Director, Treasurer
Constance L. Alden	Chief Human Resource Officer
Jeffrey T. Bankowitz	General Counsel, Vice President
Barbara A. Bresnan	Assistant Treasurer
Christa Click Tony	Assistant Treasurer
Lefebvre Daniel	Chief Operating Officer, President
Marcinik Patrick	Assistant Secretary
Moylan Richard D.	Sr. Director Security
Rector S. Michael	Assistant Treasurer
Scheeringa	Chief Executive Officer

Address:

Aircraft Service International GRoupr, Inc.  
201 South Orange Avenue Suite 1205  
Orlando, FL 32801





not an acceptable response.

(Add sheets if necessary)

[X] Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

## SECTION V - CERTIFICATIONS

### A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

### B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1-23, Article I ("Article I")(which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section II.B.1. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in



connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;

- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local)terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern: •

the Disclosing Party;

. any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");

. any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity);

with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;

. any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or

prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or

- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 LLCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

Page 6 of 13

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A

---

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none,

indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient.  
N/A \_\_\_\_\_

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages I necessary):

Page 7 of 13

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

Yes  No

NOTE: If you checked "Yes" to Item D.1, proceed to Items D.2. and D.3. If you checked "No" to Item D. 1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City

Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes

No

3. If you checked "Yes" to Item D.1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

**E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS**

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

Page 8 of 13

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X\_\_1 .The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

**SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER**

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

**A. CERTIFICATION REGARDING LOBBYING**

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A. 1. above for his or her lobbying activities or go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making an federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

#### B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes

No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes

No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes

No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes

No

If you checked "No" to question 1. or 2. above, please provide an explanation:

Page 10 of 13

## **SECTION VII - ACKNOWLEDGMENTS, CONTRACT INFORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE**

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:


- F. 1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,
- F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,
- F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F. I. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

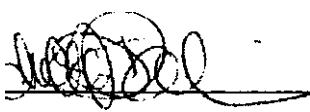
**AIRCRAFT SERVICE INTERNATIONAL GROUP.  
INC.** (Print or type name of Disclosing Party)

By   
(sign here)

Joseph I. Goldstein  
(Print or type name of the person signing)

Secretary  
(Print or type title of the person signing)

Signed and sworn to before me on Sept. 25, 2013  
at Njisy, NJ County, Florida (state).

  
Commission expires:

Notary Public.



**CITY OF CHICAGO ECONOMIC DISCLOSURE STATEMENT  
AND AFFIDAVIT  
APPENDIX A**



**This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.**

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party"<sup>5</sup> or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B.1.a., if the Disclosing Party is a cooperation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

**CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT**

**SECTION I - GENERAL INFORMATION**

A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable:

ASIG HOLDINGS CORP.

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant  
OR
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Aircraft Service International, Inc., subcontractor of Signature Flight Support Corporation.  
OR
3.  a legal entity with a right of control (see H.B. 1.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 201 South Orange Avenue, Suite 1205  
Orlando, FL 32801

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email:  
susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one):

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification # N/A Contract # N/A

## SECTION II - DISCLOSURE OF OWNERSHD? INTEREST

### A. NATURE OF THE DISCLOSING PARTY

1. Indicate the nature of the Disclosing  
 Person  Limited liability company  
 Publicly registered business  Limited liability partnership  
corporation  Joint venture  
 Privately held business  Not-for-profit corporation  
corporation (is the not-for-profit corporation also a  
50I(cX3))?  
 Sole proprietorship  Yes  No  
 General partnership  Other (please specify)  
 Limited partnership  
 Trust

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

Delaware

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes

No

N/A

**B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:**

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title See attached.

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of 13

**Officers and Directors of  
ASIG HOLDINGS CORP.**

Joseph I. Goldstein S.	Director, Secretary
Michael Scheeringa	Director
Sami Teittinen	Director, Treasurer
Constance L. Alden	Chief Human Resource Officer
Jeffrey T. Bankowitz	General Counsel, Vice President
Barbara A. Bresnan	Assistant Treasurer
Christa Click Tony	Assistant Treasurer
Lefebvre Daniel	Chief Operating Officer,
Marcinik Patrick	President
Moylan Richard D.	Assistant Secretary
Rector S. Michael	Sr. Director Security
Scheeringa	Assistant Treasurer
	Chief Executive Officer

Address:

ASIG HOLDINGS  
CORP. 201 South Orange  
Avenue Suite 1205  
Orlando, FL 32801



To be retained)

lobbyist, etc.)

"hourly rate" or "t.b.d." is  
not an acceptable response.

(Add sheets if necessary)

[X] Check here if die Disclosing Party has not retained, nor expects to retain, any such persons or entities.

## SECTION V - CERTIFICATIONS

### A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes

No

No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes

No

### B. FURTHER CERTIFICATIONS

I. Pursuant to Municipal Code Chapter 1-23, Article I ("Article F")(which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency, and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if die Disclosing Party is a legal entity, all of those persons or entities identified in Section II.B.1. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;

- b. have not, within a five-year period preceding the date of this EDS, been convicted or a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local)terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

◆the Disclosing Party;

- any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");

- ◆any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity);

with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;

- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;

- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the



course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient.  
N/A \_\_\_\_\_

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages if necessary):

Page 7 of 13

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

Yes  No

NOTE: If you checked "Yes" to Item D. 1., proceed to Items D.2. and D.3. If you checked "No" to Item D. 1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City

Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes

No

3. If you checked "Yes" to Item D. 1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

**E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS**

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

Page 8 of 13

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

1. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

**SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER**

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

**A. CERTIFICATION REGARDING LOBBYING**

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A. 1. above for his or her lobbying activities or go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making an federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

**B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY**

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes

No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes

No

If you checked "No" to question 1. or 2. above, please provide an explanation:

Page 10 of 13

## **SECTION VII - ACKNOWLEDGMENTS, CONTRACT INCORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE**

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:


- F.1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,
- F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,
- F.3 If the Disclosing Patty is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F. 1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

ASIG HOLDINGS CORP.  
(Print or type name of Disclosing Party)

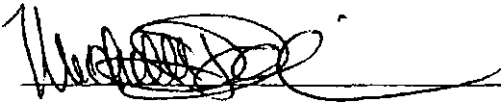
By:   
(sign here)

Joseph I. Goldstein \_\_\_\_\_  
(Print or type name of the person signing)

Secretary \_\_\_\_\_  
(Print or type title of the person signing)

Signed and sworn to me on (date) Sept 25, 2013  
before

at Ormeau County, V / n\w\L- (state).



Notary  
Public.

Commission expires:



**APPENDIX A**

**FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS**

**This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.**

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship" exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the mayor, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B.1.a., if the Disclosing Party is a corporation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers" means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

**A. Legal Name of the Disclosing Party submitting this UDS. Include d/b/a if applicable:**

**BBA US INVESTMENTS SARI**

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  die Applicant  
**OR**
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest Signature Flight Support Corporation  
**OR**
3.  J a legal entity with a right of control (see H.B.I.) Slate the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 2<sup>nd</sup> Floor, 6 Avenue Pasteur  
L 2310 Luxembourg

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email: susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): \_\_\_\_\_

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Fliebt Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by die City's Department of Procurement Services, please complete the following:

Specification\* N/A

Contract\*N/A

Page I of 13

Ver. 01-01-12

SECTION n - DISCLOSURE OE OWNERSHIP INTEREST

A. NATURE OF THE DISCLOSING PARTY 1.

Indicate the nature of the Disclosing Party:

- |   |  |
|---|--|
| <input type="checkbox"/> Person   | <input type="checkbox"/> Limited liability company       |
| <input type="checkbox"/> Publicly registered business corporation       | <input type="checkbox"/> Limited liability partnership   |
| <input checked="" type="checkbox"/> Privately held business corporation | <input type="checkbox"/> Joint venture                   |
| <input type="checkbox"/> Sole proprietorship                            | <input type="checkbox"/> Not-for-profit corporation      |
| <input type="checkbox"/> General partnership                            | (is the not-for-profit corporation also a 501(c)(3) )?   |
| <input type="checkbox"/> Limited partnership                            | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Trust  | <input type="checkbox"/> Other (please specify)          |

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

Luxembourg



3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes

No

N/A

B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title See attached.

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of 13

**Officers and Directors of**  
**BBA US INVESTMENTS SARL**

Matthew Clement Hugh Gill Director Mark John  
Dawkins Director Mark Hoad Director

Address:  
2<sup>nd</sup> Floor  
6 Avenue Pasteur  
K.-2310  
Luxembourg





(Add sheets if necessary)

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

## SECTION V - CERTIFICATIONS

### A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92<sup>115</sup>, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

### B. FURTHER CERTIFICATIONS

). Pursuant to Municipal Code Chapter 1-23, Article J ("Article P" which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency, and (ii) the Applicant understands and acknowledges that compliance with Article 1 is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section TLB. I. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local) with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local) terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning

environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

- the Disclosing Party;
- any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
- . any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with (he Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation, interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity); with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;
- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Comxactor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS S/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of die U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient.

N/A \_\_\_\_\_ ; \_\_\_\_\_

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages if necessary):

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

**D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS**

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

Yes  No

NOTE: If you checked "Yes" to Item D.1, proceed to Items D.2. and D.3. If you checked "No" to Item D.1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes  No

3. If you checked "Yes" to Item D. 1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

**E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS**

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this FDS all information required by paragraph 2. Failure to

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X\_\_ 1. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_ 2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

## SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

### A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed (that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A.1. above for his or her lobbying activities or to pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making a federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.



B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes  No

If you checked "No" to question 1. or 2. above, please provide an explanation:

Page 10 of 13

SECTION VII - ACKNOWLEDGMENTS, CONTRACT INCORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article 1 of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

F. 1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,  
 F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,  
 F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without die prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason lo believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F. "t., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

CERTIFICATION

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to ihe City.

BBA US INVESTMENTS SARI. (Print or type name of Disclosing Party)

By: Matthew Gill  
 (sign here)

MATTHEW C H GILL  
 (Print or type name of the person signing)

GROUP FINANCIAL CONTROLLER  
 (Print or type title of the person signing)

Signed and sworn to before me on (date)30 .SEPTfc^E>£^ ,^&V ^

at County, O/OITep lAiAJafccxn (statc)

Commission expires: -SE PTEiAfeE-ft.   
 Public. [ i   
 SocitiTofi OP'THE. '•££fJlo(2-   
 COUftT-S or

SLAUGHTER AND  
 MAY ONE BU^ a.  
 ROW LONDON  
 cC1Y8YY

CITY OK CHICAGO ECONOMIC DISCIX>SURE STATEMENT  
 AND AFFIDAVIT APPENDIX A

FAMULIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS

This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.S percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B.1.a., if the Disclosing Party is a cooperation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

if yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

A. Legal Name of the Disclosing Party submitting (his EDS. Include d/b/a if applicable: BBA

AVIATION SARL

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant

OR

2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation

OR

3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 2<sup>nd</sup> Floor, 6 Avenue Pasteur  
L2310 Luxembourg

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email: susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): \_\_\_\_\_

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification H N/A Contract ff N/A

Page 1 of 13

Ver. 01-01-12

## SECTION II - DISCLOSURE OF OWNERSHIP INTEREST

### A. NATURE OF THE DISCLOSING PARTY

I. Indicate the nature of the Disclosing Party.

- |   |  |
|---|--|
| <input type="checkbox"/> Person   | <input type="checkbox"/> Limited liability company       |
| <input type="checkbox"/> Publicly registered business corporation       | <input type="checkbox"/> Limited liability partnership   |
| <input checked="" type="checkbox"/> Privately held business corporation | <input type="checkbox"/> Joint venture                   |
| <input type="checkbox"/> Sole proprietorship                            | <input type="checkbox"/> Not-for-profit corporation      |
| <input type="checkbox"/> General partnership                            | (is the not-for-profit corporation also a 501(c)(3))?    |
| <input type="checkbox"/> Limited partnership                            | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Trust  | <input type="checkbox"/> Other (please specify)          |

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

Luxembourg

3. For legal entities not organized in the State of Illinois: Has (he organization registered to do business in the State of Illinois as a foreign entity?

Yes  No  N/A

### B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.  
NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title See attached.

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership ) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page! of 13

Officers and Directors of  
BBA AVIATION SARL

Dan Marcinik Director Michael Fredrich  
Lange Director Toney Whiteman Director

Address:  
2<sup>nd</sup> Floor  
6 Avenue Pasteur  
L-2310  
Luxembourg

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or other similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
BBA Luxembourg Investments SARL	_____	100% _____
2 <sup>o</sup> Floor	_____	_____
Avenue Pasteur. L2310	_____	_____
Luxembourg	_____	_____

### SECTION III - BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIALS

Has the Disclosing Party had a "business relationship," as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

Yes

No

If yes, please identify below the names of such City elected official(s) and describe such relationship(s):

### SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the MaUer, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself. "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

Name (indicate whether whether Retained or anticipated NOTE: To be retained)	Business Address	Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.)	Fees (indicate paid or estimated.) "hourly rate" or "t.b.d," is not an acceptable response.
--	------------------	--	---

(Add sheets if necessary)

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

SECTION V - CERTIFICATIONS

A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1-23, Article I ("Article I" which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.



2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section H.B.I. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local) with committing any of the offenses set forth in clauses B.2,b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local) terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

- ◆ the Disclosing Party;
- any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
- ◆ any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity); with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity,
- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-5S (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below.

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City

of Chicago (if none, indicate with "N/A" or "none").  
N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient. N/A

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages if necessary):

Page 7 of 13

If the letters "MA", or the word "None." or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

Yes  No

NOTE: If you checked "Yes" to Item D. 1, proceed to Items D.2. and D.3. If you checked "No" to Item D. 1, proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of die City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes

No

3. If you checked "Yes" to Item D. 1provide the names and business addresses of the City officials or employees having such interest and identify die nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

#### E CERTIFICATION REGARDING SLAVERY ERA BUSINESS

Please check either I. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

Page 8 of 13

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X \_\_ 1. The Disclosing Party verifies that the Disclosing Parly has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage, for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_ 2. Die Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

#### SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

A. CERTIFICATION REGARDING LOBBYING

I. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A. 1. above for his or her lobbying activities or to pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making a federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A. 1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

F3. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes

No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes

No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes

No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes

No

If you checked "No" to question 1. or 2. above, please provide an explanation:

Page 10 ofT3

**SECTION VTJL - ACKNOWLEDGMENTS, CONTRACT INFORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE**

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of die Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics), and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312)744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of die information provided on this EDS and any attachments to diis EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

F. 1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,

F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,

F.3 If the Disclosing Party is the Applicant, the Disclosing Parry will obtain from any conuactors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

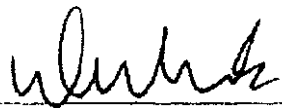
MOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

**BBA AVIATION SARL**

(Print or type name of Disclosing Party)

By:   
(sip here)

(Print or type name of the person signing)

(Print or type title of the person signing)

Signed and sworn to before me on (dale)

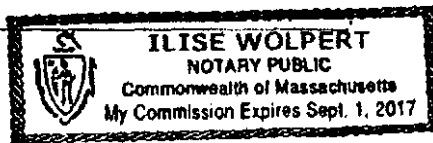
**IQV**

at Essex County,

(state).

Notary Public.

Commission expires:





This Appendix is to be completed only by a) (he Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B.1.a., if the Disclosing Party is a corporation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

J Yes

X No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

Page 13 of 13

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable: BBA

LUXEMBOURG INVESTMENTS SARL

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant

OR

2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation

OR

3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 2<sup>nd</sup>\* Floor, 6 Avenue Pasteur  
L 2310 Luxembourg

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email: susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): \_\_\_\_\_

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification # fcj/A

Contract # N/A

Page 1 of 13

Ver. 01-01-12

## SECTION II - DISCLOSURE OF OWNERSHIP INTEREST

### A. NATURE OF THE DISCLOSING PARTY

1. Indicate the nature of the

Disclosing

Person

Publicly registered business corporation

Privately held business corporation

Sole proprietorship

General partnership

Limited partnership

Trust

Limited liability company

Limited liability partnership

Joint venture

Not-for-profit corporation

(is the not-for-profit corporation also a 501(c)(3))?

Yes  No

Other (please specify)

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

Luxembourg

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes

No

N/A

FJ. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title See attached.

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership ) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of 13

**Officers and Directors of**  
**BBA LUXEMBOURG INVESTMENTS SARL**

Dan Marcinik Director Iain Mcleod Director  
Tony Whiteman Director

Address:  
2<sup>nd</sup> Floor  
6 Avenue Pasteur  
L-2310  
Luxembourg

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or other similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
BBA International Investments SARL	..... ..	100% ..
IPS Balderton Street	..... ..	.....
London W1TJ 1QY	.....	.....
England	.....	.....

**SECTION III-BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIALS**

Has the Disclosing Party had a "business relationship," as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

Yes  No

If yes, please identify below the names of such City elected official(s) and describe such relationship(s):

**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself.

"Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

Name (indicate whether Retained or anticipated To be retained)	Business Address	Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.)	Fees (indicate whether paid or estimated.) NOTE: "hourly rate" or "t.b.d." is not an acceptable response.
--	------------------	--	---

(Add sheets if necessary)

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

SECTION V - CERTIFICATIONS

A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-A 15, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1-23, Article I ("Article 1")(which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, bribery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the

Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section II.B.1. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with, obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery ; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding die date of this EDS, had one or more public transactions (Federal, state or local)terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by ihe City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern: - the

Disclosing Party;

- ◆ any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
- any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as die ineligible entity); with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly conUols the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity ;
- . any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with odier bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of stale or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS S/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither dte Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part 13 (Further Certifications), the Disclosing Party must explain below:

IF the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of diis EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient.  
N/A \_\_\_\_\_

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  [X] is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages J necessary).

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

D. CERTIFICATION REGARDING INTEREST rN CITY BUSINESS

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code; Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?  
 Yes  [X] No

NOTE: If you checked "Yes" to Item D. I, proceed to Items D.2. and D.3. If you checked "No" to Item D.1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii)



is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes

No

3. If you checked "Yes" to Item D.I., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

Page 8 of 13

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X\_\_ 1. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_ 2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VIJ. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters ""NA" or if the word "None" appear, it will be conclusively presumed diat the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A.1. above for his or her lobbying activities or go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making an federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs and event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501 (cX4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

#### B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes

No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes

No

2. Have you filed with the Joint Reporting Committee, the Director of die Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission ail reports due under the applicable filing requirements.

Yes                       No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes                       No

If you checked "No" to question I. or 2. above, please provide an explanation:

Page 10 of 13

**SECTION VII - ACKNOWLEDGMENTS, CONTRACT INFORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE**

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow die Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against die City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article. I of die Chapter 1 -23 of the

Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of die Municipal Code.

The Disclosing Party represents and warrants that:

F. 1. The Disclosing Party is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,

F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,

F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party-has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to diis EDS.

CERTIFICATION

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of die Disclosing Party, and (2) warrants dial all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

BBA LUXEMBOURG INVESTMENTS SARL  
(Print or type name of Disclosing Party)

By: [Signature]  
(sign here)

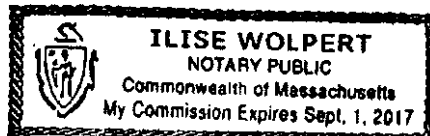
Daniel Marcinik  
(Print or type name of the person signing)

(Print or type title of me person signing)

Signedjmd sworn to before me on (date) 10/2  
Essex County, Amesbury MA (state).

at  
[Signature] Notary Public.

Commission expires:



This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of die date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, die city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B.1.a., if the Disclosing Party is a cooperation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Patty, if the Disclosing Party is a limited partnership; all managers, managing members and members of die Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority .

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

] Yes

] No

If yes, please identify below (1) die name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable: BBA

INTERNATIONAL INVESTMENTS SARL

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  I J the Applicant  
OR
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation  
OR
3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 2<sup>nd</sup> Floor, 6 Avenue Pasteur  
L 2310 Luxembourg

C. Telephone: 407-648-7200      Pax: 407-648-7352      Email: susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): \_\_\_\_\_

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this RDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification # N.'A

Contract # N/A

Page I of 13

Vet. 01-01-12

## SECTION II - DISCLOSURE OF OWNERSHIP INTEREST

### A. NA JURE OF THE DISCLOSING PARTY

1. Indicate the nature of the Disclosing Party:  Trust  
  Limited liability company  
Person  Limited liability partnership  
 Publicly registered business corporation  Joint venture  
 Privately held business corporation  Not-for-profit coiporation  
 Sole proprietorship (is the not-for-profit corporation also a 501(cX3))?  
 General partnership  Yes  No  
 L imited partnership  Other (please specify)

2. Foi legal entities, the state (or foreign country) of incorporation or organization, it applicable:

lAixembourg

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

j Yes

X No

J N/A

### B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titlcholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf. Name Title

See attached

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership ) in excess of 7,5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture.

Page 2 of 13

**Officers and Directors of**  
**BBA INTERNATIONAL INVESTMENTS SARL**

Matthew Clement Hugh Gill Director Mark  
Hoad Director Mark John Dawkins Director

Address:  
2<sup>nd</sup> Floor  
6 Avenue Pasteur  
L-2310  
Luxembourg





interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or other similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name Business Address Percentage Interest in the Disclosing Party  
BBA Overseas Holdings Limited ..... 100%  
105 Wigmore Street  
London. WiU IOY  
England

**SECTION III - BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIALS**

Has the Disclosing Party had a "business relationship," as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

Yes  No

If yes, please identify below the names of such City elected official(s) and describe such relationship(s):

**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself. "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

Name (indicate whether Retained or anticipated To be retained) Business Address Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.) Fees (indicate whether paid or estimated.) NOTE: "hourly rate" or "t.b.d." is not an acceptable response.

(Add sheets if necessary)

Check here if the Disclosing Party has not entities.

## SECTION V - CERTIFICATIONS

### A. COURT-ORDERED CIHLD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement ?

Yes                       No

### B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1-23, Article I ("Article I" which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article 1 applies to the Applicant, the permanent compliance timeframe in Article 1 supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section H.B.I. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local) with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local) terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning

environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3 The certifications in subparts 3, 4 and 5 concern:

- the Disclosing Party;
- any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
- any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity);  
with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;
- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity,
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

Page 6 of 13

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete List of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list die name of the City recipient. N/A

#### C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

[ 1 is                      [X] is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of die Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) ofthe Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages I necessary):

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?  
 Yes  No

NOTE: If you checked "Yes" to Item D.1, proceed to Items D.2. and D.3. If you checked "No" to Item D. 1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes  No

3. If you checked "Yes" to Item D.1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

E. CERTIFICATION REGARDING SLAVERY ERA. BUSINESS

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X\_\_ I. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the

Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_\_ 2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

## SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

### A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A. I. above for his or her lobbying activities or go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making an federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of IJ

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either, (i) it is not an organization described in section 501 (cX4) of the Internal Revenue Code of 1986; or(ii) it is an organization described in section 501(cX4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A. I. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

### B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below;

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes  No

If you checked "No" to question 1. or 2. above, please provide an explanation:

#### SECTION VII - ACKNOWLEDGMENTS, CONTRACT INCORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this CDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St, Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.



D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1-23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

- F.1. The Disclosing Party is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,
- F.2. If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,
- F.3. If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F. 1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F. 1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

BBA INTERNATIONAL INVESTMENTS SARL  
(Print or type name of Disclosing Party)

By: Matthew H Lewis  
(sign here)

**HA-imeyo Cu Ctuu**  
(Print or type name of the person signing)

**Group Financial Controller**  
(Print or type title of the person signing)

Signed and sworn to before me on (dale) 3Q SePTpMfefest. V<sup>1</sup> >  
at County.o M 1 THt^ U\ ^lrt>Q\* (state).

~~Notary Public.~~

Commission expires : C3.Q  
■S.EPTEt\>Efc€fr'26l./1

**SLAUGHTER AND  
MAY ONE BUNHILL  
ROW LONDON  
EC1Y8YY**

**CITY OF CHICAGO ECONOMIC DISCLOSURE STATEMENT  
AND AFFIDAVIT APPENDIX A**

**FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS**

This Appendix is to Ik: completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the mayor, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section K.B.I .a., if the Disclosing Party is a corporation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes  No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

Page 13 of 13

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable. BBA

OVERSEAS HOLDINGS LIMITED

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant  
OR
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation  
OR
3.  a legal entity with a right of control (see I LB. I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: 105 Wigmore Street

London. WIU 1QY. England

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email: susan.scott@us.bbaaviation.coin

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): \_\_\_\_\_

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City: of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Sei-viccs, please complete the following:

Specification # N/A Contract H N/A

Page 1 of 13

Vrr. 01-01-12

CITY OF CHICAGO ECONOMIC DISCLOSURE STATEMENT  
AND AFFIDAVIT APPENDIX A

FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS

This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of the date of this EDS is signed, die Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law. mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Paity" means (1) all executive officers of the Disclosing Party listed in Section II.H.I.a., if die Disclosing Party is a cooperation; ail partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

SECTION 11 - DISCLOSURE OF OWNERSHIP INTEREST

A. NATURE OF THE DISCLOSING PARTY

1. Indicate the nature of the Disclosing Party
- |   |  |
|---|--|
| <input type="checkbox"/> Person   | <input type="checkbox"/> Limited liability company       |
| <input type="checkbox"/> Publicly registered business corporation       | <input type="checkbox"/> Limited liability partnership   |
| <input checked="" type="checkbox"/> Privately held business corporation | <input type="checkbox"/> Joint venture                   |
| <input type="checkbox"/> Sole proprietorship                            | <input type="checkbox"/> Not-for-profit corporation      |
| <input type="checkbox"/> General partnership                            | (is the not-for-profit corporation also a 501(c)(3))     |
| <input type="checkbox"/> Limited partnership                            | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Trust  | <input type="checkbox"/> Other (please specify)          |

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

England

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

- Yes  No  N/A

B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name	Title
See attached. _____	

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture.

**Officers and Directors of**  
**BBA OVERSEAS HOLDINGS LTD**

David John Mark Blizzard	Director
Matthew Clement Hugh Gill	Director
Mark Hoad	Director
Simon Charles Conrad Pryce	Director
Iain David Cameron Simm	Director

Address:  
105 Wigmore Street  
London W1U 1QY  
England

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or other similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
BBA Holdings Limited _____	_____	.... 100% _____
105 Wigmore Street _ . _____	_____	_____
London W1U 1QY _____	_____	_____
England _____	_____	_____

**SECTION III - BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIALS**

Has the Disclosing Party had a "business relationship," as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

Yes  No

If yes, please identify below the names of such City elected official(s) and describe such relationship^):

**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

Name (indicate whether Retained or anticipated To be retained)	Business Address	Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.)	Fcc3 (indicate whether paid or estimated ) NOTE: "hourly rate" or "t.b.d." is not an acceptable response.
--	------------------	--	---

(Add sheets if necessary)

[X] Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

## SECTION V - CERTIFICATIONS

### A. COURI -ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with die City must remain in compliance with their child support obligations throughout the contract's lenn.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

### B. FURTHER CERTIFICATIONS

I. Pursuant to Municipal Code Chapter 1-23, Article I ("Article I")(which the Applicant should consult for defined terms (e.g.. "doing business") and legal requirements), if the Disclosing Party submitting this EDS is die Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision tor, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article 1 supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section H.Q.I, of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local)terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning



environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern: . the

Disclosing Party;

- any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
- any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity); with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;
- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during Uic live years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-61<sup>0</sup> (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (i) bid-rigging in violation of 720 ILCS 5/33 E-3; (2) bid rotating in violation of 720-ILCS 5'33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of die U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

Page 6 of 13

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none"). N/A

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient.  
N/A ... \_\_\_\_\_

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

L J is                      fX ] is not

a "financial institution" as defined in Section 2-32-4 5 5(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages if necessary):

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

**D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS**

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

Yes  No

NOTE: If you checked "Yes" to Item D. 1, proceed to Items D.2. and D.3. If you checked "No" to Item D. 1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in die name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

f | Yes  No

3. If you checked "Yes" to Item D.1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in (he Matter will be acquired by any City official or employee.

**E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS**

Please check either 1. or 2. below. If die Disclosing Party checks 2., Ihe Disclosing Party must disclose below or in an attachment to this E.DS all information required by paragraph 2. Failure to

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City

XI. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_\_ 2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

#### SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

##### A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A.1. above for his or her lobbying activities or to pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making a federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A.1. and A.2. above.

4. The Disclosing Party certifies that either, (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes  No

If you checked "No" to question 1. or 2. above, please provide an explanation:

Page 10 of T3

SECTION VH - ACKNOWLEDGMENTS, CONTRACT INCORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 K

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on (lie Internet, in response lo a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1 -23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided Iwre regarding eligibility must be kept current for a longer period as required by Chapter 1 -23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

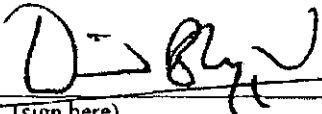
- F. 1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,
- F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities wvll not use,
- F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party-has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F. I.. F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute diis EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

BBA OVERSEAS HOLDINGS LIMITED  
(Print or type name of Disclosing Party)

By:   
(sign here)

DAVID BUZZANO  
(Print or type name of the person signing)

(Print or type title of the person signing)

Signed and sworn to before me on (date) 3D -S&FvfeINBER- %Q\  
at (Lo.vDocv County,OAMTCD iMAJfrCO(state)

~~Notary Public~~

Commission expires: ~>i?\_

**SLAUGHTER AND  
MAY ONE BUNHILL  
ROW LONDON  
EC1Y8YY**

CITY OF CHICAGO ECONOMIC DISCLOSURE STATEMENT  
AND AFFIDAVIT APPENDIX A

FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS

This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7 J5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-01S, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section 11.B.La., if the Disclosing Party is a cooperation, all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes  No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

A. Legal Name of" the Disclosing Party submitting this EDS. Include d/b/a if applicable:

BBA HOLDINGS LIMITED

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant  
OR
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of the Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation  
OR
3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*



B. Business address of the Disclosing Party: 105 Wigmore Street  
London, W1U 10 Y.England

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email: susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): \_\_\_\_\_

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification # N/A Contract A N/A

Page 1 of 13

Ver. 01-01-12

## SECTION II - DISCLOSURE OF OWNERSHIP INTEREST A.

### NATURE OF THE DISCLOSING PARTY

I. Indicate the nature of the Disclosing Party:

- |   |   |
|---|---|
| <input type="checkbox"/> Person   | <input type="checkbox"/> Limited liability company                  |
| <input type="checkbox"/> Publicly registered business corporation       | <input type="checkbox"/> Limited liability partnership              |
| <input checked="" type="checkbox"/> Privately held business corporation | <input type="checkbox"/> Joint venture                              |
| <input type="checkbox"/> Sole proprietorship                            | <input type="checkbox"/> Not-for-profit corporation                 |
| <input type="checkbox"/> General partnership                            | (is the not-for-profit corporation also a 501(cX3))?                |
| <input type="checkbox"/> Limited partnership                            | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Trust  | <input type="checkbox"/> Other (please specify)                     |

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

England

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes  No I J N/A

B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf Name

Title

See attached. \_\_\_\_\_

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership ) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of 13

**Officers and Directors**  
**of BBA HOLDINGS**  
**LTD**

David John Mark Blizzard	Director
Matthew Clement Hugh Gill	Director
Mark Hoad	Director
Simon Charles Conrad Pryce	Director
Iain David Cameron Simm	Director

Address:  
105 Wigmore Street  
London W1U 1QY  
England

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or other similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
Balderton Aviation Holdings Limited _____	_____	100% _____
105 Wigmore Street _____	_____	_____
.London, WIUJ OY _____	_____	_____
England _____	_____	_____

**SECTION III - BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIAL**

Has the Disclosing Party had a "business relationship," as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

Yes  No

If yes, please identify below the names of such City elected official(s) and describe such relationship(s):

**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of die fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself. "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

Name (indicate whether Business Retained or anticipated Address To be retained)	Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.)	Fees (indicate whether paid or estimated.) NOTE: "hourly rate" or "tb.d." is not an acceptable response.
---	--	--

(Add sheets if necessary)

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

## SECTION V - CERTIFICATIONS

### A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

### B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1-23, Article I ("Article I")(which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this F.DS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section II.B.1. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local)terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning

environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

- the Disclosing Party;
  - any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
  - any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity);
- with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;
- . any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter-

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially-Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

Page 6 of 13

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (ii) food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient.

N/A \_\_\_\_\_

#### C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages if necessary):

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?  
[ ] Yes [X] No

NOTE: If you checked "Yes" to Item D.1, proceed to Items D.2. and D.3. If you checked "No" to Item D.1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

[ ] Yes [X] No

1. If you checked "Yes" to Item D.1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X    I. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the

Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_\_\_ 2. The Disclosing Party verifies that, as a result of conducting the search in step I above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

## SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

### A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A. 1. above for his or her lobbying activities or to go pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making a federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A. 1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

### B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY



If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes  No

If you checked "No" to question 1. or 2. above, please provide an explanation:

Page 10 of 13

#### SECTION VII - ACKNOWLEDGMENTS, CONTRACT INCORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1 -23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

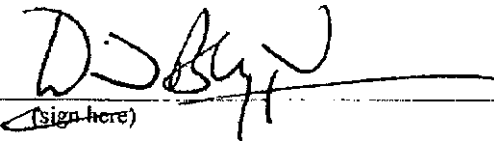
- F. 1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,
- F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,
- F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F. 1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

BBA HOLDINGS LIMITED  
(Print or type name of Disclosing Party )

By:   
(Sign here)

(Print or type name of the person signing)

(Print or type title of the person signing)

Signed and sworn to before me on (date) 30 SEPTEMBER 2014  
at County, Utah County, Utah (state).

Notary Public, Illinois

-fSfvjO UML£s

Commission expires: 30 SEPTEMBER 2014

**SLAUGHTER AND  
MAY ONE BUNHILL  
ROW LONDON  
EC1Y8YY**

**CITY OF CHICAGO ECONOMIC DISCLOSURE STATEMENT  
AND AFFIDAVIT APPENDIX A**

**FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS**

This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section H.B. 1 .a., if the Disclosing Party is a cooperation, all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company, (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes  No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

Page 13 of 13

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable:

BALDERTON AVIATION HOLDINGS LIMITED

Check ONE of the following three boxes:

Indicate whether the Disclosing Party Submitting this EDS is:

1.  the Applicant  
OR
2.  a legal entity holding a direct or indirect interest in the Applicant. State the legal name of die Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation  
OR
3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the Disclosing Party holds a right of control: \*

B. Business address of the Disclosing Party: I OS Wigmore Street

London. W1U 10Y. England

C. Telephone: 407-648-7200 Fax: 407-648-7352 Email: susan.scott@us.bbaaviation.com

D. Name of contact person: Susan Coates Scott

E. Federal Employer Identification No. (if you have one): \_\_\_\_\_

F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to which this EDS pertains. (Include project number and location of property, if applicable:

Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of Chicago at Midway Airport

G. Which City agency or department is requesting this EDS? Department of Aviation

If the matter is a contract being handled by the City's Department of Procurement Services, please complete the following:

Specification It N/A

Contract # N/A

Page 1 of 13

Ver. 01-01-12

## SECTION II - DISCLOSURE OF OWNERSHIP INTEREST

### A. NATURE OF TEIE DISCLOSING PARTY 1.

Indicate the nature of the Disclosing Party:

- |   |  |
|---|--|
| <input type="checkbox"/> Person   | <input type="checkbox"/> Limited liability company       |
| <input type="checkbox"/> Publicly registered business corporation       | <input type="checkbox"/> Limited liability partnership   |
| <input checked="" type="checkbox"/> Privately held business corporation | <input type="checkbox"/> Joint venture                   |
| <input type="checkbox"/> Sole proprietorship                            | <input type="checkbox"/> Not-for-profit corporation      |
| <input type="checkbox"/> General partnership                            | (is the not-for-profit corporation also a 501(c)(3))?    |
| <input checked="" type="checkbox"/> Limited partnership                 | <input type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Trust  | <input type="checkbox"/> Other (please specify)          |

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

England

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes

No

I J N/A

### B. IF THE DISCLOSING PARTY IS A LEGAL ENTITTY:

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal litleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name Title See attached.

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership ) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

Page 2 of 13

**Officers and Directors of**  
**BALDERTON AVIATION HOLDINGS LTD**

David John Mark Blizzard	Director
Matthew Clement Hugh Gill	Director
Mark Hoad	Director
Simon Charles Conrad Pryce	Director
Iain David Cameron Simm	Director

Address:  
105 Wigmore  
Street London  
W1U 1QY

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or orriier similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
BBA Aviation pic	_____	100% _____
105 Wigmore Street	_____	_____
London WIU IOY	_____	_____
_____	_____	_____
Enpland	_____	_____

**SECTION III - BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIALS**

Mas the Disclosing Party had a "business relationship," as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date tills EDS is signed?

J Yes                       X J No

If yes, please identify below the names of such City elected offctial(s) and describe such relationship(s):

**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PAR TIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely dirough the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself. "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the Cily whether disclosure is required or make the disclosure.

Name (indicate whether Retained or anticipated To be retained)	Business Address	Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.)	Fees (indicate whether paid or estimated.) NOTE: "hourly rate" or "t.b.d." is not an acceptable response.
--	------------------	--	---

(Add sheets if necessary )

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

## SECTION V - CERTIFICATIONS

### A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrearage on any child support obligation\* by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

### B. FURTHER CERTIFICATIONS

1. Pursuant to Municipal Code Chapter 1-23, Article 1 ("Article I" which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party-certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

Page 4 of 13

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section fl.B.I. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local) with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local) terminated for cause or default; and



- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

- the Disclosing Party;
- any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
- any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity); with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;
- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents").

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720 ILCS 5/33E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of die Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below:

Page 6 of 13

If the letters "NA," the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").

*m* \_\_\_\_\_ ... \_\_\_\_\_

9. To die best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient. N/A

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. Flie Disclosing Party certifies that die Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-4S5(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of die Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages I necessary):

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

J Yes  XI No

NOTE: If you checked "Yes" to Item D. 1. proceed to Items D.2. and D.3. If you checked "No" to Item D. 1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property-Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

] Yes  X ] No

3. If you checked "Yes" to Item D. 1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City.

X\_\_ 1. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records.

\_\_ 2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

## SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

### A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter: (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A.1. above for his or her lobbying activities or to pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making any federally funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

Page 9 of 13

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A. 1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A.1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.

B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes  No

If you checked "No" to question 1. or 2. above, please provide an explanation:

Page 10 of 3

SECTION VII - ACKNOWLEDGMENTS, CONTRACT INCORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE

The Disclosing Party understands and agrees that:

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1 -23 of the Municipal Code (imposing PERMANENT INELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:

Page 11 of 13

F. 1. The Disclosing Party is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,

F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,

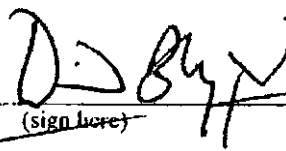
F.3 If the Disclosing Party is the Applicant, the Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.

NOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

#### CERTIFICATION

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

BALDERTON AVIATION HOLDINGS LIMITED  
(Print or type name of Disclosing Party)

By:   
(sign here)

(Print or type name of the person signing)

ttKjfcCfl\* - \_\_\_\_\_  
(Print or type title of the person signing)

Signed and sworn to before me on (date) \_\_\_\_\_ I.O V

at L-QIOOok) \_\_\_\_\_ County, U S M T T i D U \ 10 (xtti\* (state).

CITY OF CHICAGO ECONOMIC DISCLOSURE STATEMENT  
AND AFFIDAVIT APPENDIX A

FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS

This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent. It is not to be completed by any legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2 154-015, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the major, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B.1 .a., if the Disclosing Party is a cooperation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company; (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes  No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head lo whom such person has a familial relationship, and (4) the precise nature of such famil ial relationship.

CITY OF CHICAGO ECONOMIC  
DISCLOSURE STATEMENT AND  
AFFIDAVIT

SECTION I - GENERAL INFORMATION

- A. Legal Name of the Disclosing Party submitting this EDS. Include d/b/a if applicable. BBA  
AVIATION pic Check ONE of the following three boxes: Indicate whether the Disclosing  
Party Submitting this EDS is:
1.  the Applicant  
OR
  2.  a legal entity holding a direct or indirect interest in the Applicant State the legal name of the  
Applicant in which the Disclosing Party holds an interest: Signature Flight Support Corporation  
OR
  3.  a legal entity with a right of control (see H.B.I.) State the legal name of the entity in which the  
Disclosing Party holds a right of control: \*
- B. Business address of the Disclosing Party: 105 Wigmore Street  
London, W1U 1QY, England
- C. Telephone: 407-648-7200 Fax: 407-648-7352 Email: susan.scott@us.bbaaviation.com
- D. Name of contact person: Susan Coates Scott
- E. Federal Employer Identification No. (if you have one):
- F. Brief description of contract, transaction or other undertaking (referred to below as the "matter") to  
which this EDS pertains. (Include project number and location of property, if applicable):
- Facilities Lease and Use Agreement between Signature Flight Support Corporation and the City of  
Chicago at Midway Airport
- G. Which City agency or department is requesting this EDS? Department of Aviation
- If the matter is a contract being handled by the City's Department of Procurement Services, please  
complete the following:
- Specification # N/A Contract " N/A

SECTION II - DISCLOSURE OF OWNERSHIP INTEREST

A. NATURE OF THE DISCLOSING PARTY

- I. Indicate the nature of the Disclosing ' ] proprietorship [ ] General partnership ] Limited  
Person partnership ; ] Trust  
X] Publicly registered business corporation '  
] Privately held business corporation ' ] Sole [ ] Limited liability company  
[ ] Limited liability partnership



- Joint venture (is the not-for-profit corporation also a 501(c)(3))?  
 Not-for-profit corporation  Yes  No  
 Other (please specify)

2. For legal entities, the state (or foreign country) of incorporation or organization, if applicable:

England

3. For legal entities not organized in the State of Illinois: Has the organization registered to do business in the State of Illinois as a foreign entity?

Yes

No

N/A

**B. IF THE DISCLOSING PARTY IS A LEGAL ENTITY:**

1. List below the full names and titles of all executive officers and all directors of the entity. NOTE: For not-for-profit corporations, also list below all members, if any, which are legal entities. If there are no such members, write "no members." For trusts, estates or other similar entities, list below the legal titleholder(s).

If the entity is a general partnership, limited partnership, limited liability company, limited liability partnership or joint venture, list below the name and title of each general partner, managing member, manager or any other person or entity that controls the day to day management of the Disclosing Party.

NOTE: Each legal entity listed below must submit an EDS on its own behalf.

Name fide

See attached. \_\_\_\_\_

2. Please provide the following information concerning each person or entity having a direct or indirect beneficial interest (including ownership ) in excess of 7.5% of the Disclosing Party. Examples of such an interest include shares in a corporation, partnership interest in a partnership or joint venture,

**OFFICERS &****DIRECTORS OF BBA AVIATION PLC**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Business Address</u></b>
Mr Michael John Harper	Director	BBA Aviation pic 105 Wigmore Street London W1U 1QY
Mr Simon Charles Conrad Pryce	Director	BBA Aviation pic 105 Wigmore Street London W1U 1QY
Mr Mark Hoad	Director	BBA Aviation pic 105 Wigmore Street London W1U 1QY
Mrs Susan Saltzbart Kilsby	Director	BBA Aviation pic 105 Wigmore Street London W1U 1QY
Mr Nicholas Charles Edward Land	Director	BBA Aviation pic 105 Wigmore Street London W1U 1QY
Mr Peter Gervis Ratcliffe	Director	BBA Aviation pic 105 Wigmore Street London W1U 1QY
Mr Hansel Tookes*	Director	BBA Aviation pic 105 Wigmore Street London W1U 1QY
Mr Wayne Edmunds	Director	BBA Aviation pic 105 Wigmore Street London W1U 1QY
Mr Iain David Cameron Simm	Group General Counsel & Company Secretary	BBA Aviation pic 105 Wigmore Street London W1U 1QY

\*From 30 September 2013, Mr Hansel Tookes will resign as a director of BBA Aviation pic.

interest of a member of manager in a limited liability company, or interest of a beneficiary of a trust, estate or other similar entity. If none, state "None." Note: Pursuant to Section 2-154-030 of the Municipal Code of Chicago ("Municipal Code"), the City may require any such additional information from any applicant which is reasonably intended to achieve full disclosure.

Name	Business Address	Percentage Interest in the Disclosing Party
------	------------------	---

*BBA Aviation pic is a publicly registered company in England whose shares are traded on the London Stock Exchange. It has in excess of 4,000 shareholders, one of whom, Aviva pic (registered office 8 Surry St., Norwich \RI SDRJ and its subsidiary companies has notified BBA Aviation pic that it holds 8.63% of the total ordinary share of capital of BBA Aviation pic indirectly on behalf of its clients. Such shares are held in the normal course of Aviva pic's business as a financial services and insurance company. Aviva pic is regulated by the London Exchange and the Financial Service Authority of the United Kingdom.*

**SECTION III - BUSINESS RELATIONSHIPS WITH CITY ELECTED OFFICIALS**

Has the Disclosing Party had a "business relationship," as defined in Chapter 2-156 of the Municipal Code, with any City elected official in the 12 months before the date this EDS is signed?

Yes  No

If yes, please identify below the names of such City elected official(s) and describe such relationship^):

**SECTION IV - DISCLOSURE OF SUBCONTRACTORS AND OTHER RETAINED PARTIES**

The Disclosing Party must disclose the name and business address of each subcontractor, attorney, lobbyist, accountant, consultant and any other person or entity whom the Disclosing Party has retained or expects to retain in connection with the Matter, as well as the nature of the relationship, and the total amount of the fees paid or estimated to be paid. The Disclosing Party is not required to disclose employees who are paid solely through the Disclosing Party's regular payroll.

"Lobbyist" means any person or entity who undertakes to influence any legislative or administrative action on behalf of any person or entity other than: (1) a not-for-profit entity, on an unpaid basis, or (2) himself. "Lobbyist" also means any person or entity any part of whose duties as an employee of another includes undertaking to influence any legislative or administrative action.

If the Disclosing Party is uncertain whether a disclosure is required under this Section, the Disclosing Party must either ask the City whether disclosure is required or make the disclosure.

Name (indicate whether Retained or anticipated To be retained)	Business Address	Relationship to Disclosing Party (subcontractor, attorney, lobbyist, etc.)	Fees (indicate whether paid or estimated.) NOTE: "hourly rate" or "t.b.d." is not an acceptable response.
--	------------------	--	---

(Add sheets if necessary)

Check here if the Disclosing Party has not retained, nor expects to retain, any such persons or entities.

SECTION V-CERTIFICATIONS

A. COURT-ORDERED CHILD SUPPORT COMPLIANCE

Under Municipal Code Section 2-92-415, substantial owners of business entities that contract with the City must remain in compliance with their child support obligations throughout the contract's term.

Has any person who directly or indirectly owns 10% or more of the Disclosing Party been declared in arrears on any child support obligations by any Illinois court of competent jurisdiction?

Yes                       No                       No person directly or indirectly owns 10% or more of the Disclosing Party

If "Yes," has the person entered into a court-approved agreement for payment of all support owed and is the person in compliance with that agreement?

Yes                       No

B. FURTHER CERTIFICATIONS

I. Pursuant to Municipal Code Chapter 1-23, Article I ("Article F")(which the Applicant should consult for defined terms (e.g., "doing business") and legal requirements), if the Disclosing Party submitting this EDS is the Applicant and is doing business with the City, then the Disclosing Party certifies as follows: (i) neither the Applicant nor any controlling person is currently indicted or charged with, or has admitted guilt of, or has ever been convicted of, or placed under supervision for, any criminal offense involving actual, attempted, or conspiracy to commit bribery, theft, fraud, forgery, perjury, dishonesty or deceit against an officer or employee of the City or any sister agency; and (ii) the Applicant understands and acknowledges that compliance with Article I is a continuing requirement for doing business with the City. NOTE: If Article I applies to the Applicant, the permanent compliance timeframe in Article I supersedes some five-year compliance timeframes in certification 2 and 3 below.

2. The Disclosing Party and, if the Disclosing Party is a legal entity, all of those persons or entities identified in Section II.B.1. of this EDS:

- a. are not presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from any transactions by any federal, state or local unit of government;
- b. have not, within a five-year period preceding the date of this EDS, been convicted of a criminal offense, adjudged guilty, or had a civil judgment rendered against them in connection with: obtaining, attempting to obtain, or performing a public (federal, state or local) transaction or contract under a public transaction; a violation of federal or state antitrust statutes; fraud, embezzlement; theft; forgery; bribery; falsification or destruction of records; making false statements; or receiving stolen property;
- c. are not presently indicted for, or criminally or civilly charged by, a governmental entity (federal state or local)with committing any of the offenses set forth in clauses B.2.b of this Section V;
- d. have not, within a five-year period preceding the date of this EDS, had one or more public transactions (Federal, state or local) terminated for cause or default; and
- e. have not, within a five-year period preceding the date of this EDS, been convicted, adjudged guilty, or found liable in a civil proceeding, or in any criminal or civil action, including actions concerning environmental violations, instituted by the City or by the federal government, any state, or any other unit of local government.

3. The certifications in subparts 3, 4 and 5 concern:

- the Disclosing Party,
  - any "Contractor" (meaning any contractor or subcontractor used by the Disclosing Party in connection with the Matter, including but not limited to all persons or legal entities disclosed under Section IV, "Disclosure of Subcontractors and Other Retained Parties");
  - any "Affiliated Entity" (meaning a person or entity that, directly or indirectly: controls the Disclosing Party, is controlled by the Disclosing Party, or is, with the Disclosing Party, under common control of another person or entity. Indicia of control include, without limitation; interlocking management or ownership; identity of interests among family members, shared facilities and equipment or principals as the ineligible entity);
- with respect to Contractors, the term Affiliated Entity means a person or entity that directly or indirectly controls the Contractor, is controlled by it, or, with the Contractor, is under common control of another person or entity;
- any responsible official of the Disclosing Party, any Contractor or any Affiliated Entity or any other official, agent or employee of the Disclosing Party, and any Contractor or any Affiliated Entity, acting pursuant to the direction or authorization of a responsible official of the Disclosing Party, any Contractor or any Affiliated Entity (collectively "Agents")

Page 5 of 13

Neither the Disclosing Party, nor any Contractor, nor any Affiliated Entity of either the Disclosing Party or any Contractor nor any Agents have, during the five years before the date this EDS is signed, or, with respect to a Contractor, an Affiliated Entity, or an Affiliated Entity of a Contractor during the five years before the date of such Contractor's or Affiliated Entity's contract or engagement in connection with the Matter:

- a. bribed or attempted to bribe, or been convicted or adjudged guilty of bribery or attempting to bribe, a public officer or employee of the City, the State of Illinois, or any agency of the federal government or of any state or local government in the United States of America, in that officer's or employee's official capacity ;
- b. agreed or colluded with other bidders or prospective bidders, or been a party to any such agreement, or been convicted or adjudged guilty of agreement or collusion among bidders or prospective bidders, in restraint of freedom of competition by agreement to bid a fixed price or otherwise; or
- c. made an admission of such conduct described in a. or b. above that is a matter of record, but have not been prosecuted for such conduct; or
- d. violated the provisions of Municipal Code Section 2-92-619 (Living Wage Ordinance).

4. Neither the Disclosing Party, Affiliated Entity or Contractor, or any of their employees, officials, agents or partners, is barred from contracting with any unit of state or local government as a result of engaging in or being convicted of (1) bid-rigging in violation of 720 ILCS 5/33E-3; (2) bid rotating in violation of 720-ILCS 503E-4; or (3) any similar offense of any state or of the United States of America that contains the same elements as the offense of bid-rigging or bid-rotating.

5. Neither the Disclosing Party nor any Affiliated Entity is listed on any of the following lists maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the Bureau of Industry and Security of the U.S. Department of Commerce or their successors; the Specially Designated Nationals List, the Denied Persons List, the Unverified List, the Entity List and the Debarred List.

6. The Disclosing Party understands and shall comply with the applicable requirements of Chapters 2-55 (Legislative Inspector General), 2-56 (Inspector General) and 2-156 (Governmental Ethics) of the Municipal Code.

7. If the Disclosing Party is unable to certify to any of the above statements in this Part B (Further Certifications), the Disclosing Party must explain below.

If the letters "NA," the word "None." or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

8. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all current employees of the Disclosing Party who were, at any time during the 12-month period preceding the execution date of this EDS, an employee, or elected or appointed official, of the City of Chicago (if none, indicate with "N/A" or "none").  
N/A \_\_\_\_\_

9. To the best of the Disclosing Party's knowledge after reasonable inquiry, the following is a complete list of all gifts that the Disclosing Party has given or caused to be given, at any time during the 12-month period preceding the execution date of this EDS, to an employee, or elected or appointed official, of the City of Chicago. For purposes of this statement, a "gift" does not include: (i) anything made generally available to City employees or to the general public, or (food or drink provided in the course of official City business and having a retail value of less than \$20 per recipient (if none, indicate with "N/A" or "none"). As to any gift listed below, please also list the name of the City recipient. N/A

C. CERTIFICATION OF STATUS AS FINANCIAL INSTITUTION

1. The Disclosing Party certifies that the Disclosing Party (check one)

is  is not

a "financial institution" as defined in Section 2-32-455(b) of the Municipal Code.

2. If the Disclosing Party IS a financial institution, then the Disclosing Party pledges:

"We are not and will not become a predatory lender as defined in Chapter 2-32 of the Municipal Code. We further pledge that none of our affiliates is, and none of them will become, a predatory lender as defined in Chapter 2-32 of the Municipal Code. We understand that becoming a predatory lender or becoming an affiliate of predatory lender may result in the loss of the privilege of doing business with the City."

If the Disclosing Party is unable to make this pledge because it or any of its affiliates (as defined in Section 2-32-455(b) of the Municipal Code) is a predatory lender with the meaning of Chapter 2-32 of the Municipal Code, explain here (attach additional pages if necessary):

If the letters "NA", or the word "None," or no response appears on the lines above, it will be conclusively presumed that the Disclosing Party certified to the above statements.

D. CERTIFICATION REGARDING INTEREST IN CITY BUSINESS

Any words or terms that are defined in Chapter 2-156 of the Municipal Code have the same meanings when used in this Part D.

1. In accordance with Section 2-156-110 of the Municipal Code: Does any official or employee of the City have a financial interest in his or her own name or in the name of any other person or entity in the Matter?

Yes  No

NOTE: If you checked "Yes" to Item D. 1., proceed to Items D.2. and D.3. If you checked "No" to Item D. 1., proceed to Part E.

2. Unless sold pursuant to a process of competitive bidding, or otherwise permitted, no City elected official or employee shall have a financial interest in his or her own name or in the name of any other person or entity in the purchase of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of any property that (i) belongs to the City, or (ii) is sold for taxes or assessments, or (iii) is sold by virtue of legal process at the suit of the City (collectively, "City Property Sale"). Compensation for property taken pursuant to the City's eminent domain power does not constitute a financial interest within the meaning of this Part D.

Does the Matter involve a City Property Sale?

Yes  No

3. If you checked "Yes" to Item D. 1., provide the names and business addresses of the City officials or employees having such interest and identify the nature of such interest:

Name	Business Address	Nature of Interest
------	------------------	--------------------

4. The Disclosing Party further certifies that no prohibited financial interest in the Matter will be acquired by any City official or employee.

E. CERTIFICATION REGARDING SLAVERY ERA BUSINESS

Please check either 1. or 2. below. If the Disclosing Party checks 2., the Disclosing Party must disclose below or in an attachment to this EDS all information required by paragraph 2. Failure to

comply with these disclosure requirements may make any contract entered into with the City in connection with the Matter voidable by the City

X  1. The Disclosing Party verifies that the Disclosing Party has searched any and all records of the Disclosing Party and any and all predecessor entities regarding records of the investments or profits from slavery or slaveholder insurance policies during the slavery era (including insurance policies issued to

*slaveholders that provided coverage for damage to or injury or death of their slaves), and the Disclosing Party has found no such records. Disclosing Party was incorporated in or about 1897 and acknowledges that some of its records could have been lost or destroyed over time due to force majeure events such as war and weather.*

2. The Disclosing Party verifies that, as a result of conducting the search in step 1 above, the Disclosing Party has found records of investments or profits from slavery or slaveholder insurance policies. The Disclosing Party verifies that the following constitutes full disclosure of all such records, including the names of any and all slaves or slaveholders described in those records:

## SECTION VI - CERTIFICATIONS FOR FEDERALLY FUNDED MATTER

NOTE: If the Matter is federally funded, complete this Section VI. If the Matter is not federally funded, proceed to Section VII. For purposes of this Section VI, tax credits allocated by the City and proceeds of debt obligations of the City are not federal funding.

### A. CERTIFICATION REGARDING LOBBYING

1. List below the names of all persons or entities registered under the federal Lobbying Disclosure Act of 1995 who have made lobbying contacts on behalf of the Disclosing Party with respect to the Matter (add sheets if necessary):

(if no explanation appears or begins on the lines above, or if the letters "NA" or if the word "None" appear, it will be conclusively presumed that the Disclosing Party means that NO persons or entities registered under the Lobbying Disclosure Act of 1995 have made lobbying contacts on behalf of the Disclosing Party with Respect to the Matter.)

2. The Disclosing Party has not spent and will not expend any federally appropriated funds to pay any person or entity listed in Paragraph A. 1. above for his or her lobbying activities or to pay any person or entity to influence or attempt to influence an officer or employee of any agency, as defined by applicable federal law, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress, in connection with the award of any federally funded contract, making an federally

Page 9 of 13

funded grant or loan, entering into any cooperative agreement, or to extend, continue, renew, amend, or modify any federally funded contract, grant, loan, or cooperative agreement.

3. The Disclosing Party will submit an updated certification at the end of each calendar quarter in which there occurs an event that materially affects the accuracy of the statements and information set forth in paragraphs A. 1. and A.2. above.

4. The Disclosing Party certifies that either: (i) it is not an organization described in section 501(c)(4) of the Internal Revenue Code of 1986; or (ii) it is an organization described in section 501(c)(4) of the Internal Revenue Code of 1986 but has not engaged and will not engage in "Lobbying Activities".

5. If the Disclosing Party is the Applicant, the Disclosing Party must obtain certifications equal in form and substance to paragraphs A. 1. through A.4. above from all subcontractors before it awards any subcontract and the Disclosing Party must maintain all such subcontractors' certifications for the duration of the Matter and must make such certifications promptly available to the City upon request.



B. CERTIFICATION REGARDING EQUAL EMPLOYMENT OPPORTUNITY

If the Matter is federally funded, federal regulations require the Applicant and all proposed subcontractors to submit the following information with their bids or in writing at the outset of negotiations.

Is the Disclosing Party the Applicant?

Yes  No

If "Yes," answer the three questions below:

1. Have you developed and do you have on file affirmative action programs pursuant to applicable federal regulations? (See 41 CFR Part 60-2.)

Yes  No

2. Have you filed with the Joint Reporting Committee, the Director of the Office of Federal Contract Compliance Programs, or the Equal Employment Opportunity Commission all reports due under the applicable filing requirements.

Yes  No

3. Have you participated in any previous contracts or subcontracts subject to the equal opportunity clause?

Yes  No

If you checked "No" to question 1. or 2. above, please provide an explanation:

SECTION VII - ACKNOWLEDGMENTS, CONTRACT INCORPORATION, COMPLIANCE, PENALTIES, DISCLOSURE

The Disclosing Party understands and agrees that

A. The certifications, disclosures and acknowledgments contained in this EDS will become part of any contract or other agreement between the Applicant and the City in connection with the Matter, whether procurement, City assistance, or other City action, and are material inducements to the City's execution of any contract or taking other action with respect to the Matter. The Disclosing Party understands that it must comply with all statutes, ordinances, and regulations on which this EDS is based.

B. The City's Governmental Ethics and Campaign Financing Ordinances, Chapters 2-156 and 2-164 of the Municipal Code, impose certain duties and obligations on persons or entities seeking City contracts, work, business, or transactions. The full text of these ordinances and a training program is available on line at [www.cityofchicago.org/Ethics](http://www.cityofchicago.org/Ethics). and may also be obtained from the City's Board of Ethics, 740 N.

Sedgwick St., Suite 500 Chicago, IL 60610, (312) 744-9660. The Disclosing Party must comply fully with the applicable ordinances.

C. If the City determines that any information provided in this EDS is false, incomplete or inaccurate, any contract or other agreement in connection with which it is submitted may be rescinded or be void or voidable, and the City may pursue and remedies under the contract or agreement (if not rescinded or void), at law, or in equity, including terminating the Disclosing Party's participation in the Matter and/or declining to allow the Disclosing Party to participate in other transactions with the City. Remedies at law for a false statement of material fact may include incarceration and an award to the City of treble damages.

D. It is the City's policy to make this document available to the public on its Internet site and/or upon request. Some or all of the information provided on this EDS and any attachments to this EDS may be made available to the public on the Internet, in response to a Freedom of Information Act request, or otherwise. By completing and signing this EDS, the Disclosing Party waives and releases any possible rights or claims which it may have against the City in connection with the public release of information contained in this EDS and also authorizes the City to verify the accuracy of any information submitted in this EDS.

E. The information provided in this EDS must be kept current. In the event of changes, the Disclosing Party must supplement this EDS up to the time the City takes action on this Matter. If the Matter is a contract being handled by the City's Department of Procurement Services, the Disclosing Party must update this EDS as the contract requires. NOTE: With respect to Matters subject to Article I of the Chapter 1-23 of the Municipal Code (imposing PERMANENT ELIGIBILITY for certain specified offenses), the information provided here regarding eligibility must be kept current for a longer period as required by Chapter 1-23 and Section 2-154-020 of the Municipal Code.

The Disclosing Party represents and warrants that:


- F-1. The Disclosing Part is not delinquent in the payment of any tax administered by the Illinois Department of Revenue,
- F.2 If the Disclosing Party is the Applicant, the Disclosing Party and its Affiliated Entities will not use,
- F.3 If the Disclosing Party is the Applicant, die Disclosing Party will obtain from any contractors/subcontractors hired or to be hired in connection with the Matter certifications equal in form and substance to those in F.1. and F.2. above and will not, without the prior written consent of the City, use any such contractor/subcontractor that does not provide such certifications or that the Disclosing Party has reason to believe has not provided or cannot provide truthful certifications.


NOTE: If the Disclosing Party cannot certify as to any of the items in F.1., F.2. or F.3. above, an explanatory statement must be attached to this EDS.

**CERTIFICATION**

Under penalty of perjury, the persons signing below: (1) warrants that he/she is authorized to execute this EDS and Appendix A (if applicable) on behalf of the Disclosing Party, and (2) warrants that all certifications and statements contained in this EDS and Appendix A (if applicable) are true, accurate and complete as of the date furnished to the City.

BBA AVIATION pic  
(Print or type name of Disclosing Party)

By:   
(sign here)

Group General Counsel - Company   
(Print or type wane of the person signing)

(Print or type title-of the person signing)  
\*Attf

Signed and swom to before me on (date) Ic\* -Sfc-pTfeKkSfc <2.o\ T.  
at County, 0N\_I JGt> ic \ to c\*z>>/H (state).

Notary Public

Commission expires: 3>P -S-\*= ^T £ M ^6 > ^ Lb C

**SLAUGHTER AND MAY  
ONE BUNHILL ROW  
LONDON EC1Y 8YY**

**CITY OF CHICAGO ECONOMIC DISCLOSURE STATEMENT  
AND AFFIDAVIT APPENDIX A**

**FAMILIAL RELATIONSHIPS WITH ELECTED CITY OFFICIALS AND DEPARTMENT HEADS**

This Appendix is to be completed only by a) the Applicant, and (b) any legal entity which has a direct ownership interest in the Applicant exceeding 7.5 percent It is not to be completed by any-legal entity which has only an indirect ownership interest in the Applicant.

Under Municipal Code Section 2.154-01S, the Disclosing Party must disclose whether such Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently has a "familial relationship" with any elected city official or department head. A "familial relationship exists if, as of the date of this EDS is signed, the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof is related to the mayor, any alderman, the city clerk, the city treasurer or any city department head as spouse or domestic partner or as any of the following, whether by blood or adoption: parent, child, brother or sister, aunt or uncle, niece or nephew, grandparent, grandchild, father-in-law, mother-in-law, daughter-in-law, stepfather or stepmother, stepson or stepdaughter, or stepbrother or stepsister or half-brother or half-sister.

"Applicable Party" means (1) all executive officers of the Disclosing Party listed in Section II.B. 1 .a., if the Disclosing Party is a corporation; all partners of the Disclosing Party, if the Disclosing Party is a general partnership; all general partners and limited partners of the Disclosing Party, if the Disclosing Party is a limited partnership; all managers, managing members and members of the Disclosing Party, if the Disclosing Party is a limited liability company, (2) all principal officers of the Disclosing Party; and (3) any person having more than a 7.5 percent ownership interest in the Disclosing Party. "Principal officers means the president, chief, operating officer, executive director, chief financial officer, treasurer or secretary of a legal entity or any person exercising similar authority.

Does the Disclosing Party or any "Applicable Party" or any Spouse or Domestic Partner thereof currently have a "familial relationship" with an elected city official or department head?

Yes

No

If yes, please identify below (1) the name and title of such person, (2) the name of the legal entity to which such person is connected; (3) the name and title of the elected official or department head to whom such person has a familial relationship, and (4) the precise nature of such familial relationship.

Page 13 of 13

As filed with the Securities and Exchange Commission on March 25, 2013

**UNITED STATES SECURITIES AND  
EXCHANGE COMMISSION Washington, DC  
20549  
FORM 20-F**

(Mark one)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(B) OR (G)  
OF THE SECURITIES EXCHANGE ACT OF 1934 OR  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2012 OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934 OR  
 SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-34486 AVIVA  
PLC

(Exact Name of Registrant as Specified in its Charter)

ENGLAND AND WALES  
(Jurisdiction of Incorporation)

St. Helen's, 1 Undershaft London EC3P  
3DQ, England (Address of Principal  
Executive Offices)

David Rogers Chief  
Accounting Officer

Aviva pic St. Helen's, 1 Undershaft London EC3P 3DQ, England +44 20 7662 8934  
david.f.rogers@aviva.com (Name, telephone, e-mail and/or facsimile number and address of  
company contact person) Securities registered or to be registered pursuant to Section 12(b) of the  
Act.

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
American Depositary Shares, each representing 2 Ordinary Shares, 25 pence par value each Ordinary Shares	New York Stock Exchange
6.25% Capital Securities	New York Stock Exchange (for listing purposes only) Now York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2012 was  
Ordinary Shares, 25 pence par value each 2,945,972,261

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act  
Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days  
Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data file required to be submitted and posted pursuant to this chapter during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) \*\*  
Yes  No

\*This requirement does not apply to the registrant  
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one)  
Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.  
International Financial Reporting Standards as issued by the International Accounting Standards Board   
U S GAAP  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow-  
Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

\*\* Not for trading, but only in connection with the registration of American Depositary Shares

Annual report on Form 20-F 201 2

## Cross reference to Form 20-F

	Page
Item 1. Identity of Directors, Senior Management and Advisors	n/a
Item 2. Offer Statistics and Expected Timetable	n/a
Item 3. Key Information	
A. Selected financial data	17,84-85,239
B. Capitalisation and indebtedness	n/a
C. Reason for the offer and use of proceeds	n/a
D. Risk factors	95-104
Item 4. Information on the Company	
A. History and development of the company	3,5,18, 82
B. Business overview 2-16,18-24,25,27-31,89-94	
C. Organisational structure	25-26
D. Property, plants and equipment	31
Item 4A. Unresolved Staff Comments	n/a
Item 5. Operating and Financial Review and Prospects	
A. Operating results	2-16
B. Liquidity and capital resources	33-35, 85-88, 219-220
C. Research and development, patents and licences, etc.	n/a
D. Trend information	2-17,85,239
E. Off-balance sheet arrangements	85
F. Tabular disclosure of contractual arrangements	32

	G. Safe harbour	ii
Item 6.	Directors, Senior Management and Employees	
	A. Directors and senior management	40-44
	B. Compensation	64 - 80,84,197-202
	C. Board practices	45-54, 57-59, 64-80
	D. Employees	145,256
	E. Share ownership 72,77-80,171-174	Item 7. Major Shareholders and Related Party Transactions
	A. Major Shareholders	239
	B. Related Party Transactions	84, 229, 237
	C. Interests of Experts and Counsel	n/a
Item 8.	A. Financial information 2-17,84-85,105-237	
	B. Significant changes	239
Item 9.	The Offer and Listing	239
Item 10.	Additional Information	
	A. Share capital	82-83,171,175
	B. Articles of association	248-252
	C. Material contracts	5
	D. Exchange controls	252
	E. Taxation	253-254
	F. Dividends and paying agents	255
	G. Statements by experts	n/a
	H. Documents on display	255
	I. Subsidiary information	n/a
Item 11.	Quantitative and Qualitative Disclosures about Market Risk	33, 95-98, 217-219
Item 12.	Description of Securities Other Than Equity Securities	255
Item 13.	Defaults, Dividend Arrearages and Delinquencies	n/a
Item 14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	n/a
Item 15.	Controls and Procedures	256
Item 16A.	Audit Committee Financial Expert	57
Item 16B.	Code of Ethics	94
Item 16C.	Principal Accountant Fees and Services.	59, 146-147
Item 16D.	Exemptions from the Listing Standards for Audit Committees	n/a
Item 16E.	Purchases of Equity Securities by the Issuer and Affiliated Purchaser	256
Item 16F.	Change in Registrant's Certifying Accountant	n/a
Item 16G.	Corporate Governance	54
Item 16H.	Mine Safety Disclosure	n/a
Item 17.	Financial Statements	n/a
Item 18.	Financial Statements	105 - 237
Item 19.	Exhibits	262
	Glossary	259-26
	Signatures	0 261

## Main contents

<b>In this Form 20-F</b>	
Performance review	1
Governance	37
Shareholder information	81
Financial statements IFRS	105
Additional disclosures for SEC	238
Other information	258

This Annual Report on Form 20-F may contain certain "forward-looking statements" with respect to certain of our plans, current goals and expectations relating to our future financial condition, performance, results, strategic initiatives and objectives. Statements containing the words "believes", "intends", "expects", "plans", "will", "seeks", "aims", "may", "could", "outlook", "target", "goal", "projects", "estimates" and "anticipates", and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond our control. These forward-looking statements reflect our current views with respect to future events and because our business is subject to numerous risks, uncertainties and other factors, our actual future financial condition, performance and results may differ materially from those anticipated in our forward-looking statements and the differences could be significant.

All forward-looking statements address matters that involve risks and uncertainties. We believe that these factors include, but are not limited to, those set forth under "Financial and operating performance" and "Risks relating to our business" included in our most recent Annual Report on Form 20-F as filed with the SEC, with regard to trends, risk management, and exchange rates and with regard to the effects of changes or prospective changes in regulation, and the following:

- the impact of ongoing difficult conditions in the global financial markets and the economy generally;
- the impact of simplifying our operating structure and activities;
- the impact of various local political, regulatory and economic conditions;
- market developments and government actions regarding the sovereign debt crisis in Europe;
- the effect of credit spread volatility on the net unrealised value of the investment portfolio,
- the effect of losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, on the value of our investments,
- changes in interest rates that may cause policyholders to surrender their contracts, reduce the value of our portfolio and impact our asset and liability matching;
- the impact of changes in equity or property prices on our investment portfolio;
- fluctuations in currency exchange rates;
- the effect of market fluctuations on the value of options and guarantees embedded in some of our life insurance products and the value of the assets backing their reserves;
- the amount of allowances and impairments taken on our investments;
- the effect of adverse capital and credit market conditions on our ability to meet liquidity needs and our access to capital,
- a cyclical downturn of the insurance industry,
- changes in or inaccuracy of assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, lapse rates and policy renewal rates), longevity and endowments;
- the impact of catastrophic events on our business activities and results of operations;
- the inability of reinsurers to meet obligations or unavailability of reinsurance coverage;
- increased competition in the UK and in other countries where we have significant operations;
- the effect of the European Union's "Solvency II" rules on our regulatory capital requirements;
- the impact of actual experience differing from estimates used in valuing and amortising deferred acquisition costs ("DAC") and acquired value of in-force business ("AVIF"),
- the impact of recognising an impairment of our goodwill or intangibles with indefinite lives;
- changes in valuation methodologies, estimates and assumptions used in the valuation of investment securities,
- the effect of legal proceedings and regulatory investigations;
- the impact of operational risks, including inadequate or failed internal and external processes, systems and human error or from external events,
- risks associated with arrangements with third parties, including joint ventures;
- funding risks associated with our participation in defined benefit staff pension schemes,
- the failure to attract or retain the necessary key personnel;
- the effect of systems errors or regulatory changes on the calculation of unit prices or deduction of charges for our unit-linked products that may require retrospective compensation to our customers;
- the effect of a decline in any of our ratings by rating agencies on our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services,
- changes to our brand and reputation,
- changes in government regulations or tax laws in jurisdictions where we conduct business;
- the inability to protect our intellectual property;
- the effect of undisclosed liabilities, integration issues and other risks associated with our acquisitions, and
- the timing, regulatory approval and impact and other uncertainties relating to announced acquisitions and pending disposals and relating to future acquisitions, combinations or disposals within relevant industries.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this Annual Report.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date hereof. Except as required by the Financial Services Authority, the London Stock Exchange plc or applicable law, we do not intend to, and undertake no obligation to (and expressly disclaim any such obligations to), update publicly or revise any forward-looking statement as a result of new information, future events or otherwise. In light of these risks, our results could differ materially from the forward-looking statements contained in this Annual Report. We may also make or disclose written and/or oral forward-looking statements in reports filed or furnished to the US Securities and Exchange Commission ("SEC"), our annual report and accounts to shareholders, proxy statements, offering circulars, registration statements and prospectuses, press releases and other written materials and in oral statements made by our directors, officers or employees to third parties, including financial analysts.

# Performance review

## **In this section**

Financial and operating performance	2
Selected consolidated financial data	17
Information on the company	18
Organisational structure	25
Analysis of investments	27
Contractual obligations	32
Risk and capital management	33
Basis of preparation	36



# Financial and operating performance

## Financial performance overview

### Overview

We have made good progress improving our capital strength and narrowing the Group's focus so that we now operate in materially fewer countries.

The agreed sale of the US business has been a main contributor to a loss before tax of £2.7 billion. Operating performance is broadly in line with the previous year, but with higher restructuring costs as we transform the company

We have seen improvements in profitability of new business, cash flows to Group and good levels of operating capital generation. The economic capital position has significantly improved but, as a result of the disposals we have made, leverage has increased. We have also taken action to simplify the group's corporate structure, formalising the inter-divisional balance into a loan of which we will pay down £600 million over the next three years.

### Financial strength

The number one priority in 2012 was to improve Aviva's IGD and economic capital solvency surplus position. During the year we have taken a number of management actions and this, combined with market movements, means that our IGD and economic capital solvency surpluses<sup>1,2</sup>, have improved significantly.

*We have simplified our portfolio of businesses and as a result Aviva will operate in 18 countries, from 30 three years ago. These changes, including the announced sales of Aviva USA and Delta Lloyd and the settlement of our agreement to transfer Aseval to Bankia in Spain, will result in a positive movement in our economic capital. Including the effect of these transactions, the estimated economic capital surplus would improve to £7.1 billion with a coverage ratio of 172% as at 31 December 2012 (2011: £3.6 billion; 130% coverage). In addition, we have now made the calculation more prudent to now include the pension deficit funding on a 10 year basis (previously five year basis). The IGD solvency surplus has improved to £3.8 billion as at 31 December 2012 (2011: £2.2 billion).*

At the end of February 2013, including the effect of the transactions noted above, our estimated economic capital coverage ratio was 175%.

We also took a number of steps to reduce the volatility of our capital position. In July we reduced our holding in Delta Lloyd from 41% to just under 20% and in January 2013 we sold our remaining stake.

Over the course of the year we also reduced our exposure to Italian sovereign debt with a gross sell down of €6.5 billion<sup>3</sup> this year from our shareholder and participating funds. After taking into account market movements and new business, the value of our net direct shareholder and participating fund holdings (net of NCI) in Italian sovereign debt is now £4.9 billion (2011: £6.4 billion) of which net direct shareholder exposure is £0.4 billion. Of the £4.9 billion Italian sovereign debt 74% is held in Italy.

### Loss before tax

*The overall result for the year was a loss before tax of £2.7 billion (2011: profit before tax £87 million).*

The largest driver of the overall loss is the agreed sale of our US business. At HY12 we recognised an impairment of goodwill and intangibles of £0.9 billion related to that business, and at the full year we recognised a further impairment of £2.4 billion. This was partially offset by positive investment variances of £0.3 billion.

For continuing operations, the profit before tax was £25 million. Drivers of this profit before tax are adjusted operating profits offset by integration and restructuring costs of £461

million, primarily reflecting the execution of the transformation plan; adverse investment variances of £634 million; net adverse pre-tax non-operating items in Delta Lloyd of £411 million (principally relating to movements in the Delta Lloyd Group curve), and loss on disposals of £164 million and other goodwill and intangible impairments of £188 million.

Total earnings per share was negative 113.1 p (2011: 5.8p) reflecting the loss on the sale of the US business.

### Cash flows

Aviva increased the amount of cash remittances from the businesses to Group to £0.9 billion in 2012 (2011: £0.8 billion). France resumed dividend payments to Group and management actions in UK Life led to a significant increase in cash remitted to Group.

The following table shows dividends paid to Group by business units.

	Received in 2012 (£m)
Total by country Dmnd	
UK Life	15
UK GI	0
France	15
Canada	0
Poland	20
Spain	2
Singapore	13
Italy	6
Ireland	70
Other*	68
Total	944

\*includes Aviva Re. US and Delta Lloyd

We continue to take a number of actions on capital efficiency and our corporate structures to increase cash remittances going forward.

Changes to Aviva's capital structure We are taking action to reduce the complexity of the balance sheet and reduce internal leverage. Prior to 2013 in the Group's corporate structure, AIL (Aviva Insurance Limited) was both the underwriting company for the UK General Insurance business and the holding company for the majority of the Group's overseas subsidiaries. Prior to 2013 an inter-divisional loan balance of around £5 billion was in place between the UK General Insurance business and the Group and this was used over a number of years to purchase overseas subsidiaries and for other general corporate purposes.

This structure was complex from a corporate governance point of view; created the potential for dividend traps and made demonstrating that Aviva has appropriate resolution arrangements in place (a key requirement of the PRA/FSA) more difficult. A more straightforward structure has now been put in place with two separate legal entities — Aviva Group Holdings Ltd (as holding company) and Aviva Insurance Limited (as the general insurance underwriting company). As a result of this change the inter-divisional balance between the Group and UK General Insurance will be formalised into an interest bearing loan of around £5.8 billion between AGH and AIL. We have decided to reduce the size of this loan balance and will pay down £600 million in total over the next three years.

As a result of this change, which the FSA are supportive of, our corporate structure will be more transparent, the Group will have direct ownership of overseas subsidiaries and the exposure of our UK general insurance business to these will be reduced over time.

<sup>1</sup> The econoK capital surplus represents an estimated unaudited position. The capital requirement is based on Aviva's own internal assessment and capital management policies. The term 'economic capital' does not imply capital as required by regulators or other third parties. Pension scheme risk is allocated for through ten years of stressed Contributions.

<sup>2</sup> Economy capital surplus shows the estimated risk adjusted capital position of the Group. This metric does not relate and cannot be reconciled to FRS GAAP.

<sup>3</sup> Gross of non-controlling interests (NCI), purchases and redemptions.

## Financial and operating performance

Our main activities are the provision of products and services in relation to long-term insurance and savings, fund management and general insurance

### Factors affecting results of operations

Our financial results are affected, to some degree, by a number of external factors, including demographic trends, general economic and market conditions, government policy and legislation and exchange rate fluctuations. See 'Performance review - Risk and capital management' and 'Shareholder Information - Risks relating to our business' for more information on these and other risk factors. In addition, our financial results are affected by corporate actions taken by the Group, including acquisitions, disposals and other actions aimed at achieving our stated strategy. We believe that all of these factors will continue to affect our results in the future.

### Group restructuring

During the year, the Group undertook the following actions which impacted the overall results and performance:

- The Group changed its organisational reporting structure, and the Group's operating segments were changed to align them with this revised structure. Further details of the reportable segments are given in 'Financial statements - note 4 - Segmental information'.
- The Group undertook restructuring and transformation activity to align our business operations with our strategy, including the Group's Simplify programme. Integration and restructuring costs of £468 million (2011: £268 million) include Simplify costs of £165 million, Ireland transformation costs (including the merger of the UK and Ireland businesses) of £130 million, £24 million in relation to the transformation of Aviva Investors, £30 million in respect of other restructuring activities and £119 million relating to the cost of preparing the businesses for the implementation of Solvency II.
- The Group also announced a number of disposals during the year, including the Group's US life and related internal asset management businesses ('US Life') which have been classified as discontinued operations for reporting of financial performance, and held for sale in the statement of financial position.

As a result of the held for sale classification, US Life has been written down to fair value less costs to sell which is the main driver for the loss from discontinued operations of £2,848 million and the Group's loss for the year of £3,050 million. Further details are given in 'Financial statements - note 3 - Subsidiaries'.

### Demographic trends

Our results are affected by the demographic make-up of the countries in which we operate. The types of products that we sell reflect the needs of our customers. For example, in countries with a high proportion of older people, a larger proportion of our sales will reflect their needs for pre- and post-retirement planning. Our sales levels will also be impacted by our ability to help provide useful information to such policyholders on retirement planning and to offer products that are competitive and respond to such policyholders' needs.

In our long-term insurance and savings business we make assumptions about key non-economic factors, such as the mortality rate that we expect to be experienced by our policyholders. In countries where the life expectancy is growing, this will need to be reflected in our pricing models as lower mortality rates will increase profitability of life insurance

products but will reduce the returns on annuity products. We review our assumptions against our own experience and industry expectations

### Economic conditions

Our results are affected by the economic conditions in our geographic markets and, consequently, by economic cycles in those markets. High levels of general economic activity typically result in high levels of demand for, and sales of, our products and services. Economic activity in turn is affected by government monetary and fiscal policy as well as by global trading conditions and external shocks such as terrorist activity, war and oil price movements

During 2012, conditions remained challenging with continued concerns over levels of sovereign debt within the eurozone. Towards the year end, market sentiment started to improve which saw improvements in credit spreads. However, the challenging conditions in the economies of major European markets (including the UK) has led to lower demand for savings products. During 2011, concerns over slowing economic growth, higher levels of sovereign debt within, and to a lesser degree outside the eurozone, the stability and solvency of financial institutions, longer-term low interest rates in developed markets, inflationary threats as well as geopolitical issues contributed to increased volatility in the financial markets. The continued market volatility across global financial markets saw customers reassert their preference for less complex products and reduce their exposure to investment markets

The European economies where the Group has operations were impacted in 2012 by forecast low or negative growth including UK (-0.1 %), France (0.2%); Spain (-1.3%); and Italy (-2.2%).

### Capital and credit market conditions

An important part of our business involves investing client, policyholder and shareholder funds across a wide range of financial investments, including equities, fixed income securities and properties. Our results are sensitive to volatility in the market value of these investments, either directly because we bear some or all of the investment risk, or indirectly because we earn management fees for investments managed on behalf of policyholders. Investment market conditions also affect the demand for a substantial portion of our life insurance products. In general, rising equity price levels have a positive effect on the demand for equity-linked products, such as unit trusts and unit-linked life insurance products, and conversely have a negative effect on the demand for products offering fixed or guaranteed minimum rates of return. Declining equity price levels tend to have the opposite effects

*During 2012, the challenging conditions continued to impact the Group's performance. The total long-term business investment return variance was negative £278 million (2011: £1,616 million negative)*

For continuing operations, negative long-term business investment variances of £620 million (2011: £897 million negative) mainly relates to the UK. This is mainly due to increasing the allowance for credit defaults on UK commercial mortgages to reflect uncertainty in the macro-economic environment, and the cost of de-risking activity. Elsewhere, positive variances in Spain and France were offset by a negative variance in Italy.

For 2011, the adverse life investment variances of £897 million related largely to the impact of lower risk-free interest rates, wider credit spreads and increased market volatility in the UK and Europe

negative variance (2011: £719 million negative) includes the result for Delta Lloyd up to the partial disposal on 6 May 2011 of £820 million negative.

#### **With-profits business**

We write products through our with-profits funds mainly in our UK & Ireland operating segment, with a small fund in Singapore. These funds enable policyholders to participate in a large pool of diverse investments, therefore reducing their exposure to individual securities or asset classes. The investment pool is managed by us with returns to with-profits policyholders paid through bonuses which are added to the value of their policy. In order to provide an element of stability in the returns to policyholders, bonuses are designed to reduce policyholders' exposure to the volatility of investment returns over time and to provide an equitable share of surplus earned, depending on the investment and operating performance of the fund. Shareholders also have a participating interest in the with-profits funds and any declared bonuses. Generally, policyholder and shareholder participation in with-profits funds in the UK is split 90:10.

Shareholders' profits arising on with-profits business under IFRS depend on the total bonuses declared to policyholders on an annual basis.

The level of bonuses declared to policyholders is influenced by the actual returns on investments and our expectation of future rates of return. Whilst bonuses can never be negative, a predicted sustained fall in equity markets could lead to a reduction in regular and final bonus rates, thereby reducing both policyholder returns and shareholders' profit under IFRS. In 2011, low investment returns and the difficult economic outlook led to reductions in regular and final bonus rates. Better investment performance in 2012 meant that we have been able to increase the majority of final bonus rates.

#### **General insurance and health underwriting cycle**

Our general insurance and health business is comprised of our property and casualty insurance and health insurance operations. In 2012, general insurance and health sales accounted for 42% of Group net written premiums ("NWP") from continuing operations. Demand for general insurance is usually price-sensitive because of the limited degree of product differentiation inherent in the industry. As a result, the price of insuring property and casualty risks is subject to a cycle (called an underwriting cycle). In periods when the price of risk is high, the high profitability of selling insurance attracts new entrants and hence new capital into the market. Increased competition, however, drives prices down. Eventually the business becomes uneconomic and some industry players, suffering from losses, exit the market whilst others fail, resulting in lower capital invested within the market. Decreased competition leads to increasing prices, thereby repeating the cycle. Our various general insurance markets are not always at the same stage of the underwriting cycle.

In the UK, the personal motor market has seen rate reductions in 2012 reflecting intense competition and regulatory change. This follows a period of rate increases in previous periods in response to rising claims costs and frequencies. Challenging rating conditions also apply to other UK classes of business.

We expect the underwriting cycle to continue in the future but to be less pronounced than in the past because of structural changes to the industry over the past decade. Capital markets are imposing financial discipline by being increasingly more demanding about performance from insurance companies before extending new capital. Such discipline, together with the increased concentration of competitors within the market, recent natural disasters and the adoption of more advanced pricing methods, is expected to make the underwriting cycle less pronounced in the future.

#### **Natural and man-made disasters**

Our general insurance and health business results are affected by the amount of claims we need to pay out which, in turn, can be subject to significant volatility depending on many factors, including natural and man-made disasters. Natural disasters arise from adverse weather, earthquakes and other such natural phenomena. Man-made disasters include accidents and intentional events, such as acts of terrorism. These events are difficult to predict with a high degree of accuracy, although they generally occur infrequently at a material level. Our exposure to large disasters is somewhat reduced through our focus on personal lines business and small to medium sized commercial risks in the general insurance business. The Group cedes much of its worldwide catastrophe risk to third-party reinsurers but retains a pooled element for its own account gaining diversification benefit. See 'Financial statements IFRS - Note 53 -Risk management'

In 2012, the UK and Ireland were impacted by flood losses and France by a severe freeze. In 2011, France and Ireland were impacted by storm and flood losses and Canada incurred losses from a wildfire in Slave Lake.

#### **Government policy and legislation**

Changes in government policy and legislation applicable to our business in many of the markets in which we operate, particularly in the UK, may affect the results of our operations. These include changes to the tax treatment of financial products and services, government pension arrangements and policies, the regulation of selling practices and the regulation of solvency standards. Such changes may affect our existing and future business by, for example, causing customers to cancel existing policies, requiring us to change our range of products and services, forcing us to redesign our technology, requiring us to retrain our staff or increase our tax liability. As a global business, we are exposed to various local political, regulatory and economic conditions, and business risks and challenges which may affect the demand for our products and services, the value of our investments portfolio and the credit quality of local counterparties. Our regulated business is subject to extensive regulatory supervision both in the UK and internationally. For details please refer to the section 'Shareholder information - Regulation'.

#### **Exchange rate fluctuations**

We publish our consolidated financial statements in pounds sterling. Due to our substantial non-UK operations, a significant portion of our operating earnings and net assets are denominated in currencies other than sterling, most notably the euro and the US dollar. As a consequence, our results are exposed to translation risk arising from fluctuations in the values of these currencies against sterling. Total foreign currency translation recognised in the income statement was a gain of £128 million (2011: £35 million loss).

We generally do not hedge foreign currency revenues, as we prefer to retain revenue locally in each business to support business growth, to meet local and regulatory market requirements and to maintain sufficient assets in local currency to match local currency liabilities.

Movements in exchange rates may affect the value of consolidated shareholders' equity, which is expressed in sterling. Exchange differences taken to other comprehensive income arise on the translation of the net investment in foreign subsidiaries, associates and joint ventures. This aspect of foreign exchange risk is monitored centrally against limits that we have set to control the extent to which capital deployment and capital requirements are not aligned. We use currency borrowings and derivatives when necessary to keep currency exposures within these predetermined limits, and to hedge specific foreign exchange risks when appropriate; for example, in any acquisition or disposal activity.

The impact of these fluctuations is limited to a significant degree, however, by the fact that revenues, expenses, assets and liabilities within our non-UK operations are generally denominated in local currencies.

#### **Acquisitions and disposals**

Over the last two years we have completed and announced a number of transactions, some of which have had a material impact on our results. These transactions reflect our strategic objectives of narrowing our focus to businesses where we can produce attractive returns and exit businesses which we do not consider central to our future growth.

#### **Activity in 2012**

In March Aviva's distribution arrangement with Allied Irish Bank ("AIB") for long term business ceased and the bancassurance partnership with AIB is being unwound. A strategic review is underway to determine the most effective distribution channels going forward.

In July the Group sold 37.2 million shares in Delta Lloyd for £313 million (net of transaction costs), reducing our holding to 19.8% of Delta Lloyd's ordinary share capital, representing 18.6% of shareholder voting rights. As the Group no longer had significant influence over Delta Lloyd, we ceased to account for that company as an associate from 5 July 2012. Subsequent to the 2012 year end we disposed of our entire remaining holding.

In July, the Group sold its life businesses in the Czech Republic, Hungary and Romania to MetLife Inc., for £37 million. The sale of our Romania pensions business is still subject to regulatory approval and is expected to complete later in 2013.

In December we sold our controlling 58.4% interest in AVIVA NDB Holdings Lanka to a subsidiary of AIA group for a consideration of £31 million.

On 18 December we reached an agreement with Bankia S.A. to transfer our holding in our Spanish joint venture Aseval to Bankia for £494 million. The transfer is subject to regulatory approval and is expected to be completed no later than 30 April 2013. Due to the announced sale, Aseval has been treated as held for sale at the balance sheet date.

During the year the Group entered into negotiations to dispose of Aviva ZAO, its Russian long-term business subsidiary, and the requirements for that business to be classified as held for sale were met. The disposal of the business was announced in February 2013 for consideration of €35 million and is expected to complete in the first half of 2013.

In December 2012 the Group announced the disposal of its US life and related internal fund management business to Athene Holding Ltd for £1.0 billion, including the shareholder loan. There is uncertainty in the ultimate consideration received, which depends on changes in statutory surplus which would be taken into account in a purchase price adjustment mechanism. The transaction agreement includes customary representations, warranties and indemnities from Aviva pic as the seller. The transaction is currently anticipated to complete in 2013, subject to closing conditions including approvals by insurance regulators in Iowa and New York and by other insurance and non-insurance regulatory authorities. As a result of this announcement the results of the business for 2012 and comparative periods have been classified as a discontinued operation and it is held for sale at the balance sheet date.

Further details can be found in the section 'Financial statements IFRS - Note 3 -Subsidiaries'.

#### **Subsequent events**

In January 2013, we announced the sale of our 49% stake in CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad (together "CIMB-Aviva") to Sun Life Assurance Company of Canada for a consideration of £152 million. Further details can be found in 'Financial statements IFRS - Note 3c -Subsidiaries' and

'Financial statements - Note 15 - Interests in, and loans to, joint ventures'.

On 8 January 2013, we sold the remainder of our stake in Delta Lloyd at €12.65 per share resulting in total cash proceeds for Aviva of £353 million.

As noted above, on 27 February we announced the sale of our Russian Life business.

On 8 March 2013 we completed the transaction with AIB. Further details can be found in, 'Financial statements IFRS - note 3 - Subsidiaries'.

#### **Activity in 2011**

On 6 May 2011, the Group sold 25 million shares in Delta Lloyd reducing our holding to 42.7% (41.9% as at 31 December 2011) of Delta Lloyd's ordinary share capital, representing 40% (39.3% as at 31 December 2011) of shareholder voting rights.

Accordingly, the Group ceased to consolidate the results of Delta Lloyd in its financial statements. Cash consideration of £380 million was received for the sale of shares, and £8 million of costs were attributable to the disposal transaction. The transaction resulted in the loss of control of a major geographical area of operations, previously presented as 'Delta Lloyd' in the segmental reporting note. The results of Delta Lloyd as a subsidiary for 2011 as well as those for the comparative periods were therefore classified as discontinued operations. The Group's share of the profits of its retained interest in Delta Lloyd as an associate are shown separately within continuing operations.

On 30 September 2011, the Group sold RAC Limited ("RAC") to The Carlyle Group for £977 million, realising a profit of £532 million. Aviva is continuing its commercial relationship with RAC, both as a key underwriter of motor insurance on RAC's panel and as a partner selling RAC breakdown cover to our customers. The Group has retained the RAC (2003) Pension Scheme which, at 31 December 2011, had an IAS 19 deficit of £51 million.

On 1 October 2011, the Group sold its Australian fund management business, Aviva Investors Australia Ltd, to nabinvest. National Australia Bank's direct asset management business, for £35 million, which included contingent consideration with a fair value of £3 million. This resulted in a profit on disposal of £20 million, increased to £23 million after recycling £3 million from currency translation reserve to the income statement.

#### **Activity in 2010**

On 17 February 2010, we sold our 35% holding in Sogessur SA to that company's main shareholder for a consideration of £35 million, realising a profit on disposal of £24 million. On 24 February 2010, we acquired 100% of River Road Asset Management, a US equity manager, to support the expansion of Aviva Investors' third-party institutional asset management business. The total consideration was estimated as £83 million (US\$128 million).

On 31 December 2010, the Group entered into transactions with RBS Group pic (RBSG) and agreed that, with effect from 31 December 2010, the Group would take ownership of the back book of RBS Life in exchange for RBSG taking 100% ownership of RBS Collective. Separately, a new distribution agreement was signed between our UK Life business and RBSG, with the new structure providing more flexibility in our long-term business operations.

**Basis of earnings by line of business** Our earnings originate from three main lines of business: our long-term insurance and savings business, which includes a range of life insurance and savings products, general insurance and health, which focuses on personal and commercial lines, and fund management, which manages funds on behalf of our long-term insurance and general insurance businesses, external institutions, pension funds and retail clients. These lines of business are

countries in which we operate, large general insurance businesses in France, Ireland and Italy, and smaller general insurance operations in several other countries; in Canada we have a leading general insurance operation; in Asia we predominantly have long-term insurance and savings businesses. Our fund management businesses operate across Europe, Asia, North America and the UK.

#### **Long-term insurance and savings business**

For most of our life insurance businesses, such as those in the UK and France, operating earnings are generated principally from our in-force books of business. Our in-force books consist of business written in prior years and on which we continue to generate profits for shareholders. Nevertheless new business written in these markets, with the exception of our UK with-profits business which is discussed below, has a significant direct effect on our operating earnings. Under IFRS, certain costs incurred in acquiring new business must be expensed thereby typically giving rise to a loss in the period of acquisition, though the degree of this effect will depend on the pricing structure of product offerings. In certain higher growth markets, current year sales have a more significant effect on current year operating earnings

#### **UK with-profits business**

With-profits products are designed to pay policyholders smoother investment returns through a combination of regular bonuses and final bonuses. Shareholders' profit emerges from this business in direct proportion to policyholder bonuses, as shareholders receive up to one-ninth of the value of each year's bonus declaration to policyholders. Accordingly, the smoothing inherent in the bonus declarations provides for relatively stable annual shareholders' profit from this business. The most significant factors that influence the determination of bonus rates are the return on the investments of the with-profits funds and expectations about future investment returns. Actual and expected investment returns are affected by, among other factors, the mix of investments supporting the with-profits fund, which in turn is influenced by the extent of the inherited estate within the with-profits fund.

The annual excess of premiums and investment return over operating expenses, benefit provisions and claims payments within our with-profits funds that are not distributed as bonuses and related shareholders' profit is transferred from the income statement to the unallocated divisible surplus. Conversely, if a shortfall arises one year, for example because of insufficient investment return, a transfer out of the unallocated divisible surplus finances bonus declarations and related shareholders' profit.

The unallocated divisible surplus consists of future (as yet undetermined) policyholder benefits, associated shareholders' profit and the orphan estate. The orphan estate serves as working capital for our with-profits funds. It affords the with-profits fund a degree of freedom to invest a substantial portion of the funds' assets in investments yielding higher returns than might otherwise be obtainable without being constrained by the need to absorb the cash-flow strain of writing large volumes of new business and the need to demonstrate solvency.

#### **Other participating business**

Outside of the UK, most of our long-term operations write participating business. This is predominantly savings or pensions business, where the policyholders receive guaranteed minimum investment returns, and additional earnings are shared between policyholders and shareholders in accordance with local regulatory and policy conditions. This may also be referred to as 'with-profits' business.

#### **Other long-term insurance and savings business**

Non-profit business falls into two categories: investment type business and risk cover and annuity business. Investment type business, which accounts for most of our non-profit business, includes predominantly unit-linked life and pensions business where the risk of investing policy assets is borne entirely by the policyholder. In addition, investment type business includes life and pensions business where the risk of investing policy assets is typically shared between policyholders and shareholders, subject to a minimum rate of investment return guaranteed to policyholders. Operating earnings arise from unit-linked business when fees charged to policyholders based on the value of the policy assets exceed costs of acquiring new business and administration costs. In respect of remaining investment type

business, investment return generated from policy assets has an effect on operating earnings though this is often non-proportional. Finally, in respect of all investment type business, shareholders bear the risk of investing shareholder capital in support of these operations

Risk cover business includes term assurance, or term life insurance business. Annuity business includes immediate annuities purchased for individuals or on a bulk purchase basis for groups of people. The risk of investing policy assets in this business is borne entirely by the shareholders. Operating earnings arise when premiums, and investment return earned on assets supporting insurance liabilities and shareholder capital, exceed claims and benefit costs, costs of acquiring new business and administration costs.

#### **General insurance and health business**

Operating earnings within our general insurance and health business arise when premiums and investment return earned on assets supporting insurance liabilities and shareholder capital exceed claims costs, costs of acquiring new business and administration costs.

#### **Fund management**

Fund management operating earnings consist of fees earned for managing policyholder funds and external retail and institutional funds on behalf of clients, net of operating expenses.

Arrangements for the management of proprietary funds are conducted on an arm's length basis between our fund management and insurance businesses. Such arrangements exist mainly in the UK, France, Ireland, and Canada. Proprietary insurance funds in other countries are externally managed.

#### **Other business**

Other business includes our operations other than insurance and fund management, including Group Centre expenses. In 2011 this also included the RAC roadside recovery operation in the UK up to its sale on 30 September 2011

#### **Financial highlights**

The following analysis is based on our consolidated financial statements and should be read in conjunction with those statements. In order to fully explain the performance of our business, we discuss and analyse the results of our business in terms of certain financial measures which are based on 'non-GAAP measures' and which we use for internal monitoring and for executive remuneration purposes. We review these in addition to GAAP measures, such as profit before and after tax.

The remainder of the financial performance section focuses on the activity of the Group's continuing operations. Details of the performance of the United States which has been classified as discontinued can be found in the market performance section.

#### **Non-GAAP measures Sales**

The total sales of the Group consist of long-term insurance and savings new business sales and general insurance and health net written premiums

**Financial and operating performance continued****Long-term insurance and savings new business sales**

Sales of the long-term insurance and savings business consist of:

- Insurance and participating investment business
  - This includes traditional life insurance, annuity business and with-profits business.
  - There is an element of insurance risk borne by the Group therefore, under IFRS, these are reported within net written premiums.
- Non-participating investment business
  - This includes unit-linked business and pensions business.
  - The amounts received for this business are treated as deposits under IFRS and an investment management fee is earned on the funds deposited.
  - For new business reporting in the UK, companies continue to report non-participating investment business within their 'covered business' sales, in line with the historic treatment under UK GAAP
- Non-covered business or investment sales.
  - These include retail sales of mutual fund type products.
  - There is no insurance risk borne by the Group therefore, under IFRS, these are treated as deposits and investment management fee income is earned on the funds deposited. These have never been treated as 'covered business' for long-term insurance and savings reporting so we show these separately as investment sales.

Sales is a non-GAAP financial measure and key performance indicator that we report to our key decision makers in the businesses in order to assess the value of new business from our customers and compare performance across the markets in which we operate. We consider sales to be a critical indicator of new business, and is the basis on which we provide analysis of our results to our shareholders and analysts. The non-GAAP measure of sales is also currently used internally in the determination of bonus awards as an executive performance measure

For long-term insurance and savings new business, we define sales as the sum of the present value of new business premiums (PVNBP) of life, pension and savings products and investment sales

PVNBP is equal to total single premium sales received in the year plus the discounted value of annual premiums expected to be received over the terms of newly incepted contracts and is calculated as at the date of sale. We adjust annual premiums to reflect the expected stream of business coming from this new business over future years. In the view of management, this performance measure better recognises the relative economic value of regular premium contracts compared with single premium contracts. PVNBP is a European insurance industry standard measure of new business.

For our long-term insurance and savings business, we believe that sales is an important measure of underlying performance and a better measure for new business than IFRS net written premiums. We consider that the use of sales over IFRS net written premiums provides a:

- a Consistent treatment of long-term insurance and investment contracts. IFRS net written premiums do not include deposits received on non-participating investment contracts. Long-term insurance contracts and participating investment contracts both contain a deposit component, which are included in IFRS net written premiums, in addition to an insurance risk component. Therefore, to assess the revenue generated on a consistent basis between types of contracts, we evaluate the present value of new business sales of long-term insurance and investment products on the basis of total premiums and deposits collected, including sales of mutual fund type products such as unit trusts and Open ended investment companies (OEICs).
- Better reflection of the relative economic value of regular premium contracts compared to single premium contracts: Sales recognise the economic value of all expected contractual cash flows for regular premium contracts in the year of inception, whereas IFRS net written premiums only recognise premiums received in the year. ■ Better reflection of

current management actions in the year: IFRS net written premiums include premiums on regular premium contracts which incepted in prior years, and therefore reflect the actions of management in prior years.

In comparison with IFRS net written premiums, sales do not include premiums received from contracts in-force at the beginning of the year, even though these are a source of IFRS revenue, as these have already been recognised as sales in the year of inception of the contract. In addition, unlike IFRS net written premiums, sales do not reflect the effect on premiums of any increase or decrease in persistency of regular premium contracts compared with what was assumed at the inception of the contract

PVNBP is not a substitute for net written premiums as determined in accordance with IFRS. Our definition of sales may differ from similar measures used by other companies, and may change over time.

**General insurance and health sales**

General insurance and health sales are defined as IFRS net written premiums, which are premiums written during the year net of amounts reinsured with third parties. For sales reporting, we use the GAAP measure for general insurance and health business.

The table below presents our consolidated sales for the three years ended 31 December 2012, 2011 and 2010 for our continuing operations, as well as the reconciliation of sales to net written premiums in IFRS

	2010 £ m		
Continuing operations			
Long-term insurance and savings new business sales	25,232	27,46	28,83
General insurance and health sales	8,894	1	9
Total sales	34,126	36.623	37.361
Less Effect of capitalisation factor on regular premium long-term business	(5,935)	(6,079)	(5,482)
Share of long-term new business sales from JVs and associates	(592)	(604)	(1,446)
Annualisation impact of regular premium long-term business	(239)	(533)	(357)
Deposits taken on non-participating investment contracts and equity release contracts	(4,607)	(4,573)	(3,795)
Retail sales of mutual fund type products (investment sales)	(4,586)	(3,473)	(3,387)
Add IFRS gross written premiums from existing long-term business	3,936	4,305	3,547
Less long-term insurance and savings business premiums ceded to reinsurers	(930)	(959)	(855)
Total IFRS net written premiums	<b>21.173</b>	<b>24.707</b>	<b>25,586</b>
Analysed as			
Long-term insurance and savings net written premiums	12,279	15,545	
General insurance and health net written premiums	8,894	9,162	

17,064

\_ 8.522 \_ 21,173  
24,707 25,586

**Effect of capitalisation factor on regular premium long-term business**

PVNBP is derived from the single and regular premiums of the products sold during the financial period and is expressed at the point of sale. The PVNBP calculation is equal to total single premium sales received in the year plus the discounted value of regular premiums expected to be received over the term of the new contracts. The discounted value of regular premiums is calculated using the market consistent embedded value methodology proposed by the CFO Forum Principles.

The discounted value reflects the expected income streams over the life of the contract, adjusted for expected levels of persistency, discounted back to present value. The discounted value can also be expressed as annualised

regular premiums multiplied by a weighted average capitalisation factor (WACF). The WACF varies over time

depending on the

Aviva   
Annual report on Form 20-F 2012

## Financial and operating performance continued

mix of new products sold, the average outstanding term of the new contracts and the projection assumptions.

- **Share of long-term new business sales from joint ventures and associates**  
Total long-term new business sales include our share of sales from joint ventures and associates. Under IFRS reporting, premiums from these sales are excluded from our consolidated accounts, with only our share of profits or losses from such businesses being brought into the income statement separately.
- **Annualisation impact of regular premium long-term business**  
As noted above, the calculation of PVNBP includes annualised regular premiums. The impact of this annualisation is removed in order to reconcile the non-GAAP new business sales to IFRS premiums and will vary depending on the volume of regular premium sales during the year.
- **Deposits taken on non-participating investment contracts and equity release contracts**  
Under IFRS, non-participating investment contracts are recognised in the Statement of Financial position by recording the cash received as a deposit and an associated liability and are not recorded as premiums received in the Income Statement. Only the margin earned is recognised in the Income Statement.
- **Retail sales of mutual fund type products (investment sales)**  
Investment sales included in the total sales number represent the cash inflows received from customers to invest in mutual fund type products such as unit trusts and OEICs. We earn fees on the investment and management of these funds which are recorded separately in the IFRS income statement as 'fees and commissions received' and are not included in statutory premiums.
- **IFRS gross written premiums from existing long-term business**  
The non-GAAP measure of long-term and savings sales focuses on new business written in the year under review whilst the IFRS income statement includes premiums received from all business, both new and existing.

### Adjusted operating profit

We report to our chief operating decision makers in the businesses the results of our operating segments using a financial performance measure we refer to as 'adjusted operating profit'. We define our segment adjusted operating profit as profit before income taxes and non-controlling interests in earnings, excluding the following items, investment return variances and economic assumption changes on long-term and non-long-term business, impairment of goodwill, joint ventures and associates, amortisation and impairment of other intangibles (excluding the acquired value of in-force business), profit or loss on the disposal and remeasurement of subsidiaries and associates, integration and restructuring costs and exceptional items

Whilst these excluded items are significant components in understanding and assessing our consolidated financial performance, we believe that the presentation of adjusted operating profit enhances the understanding and comparability of the underlying performance of our segments by highlighting net income attributable to on-going segment operations.

Adjusted operating profit for long-term insurance and savings business is based on expected investment returns on financial investments backing shareholder and policyholder funds over the period, with consistent allowance for the corresponding expected movements in liabilities. The expected rate of return is determined using consistent assumptions between operations, having regard

to local economic and market forecasts of investment return and asset classification. Where assets are classified as fair value through profit and loss, expected return is based on the same assumptions used under embedded value principles for fixed income securities, equities and properties. Where fixed interest securities are classified as available for sale, such as in the US, the expected return comprises interest or dividend payments and amortisation of the premium or discount at purchase. Adjusted operating profit includes the effect of variances in experience for non-economic items, such as mortality, persistency and expenses, and the effect of changes in non-economic assumptions. Changes due to economic items, such as market value movement and interest rate changes, which give rise to variances between actual and expected investment returns, and the impact of changes in economic assumptions on liabilities, are disclosed as non-operating items.

Adjusted operating profit for non-long-term insurance business is based on expected investment returns on financial investments backing shareholder funds over the period. Expected investment returns are calculated for equities and properties by multiplying the opening market value of the investments, adjusted for sales and purchases during the year, by the longer-term rate of return. This rate of return is the same as that applied for the long-term business expected returns. The longer-term return for other investments is the actual income receivable for the period. Changes due to market value movement and interest rate changes, which give rise to variances between actual and expected investment returns, are disclosed as non-operating items. The impact of changes in the discount rate applied to claims provisions is also treated outside adjusted operating profit.

Adjusted operating profit is not a substitute for profit before income taxes and non-controlling interests in earnings or net income as determined in accordance with IFRS. Our definition of adjusted operating profit may differ from similar measures used by other companies, and may change over time.

**Financial and operating performance**  
**continued**

The table below presents our consolidated adjusted operating profit for the three years ended 31 December 2012, 2011 and 2010, as well as the reconciliation of adjusted operating profit to loss/profit before tax attributable to shareholders' profits under IFRS

Continuing operations	2012 £m	2011 £m	2010 £m
United Kingdom & Ireland	1,341	1,501	1,428
France	0	9	362
Canada	422	471	229
Italy, Spain and Other Higher growth markets Aviva	276	254	400
Investors Other Group Activities	414	334	170
Adjusted operating profit before tax (excl Delta Lloyd as an associate)	202	229	(878)
Delta Lloyd as an associate	47	53	1,824
Share of Delta Lloyd's adjusted operating profit (before tax) as an associate	112	157	—
Adjusted operating profit before tax	1,888	2,089	1,824
Integration and restructuring costs	(461)	(261)	(216)
Adjusted operating profit before tax after integration and restructuring costs 1,427		1,828	1,608
Adjusting items:			
Investment return variances and economic assumption changes on long-term business (620)		(897)	(229)
fluctuation in return on investments on non-long-term business 7 Economic assumption changes on general insurance and health business (21)		(90)	(61)
Impairment of goodwill, associates and joint ventures and other amounts expensed (60)		(392)	(23)
Amortisation and impairment of intangibles (128) (Loss/Vprofit on the disposal and remeasurement of subsidiaries and associates (164)		(116)	(139)
Exceptional items — Share of Delta Lloyd's non-operating items (before tax) as an associate (523) Share of Delta Lloyd's tax expense, as an associate 107		565	163
Profit before tax attributable to shareholders' profits - continuing operations	25	551	1,396
(Loss/Vprofit before tax attributable to shareholders' profits - discontinued operations)	(2,676)		
(Loss)/Profit before tax attributable to shareholders' profits			

Adjusting items (from continuing operations) Year ended 31 December 2012

The negative investment return variances and economic assumption changes of £620 million (2011: £897 million negative) mainly relates to the UK, where the allowance for credit defaults on UK commercial mortgages has increased to reflect uncertainty in the macroeconomic environment and the cost of de-risking activity. Elsewhere, positive variances in Spain and France were offset by a negative variance in Italy.

Short term fluctuations and economic assumption changes on non-long term business of £7 million positive (2011: £266 million negative) reflected favourable market movements.

The impairment of goodwill, associates and joint ventures was £60 million in 2012 (2011: £392 million). This includes an impairment of £147 million in respect of the Group's Indian associate, an impairment of £76 million in relation to goodwill on the Spanish business, an impairment of £33 million in relation to the Italian business and a small write down of £9 million in respect of the Group's Korean joint venture. These impairments were partly offset by a reversal of the impairment recognised in 2011 in respect of our associate investment in Delta Lloyd of £205 million.

Loss on disposal of subsidiaries and associates was £164 million (2011: £565 million profit). This includes a loss of £129 million relating to the disposal of our associate stake in Delta Lloyd

Integration and restructuring costs are £461 million (2011: £261 million). This includes costs relating to restructuring and transformation activity that has been taken to align our business operations with our strategy, including the Group's Simplify programme (£165 million), £130 million in Ireland which includes expenses associated with the merging of the UK and Irish

business, £24 million for restructuring in Aviva Investors, £25 million in respect of restructuring activities and £117 million relating to preparing the businesses for the implementation of Solvency II.

Exceptional items in 2012 were £nil (2011: £57 million unfavourable)

Year ended 31 December 2011

The investment return variances and economic assumption changes on long-term insurance business in 2011 produced a £897 million charge (2010: £229 million charge). The short-term fluctuations and economic assumption changes on the non-life business produced a £266 million charge (2010: £199 million charge). This was due to unfavourable market movements in a number of our markets.

The impairment of goodwill, associates and joint ventures was £392 million in 2011 (2010: £23 million). An impairment of £217 million was recognised in respect of the associate, Delta Lloyd. The fair value was calculated based on the market price of the ordinary shares of Delta Lloyd NV quoted on the NYSE Euronext Amsterdam as at 31 December 2011. Following the announcement of the termination of Aviva Ireland's bancassurance distribution contract, management reviewed the recoverability of the goodwill associated with this business and an impairment loss of £120 million was recognised, reducing the carrying value of goodwill relating to this business to nil. The UK long-term business had an impairment of £29 million. In Italy, an impairment of £11 million was recognised in respect of Aviva Assicurazioni Vita Spa, as a result of a reduction in management's estimates for the future profitability of the business due to current economic circumstances. There was an impairment charge of £15 million recognised in respect of goodwill within interests in joint ventures relating to South Korea

Amortisation of intangibles decreased by £23 million, or 17%, to £116 million (2010: £139 million)

Profit on disposal of subsidiaries and associates was £565 million (2010: £163 million). The profit comprised principally of a £532 million profit in relation to the sale of RAC, as described in note 3 to the IFRS financial statements.

Integration and restructuring costs for 2011 were £261 million (2010: £216 million). This includes costs associated with preparing the businesses for Solvency II implementation of £96 million, a £30 million charge in the UK relating to the reattribution of the inherited estate and expenditure relating to the Quantum Leap project (the Group's previous European restructuring program) in Europe of £51 million. Expenditure relating to other restructuring exercises across the Group amounted to £84 million.

Exceptional items in 2011 were £57 million unfavourable (2010: £276 million favourable) relating to a £22 million provision for compensation scheme costs for the leveraged property fund in Ireland, and a £35 million expense for the discounted cost of strengthening latent claims provisions in the UK written a significant number of years ago. In 2010, exceptional items mainly related to a £286 million benefit from the closure of the final salary section of the UK staff pension scheme

#### Consolidated results of operations

The table below presents our consolidated sales from continuing operations for the three years ended 31 December 2012, 2011 and 2010.

Continuing operations	2012 £m	2011 £m	2010 £m
United Kingdom & Ireland	17,990	19,471	17,480
France	4,640	5	8
Canada	2,176	5,063	5,886
Italy, Spain and Other Higher growth markets	3,849	2,083	1,958
Aviva Investors	2,944	5,665	7,484
	2,727	3,039	2,959
Total sales	34,126	36,623	37,361



## Financial and operating performance continued

## Sales (from continuing operations)

Year ended 31 December 2012

Total sales from continuing operations decreased £2,497 million or 7% to £34,126 million (2011: £36,623 million). This decrease was mainly driven by lower life and pension sales in the UK, Italy, and Spain, partly offset by higher investment sales.

Sales in the UK and Ireland decreased for long-term insurance and savings, by £1,088 million, or 8%, to £12,772 million (2011: £13,860 million). The decline in UK sales reflects lower sales of bulk purchase annuities following our decision to withdraw from this market, as well as falls in bonds and savings products. These were partly offset by increased sales of individual annuities and protection products. In Ireland, life sales are down due to the closure to new business of our joint venture with AIB from April 2012. General insurance and health sales decreased by £297 million, or 6%, to £5,018 million (2011: £5,315 million) mainly as a result of the disposal of RAC in 2011. Results across Europe have also been adversely impacted by the weakness of the euro and zloty. In our European operations, long term sales in France decreased £409 million, or 10% (4% decrease on a local currency basis), to £3,638 million (2011: £4,047 million) due to lower sales in the AFER (Association Francaise d'Epargne et de Retraite) product. Sales in Italy, Spain and Other decreased by £1,756 million, or 34% (29% decrease on a local currency basis) to £3,425 million (2011: £5,181 million) reflecting lower sales of protection and savings products due to the challenging economic environment. General insurance and health sales in France decreased by £14 million, or 1%, to £1,002 million (2011: £1,016 million) whilst sales in Italy and Other were down £60 million, or 12%, to £424 million (2011: £484 million) primarily due to declining credit protection and motor sales. Sales in Canada increased by £93 million, or 4%, to £2,176 million (2011: £2,083 million) due to a combination of improved retention levels and rate increases across both personal and commercial lines. Total sales in Higher growth markets decreased by £95 million, or 3%, to £2,944 million (2011: £3,039 million) with higher long-term sales in Singapore more than offset by lower sales in other markets. Aviva Investors sales increased by £1,129 million or 71%. The opening of distribution offices in Europe contributed to most of this growth.

Year ended 31 December 2011

Sales in 2011 were £36,623 million, a decrease of £738 million, or 2%, from £37,361 million in 2010. Sales in the UK and Ireland for long-term insurance and savings were £13,860 million, an increase of £1,337 million, or 11%, from £12,523 million in 2010 and general insurance and health was £5,315 million, an increase of £380 million, or 8%, from £4,935 million in 2010. Long term sales in France decreased by £871 million, or 18% to £4,047 million (2010: £4,918 million) and Italy, Spain and other decreased by £1,865 million, or 26%, to £5,181 million (2010: £7,046 million). The decrease in sales in France and Italy was primarily driven by management actions to reduce sales of participating business. Sales in France for general insurance and health increased by £48 million, or 5%, to £1,016 million (2010: £968 million) while sales in Italy and other increased £46 million or 11% to £484 million (2010: £438 million). General

insurance sales in Canada increased by £125 million, or 6%, to £2,083 million (2010: £1,958 million). Total sales in Higher Growth markets increased £80 million, or 3%, to £3,039 million (2010: £2,961 million) due to higher life and pension sales from bancassurance channels in Asia.

The table below presents our consolidated income statement from continuing operations under IFRS for the three years ended 31 December 2012, 2011 and 2010, before the effects of taxation to shareholder profit.

	2012 £m	Restated 2011 £m	Restated 2010 £m
Continuing operations			
Income			
Gross written premiums	22,744	26.25	27.192
Premiums ceded to reinsurers	(1,571)	5	(1,606)
Premiums written net of reinsurance	21,173	24,707	25,586
change in provision for unearned - premiums			
Net earned premiums	21,167	24,479	25,574
Fee and commission income	1,273	1,465	1,451
Net investment income	21,106	4,341	16,746
Share of (bss)profit of joint ventures and associates	(277)	(123)	141
(Loss)profit on the disposal and re-measurement of subsidiaries and associates	..	(164)	565
30,719	44,015	43,095	
Expenses			
Claims and benefits paid, net of recoveries	(23,601)	(24,380)	(22,240)
Change in insurance liabilities, net of reinsurance			
Change in investment contract provisions	(430)	(2,284)	(2,837)
Change in unallocated divisible surplus	(4,450)	1,478	
Fee and commission expense	(6,316)	2,721	(9,212)
Other expenses	(4,472)	(4,326)	362
Finance costs	(2,845)		(5,500)
Profit before tax	(42,845)	(30,346)	(42,225)
Tax attributable to policyholders' returns	2,425	551	1,137
Profit before tax attributable to shareholders' profits	(221)	3	0
		17	(394)

<sup>1</sup> Following a review of the classification of contracts issued by the Group's Italian long-term business, certain portfolios have been reclassified from participating insurance to participating investment contracts for all years presented. There is no impact on the result for any year presented as a result of this reclassification.

## Income (from continuing operations)

Year ended 31 December 2012

Net written premiums for continuing operations decreased by £3,534 million, or 14%, to £21,173 million (2011: £24,707 million). Long-term insurance and savings decreased by £3,266 million, or 21%, to £12,279 million (2011: £15,545 million) mainly reflecting lower sales in the UK and continental Europe. General and health insurance decreased by £268 million, or 3%, to £8,894 million (2011: £9,162 million). Excluding RAC in 2011, sales were broadly in line.

Year ended 31 December 2011

Net written premiums in 2011 were £24,707 million, a decrease of £879 million, or 3% (2010: £25,586 million). Long-term insurance and savings were £15,545 million, a decrease of £1,519 million, or 9% (2010: £17,064 million), driven by lower sales in Ireland, France and Italy. General and health insurance was £9,162 million, an increase of £640 million, or 8% (2010: £8,522 million), with growth primarily in the UK, France and Canada.

Net investment income (from continuing operations)  
Year ended 31 December 2012  
Net investment income for the year increased by £16,765 million, or 386%, to £21,106 million (2011: £4,341 million) reflecting positive market performance and narrowing credit spreads on assets as market sentiment improved in the Eurozone. This led to significant increases in net unrealised gains on investments

Year ended 31 December 2011  
Net investment income was £4,341 million, a decrease of £12,405 million, or 74% (2010: £16,746 million). Investment returns were impacted by market volatility in 2011 resulting in higher unrealised losses on investments.

Other income (from continuing operations)  
Year ended 31 December 2012  
Other income, which consists of fee and commission income, share of loss after tax of joint ventures and associates, and (loss)/profit on disposal of subsidiaries and associates, decreased by £1,075 million, or 56%, to £832 million in 2012 (2011: £1,907 million). 2011 benefited from the profit on disposal of RAC (£532 million), whilst 2012 has seen a loss on disposal of our associate stake in Delta Lloyd, lower fee and commission income and higher losses from our share of JV's and associates

Year ended 31 December 2011  
Other income increased by £152 million, or 9%, to £1,907 million in 2011 (2010: £1,755 million). The increase was primarily due to the profit on disposal of RAC of £532 million, which was partly offset by a loss from Aviva's share of joint ventures and associates of £123 million (2010: £747 million profit).

Expenses (from continuing operations)  
Year ended 31 December 2012  
Claims and benefits paid net of reinsurance in 2012 decreased by £779 million, or 3%, to £23,601 million (2011: £24,380 million) mainly reflecting lower claims payments in our life businesses

Changes in insurance liabilities in 2012 was a charge of £430 million (2011: £2,284 million charge) This was primarily due to changes in economic and non-economic assumptions.

The change in investment contract provisions was a charge of £4,450 million (2011: £7,478 million credit) as a result of improved investment market conditions causing an increase in contract liabilities.

The change in unallocated divisible surplus ("UDS") was a charge of £6,316 million (2011: £2,721 million credit). UDS in certain funds in Italy and Spain were negative as at 31 December 2012. The main driver of the movement is a charge in France due to an increase in fixed interest asset values from lower risk-free rates and credit spreads.

Fee and commission expense, other expenses and finance costs increased by £171 million to £8,052 million (2011: £7,881 million). See 'Financial Statements IFRS - Note 6 - Details of expenses'

Year ended 31 December 2011  
Claims and benefits paid net of reinsurance in 2011 increased by £2,140 million, or 10%, to £24,380 million (2010: £22,240 million) reflecting increased claims payments in our life businesses

Changes in insurance liabilities in 2011 was a charge of £2,284 million (2010: £2,837 million). This was primarily due to changes in economic and non-economic assumptions

The change in investment contract provisions was a £1,478 million credit (2010: £9,212 million charge) as a result of deteriorating investment market conditions across our regions causing a decrease in contract liabilities.

The change in UDS was a £2,721 million credit (2010: £362 million) UDS in Italy and certain funds in Spain and France were negative as at 31 December 2011, impacted by increased government bond yields. The change in UDS included losses of

£17 million in Italy and £49 million in Spain relating to negative UDS considered unrecoverable.

Fee and commission expense, other expenses and finance costs decreased by £417 million to £7,881 million (2010: £8,298 million). See 'Financial Statements IFRS - Note 6 - Details of expenses'

Profit/(loss) before tax attributable to shareholders' profits (from continuing operations) Year ended 31 December 2012  
Profit before tax attributable to shareholders was £25 million (2011: £551 million profit). The decrease was primarily due to the increased tax charge attributable to policyholders' returns.

Year ended 31 December 2011  
Profit before tax attributable to shareholders in 2011 was £551 million (2010: £1,396 million profit). The decrease was primarily due to the drop in net investment income.

## Market performance

### UK & Ireland life

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our UK and Ireland long-term businesses for the three years ended 31 December 2012, 2011 and 2010.

	2012 £m	2011 £m	2010 £m
Pensions	5,158	5,279	3,801
Annuities	3,211	3,832	3,170
Bonds	379	801	1,686
Protection	1,228	1,025	944
Equity release	434	317	436
UK	10,410	11,254	10,037
Ireland	632	917	938
Life and pension sales	11,042	12,171	10,975
Investment sales	1,730	1,689	1,548
Long term saving sales	12,772	13,860	12,523
UK Health net written premiums	528	473	428
Net written premiums	5,623	6,823	6,287
Adjusted operating profit before tax			
United Kingdom	887	917	848
Ireland	5	47	
	126		
Life business	892	964	974
General insurance and health	-	14	12
Fund management	11	11	3
Non-Insurance	(7)	(10)	
	(*)		
Total adjusted operating profit before tax		910	977
Integration and restructuring costs	(87)	(46)	(51)
Adjusted operating profit before tax after integration and restructuring costs	823	931	930
Profit before tax attributable to shareholders' profits	98	151	835

### Year ended 31 December 2012

On a PVNBP basis, sales in the UK long-term insurance and savings business decreased by £844 million, or 7%, to £10,410 million (2011: £11,254 million). Protection sales were up 20% to £1,228 million (2011: £1,025 million), benefiting from a full year's sales from the distribution deal with Santander. Sales of annuities were down 16% to £3,211 million (2011: £3,832 million) following the decision to withdraw from the large scale bulk purchase annuity market. However, sales of individual annuities were up 10% to £3,024 million despite price increases to manage capital usage. Sales of Equity Release were up 37% to £434 million (2011: £317 million) as Aviva deployed risk based pricing expertise, developed in the annuities market, to this product. Pensions sales were down 2% to £5,158 million (2011: £5,279 million). Within this, Group Personal Pensions sales were up 9% to £3,231 million (2011: £2,961 million) as benefits were seen from increased levels of activity in the run up to Retail Distribution Review ("RDR") and Auto-Enrolment. Individual Pensions (including SIPP (self invested pension plan) were down 4% to £1,803 million (2011: £1,876 million) as a disciplined approach to

pricing was maintained. Sales of Bonds were down 53% to £379 million (2011: £801 million), impacted by changes in distribution channels in advance of RDR.

Ireland sales were down 31% to £632 million (2011: £917 million) due to the closure to new business of the joint venture with Allied Irish Bank ("AIB") from April 2012. Non AIB business sales were £530 million (2011: £485 million), with the increase driven by sales of fixed rate deposit funds and the relaunch of protection business in the second half of 2012.

Net written premiums in our UK & Ireland long-term insurance and savings businesses decreased by £1,200 million, or 18%, to £5,623 million (2011: £6,823 million). The decrease is primarily due to the reduction in BPA (bulk purchase annuities) premiums.

*Adjusted operating profit before tax decreased by £67 million, or 7%, to £910 million (2011: £977 million). This mainly reflects lower profits in Ireland where the Life operations result fell to £5 million from £47 million in 2011, as the closure to new business of our joint venture with AIB became effective. The UK Life business saw profits fall by £30 million or 3% to £887 million, mainly due to a lower level of one-off items in 2012 (2011 included one-off benefits of £93 million relating to the Part VII transfers of the former RBS JV entities and £30 million relating to the release of tax provisions associated with the reattribution of the inherited estate). Profit before tax decreased by £53 million, or 35%, to £98 million for 2012 (2011: £757 million).*

#### Year ended 31 December 2011

*On a PVNBP basis, sales in our UK and Ireland long-term insurance and savings business were £11,254 million, an increase of £1,217 million, or 12% (2010: £10,037 million) In the UK, protection sales grew by 9%, including a 7% increase in core protection products. Pension sales increased by 39% and annuities increased by 21% supported by a 23% growth in bulk purchase annuities and a 20% increase in the sale of individual annuities. Bonds decreased 52% reflecting our continued stance on writing profitable business, the changing distributor landscape pre RDR, and relative attractiveness of bonds following tax treatment changes. Equity release sales decreased 27% following an exceptional performance in 2010 when the market was less competitive. Investment sales increased by 9%, reflecting growth in managed funds and good performance from global property. In Ireland, sales fell 2% to £917 million (2010: £938 million)*

Net written premiums in our UK and Ireland long-term insurance and savings business were £6,823 million, an increase of £536 million, or 9% (2010: £6,287 million). The increase was primarily due to higher sales in the UK of group personal pensions and individual annuities, offset by lower sales of single premium bonds

Adjusted operating profit was £977 million, a decrease of £4 million (2010: £987 million). An increase in the UK was offset by a decrease in Ireland. In the UK, the non-profit result was driven by strong performance in annuities, increased annual management charges and inclusion of the full results of RBS Life, following its purchase by Aviva at the end of 2010. Included in the result are one-off benefits of £93 million relating to the Part VII transfers of the former RBS JV entities, and £30 million relating to the release of tax provisions associated with the reattribution of the inherited estate. The with-profit result, which includes the shareholders' share of regular and terminal bonus payments, decreased from 2010 mainly driven by the absence of the final special distribution (2010: £84 million). In Ireland, the 2010 result included a release of reserves following a review of assumptions of £75 million.

Profit before tax was £151 million, a decrease of £684 million, or 82% (2010: £835 million) reflecting an adverse impact from market movements in 2011 and impairment of goodwill in Ireland.

UK & Ireland general insurance and health

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our UK and Ireland general insurance and health businesses for the three years ended 31 December 2012, 2011 and 2010.

	2012 fm	2011 £m	2010 Cm
Sales/net written premiums			
United Kingdom	4,062	4,371	4,048
Ireland GI	326	367	397
Ireland Health	102	62	104
	4,490	4,842	4,507
Adjusted operating profit before tax			
United Kingdom	448	508	457
Ireland GI	21	32	32
Ireland health	8	12	19
General insurance and health	477	552	508
Integration and restructuring costs	(154)	(37)	(48)
Profit before tax attributable to shareholders' profits	206	806	348

#### Year end 31 December 2012

UK and Ireland general insurance and health NWP decreased by £352 million, or 7%, to £4,490 million (2011: £4,842 million), mainly as a result of the disposal of RAC Excluding RAC, NWP decreased by £48 million, or 1%, to £4,062 million (2011: £4,110 million) The UK has seen growth in personal motor, corporate and speciality risks and personal speciality lines. This has been offset by management actions to reduce exposure in unprofitable business segments.

Adjusted general insurance and health operating profit in 2012 decreased by £75 million, or 14%, to £477 million (2011: £552 million). Our UK general insurance operation has seen a decrease of £60 million, or 12%, to £448 million (2011: £508 million) reflecting the RAC which was sold in 2011. Excluding the RAC contribution of £75 million in 2011, this represented a like for like increase of 3% with the 2012 result benefiting from a favourable movement on prior year claims and an increase in long term investment return. 2012 was the second wettest year on record and whilst UKGI had more flood claims, weather-related claims were broadly in line with long-term average compared to the favourable experience in 2011. In Ireland, general insurance adjusted operating profit has decreased by £11 million, or 34%, to £21 million (2011: £32 million) reflecting the difficult environment with intense competition and the adverse effect of the economy on premium volumes.

Restructuring costs have increased £117 million to £154 million (2011: £37 million), mainly due to the transformation of the Irish business and the program to simplify the organisational structure within the UK

Profit before tax decreased by £600 million, or 74%, to £206 million (2011: £806 million) 2011 benefited from the profit on disposal of RAC of £532 million. This combined with the increase in restructuring costs described above accounts for the majority of the year on year decrease.

#### Year end 31 December 2011

UK and Ireland general insurance and health NWP was £4,842 million, an increase of £335 million, or 7% (2010: £4,507 million). Performance was driven by the UK general insurance operation where NWP increased by £323 million, or 8%, to £4,371 million (2010: £4,048 million). In personal motor, NWP (excluding RAC) was £1,126 million, an increase of £272 million, or 32% (2010: £854 million) reflecting rating action, strong growth in direct sales and the roll out of direct pricing to brokers.

Adjusted general insurance and health operating profit in 2011 was £552 million, an increase of £44 million, or 9% (2010: £508 million). Our UK general insurance operation increased £51 million, or 11%, to £508 million (2010: £457 million). Excluding RAC, adjusted operating profit grew by £61 million, or 16%, to £433 million (2010: £372 million), with the 2011 result benefiting from favourable weather and a further improvement in underlying profitability. These factors were offset in part by small strengthening in prior year claims reserves (excluding adverse 2010 freeze development) of £37 million (2010: £87 million release). This primarily reflected adverse experience on 2010 commercial motor business (for some vans, taxis and scheme accounts) and on one historic professional indemnity account. We took rating action and selective exits with respect to these poor performing business lines.

Profit before tax was £806 million, an increase of £458 million, or 132% (2010: £348 million). The increase was driven by the profit on disposal of RAC in the UK of £532 million.

#### France

The table below presents sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in France for the three years ended 31 December 2012, 2011 and 2010.

	2012 fm	2011 Cm	2010 Cm
Sales			
Long-term insurance and savings business	3,638	4,047	4,918
General insurance and health	1,002	1,016	968
<b>Total sales</b>	<b>4,640</b>	<b>5,063</b>	<b>5,886</b>
Net written premiums	4,702	5,233	5,979

#### Year ended 31 December 2011

Adjusted operating profit before tax			
Long-term insurance and savings business	335		323 319
General insurance and health	95		144 76
Non-insurance	(8)		4 (34)
Total adjusted operating profit before tax		422	
Integration and restructuring costs	(11)		(30) (8)
Adjusted operating profit before tax after integration and restructuring costs	411	441	353
Profit before tax attributable to shareholders' profits	482		267 387

#### Year ended 31 December 2012

Total sales in France were down £423 million, or 8%, to £4,640 million (2011: £5,063 million) mainly due to a reduction in long-term insurance and savings sales. Total life and pensions sales decreased 10% to £3,638 million (2011: £4,047 million), a reduction of 4% on a local currency basis, with sales in the AFER product declining and sales through the Bancassurance channel remaining broadly flat.

France's net written premium was £4,702 million, down £531 million, or 10% (2011: £5,235 million) driven by the decrease in AFER sales and relatively flat sales in general insurance.

Adjusted operating profit for long-term insurance and savings business in 2012 was £335 million (2011: £323 million), an increase of £12 million or 4%.

General insurance and health adjusted operating profit decreased by £49 million, or 34%, to £95 million (2011: £144 million) due in part to the one-off release in 2011 of surplus reserve margins of £45 million. There was also adverse claims experience from the February 2012 freeze, partly offset by a decrease in personal motor bodily injury claims.

Restructuring costs in France were down £19 million, or 63%, to £11 million (2011: £30 million) 2011 included higher costs from the previous European restructuring programme.

Profit before tax attributable to shareholders' profits was £482 million, an increase of £215 million, or 81% (2011: £267 million).

	2012 fm	2011 fm	2010 Cm
Sales/net written premiums	2,176	2,083	1,958
Adjusted operating profit before tax	276	254	222
General insurance	276	254	222
Non-insurance	—	—	—
Total adjusted operating profit before tax	276	254	222
Integration and restructuring costs	(11)	(6)	(20)
Adjusted operating profit before tax after integration and restructuring costs	265	248	209

In France, our focus on value over volume resulted in a decrease of £871 million, or 18%, in life and pension sales to £4,047 million (2010: £4,918 million). Sales in AFER decreased by £1,007 million, or 38%, to £1,639 million (2010: £2,646 million) offset by strong sales through Credit du Nord which increased by 13% to £1,407 million.

Our general insurance and health sales increased £48 million, or 5%, to £1,016 million (2010: £968 million) driven by pricing actions as we focused on value generation. Health net written premiums decreased £7 million, or 3%, to £227 million (2010: £234 million) reflecting customers reducing protection cover in a difficult economic environment.

France's net written premiums decreased £746 million, or 12%, to £5,233 million (2010: £5,979 million) primarily driven by lower sales.

Total adjusted operating profit increased £110 million, or 30%, to £471 million (2010: £367 million).

Our adjusted operating profit for long-term insurance and savings business in 2011 was £323 million (2010: £319 million).

General insurance and health adjusted operating profit increased by £68 million, or 89%, to £144 million (2010: £76 million) driven mainly by reserve margin releases.

France's profit before tax attributable to shareholders' profits was £267 million, down £120 million (2011: £387 million).

#### Canada

The table below presents sales, adjusted operating profit and IFRS profit before tax attributable to shareholders for the three years ended 31 December 2012, 2011 and 2010.

Profit before tax attributable to shareholders' profits	244	297	223
---	-----	-----	-----

#### Year ended 31 December 2012

General insurance sales in Canada increased by £93 million, or 4%, to £2,176 million (2011: £2,083 million), due to a combination of improved retention levels and rate increases across both personal and commercial lines.

Adjusted operating profit improved by £22 million, or 9%, to £276 million (2011: £254 million) mainly due to favourable underwriting results partially offset by lower long-term investment return.

Restructuring costs have increased £5 million, or 83%, to £11 million (2011: £6 million) due to an increase in Solvency II costs and some Simplify transformation program costs.

Profit before tax attributable to shareholders' profits decreased by £53 million, or 18%, to £244 million (2011: £297 million).

#### Year ended 31 December 2011

General insurance sales in Canada increased by £125 million, or 6%, to £2,083 million (2010: £1,958 million), reflecting growth in both Personal and Commercial Lines.

Adjusted operating profit from general insurance improved by £32 million, or 14%, to £254 million (2010: £222 million) driven by growth in underwriting profit.

Profit before tax attributable to shareholders' profits increased by £74 million, or 33%, to £297 million (2010: £223 million).

## Italy, Spain and Other

The table below presents sales and net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS from our operations in Italy, Spain and Other for the three years ended 31 December 2012, 2011 and 2010.

	2010 tm		
Sales			
Long-term insurance and savings business Spain			
Italy	1,295	1,926	2,084
Other	1,971	2,993	4,456
Total long term insurance and savings business	159	262	506
General insurance and health	3,425	5,181	7,046
Italy & other			
Total sales	<b>3,849</b>	5,665	7,484
Net written premiums	<b>2,942</b>	4,512	5,665
Adjusted operating profit before tax			
Long-term insurance and savings business Spain			
Italy	215	216	179
Other	159	140	119
General insurance and health		4	(6)
Italy & other Non-insurance	374	360	292
Total adjusted operating profit before tax	534	334	381
Integration and restructuring costs	(12)	(10)	(6)
Adjusted operating profit before tax after integration and restructuring costs	402	324	375
Profit/(loss) before tax attributable to shareholders' profits	340	(48)	224

## Year ended 31 December 2012

Total long-term savings sales fell by £1,756 million, 34% to £3,425 million (2011: £5,181 million).

In Italy, lower savings and protection sales reflected the challenging conditions and decreased by £1,022 million, or 34%, to £1,971 million (2011: £2,993 million).

In Spain, life sales decreased by £631 million, or 33%, to £1,295 million (2011: £1,926 million) reflecting the continued tough economic conditions.

Our general insurance and health sales decreased by £60 million, or 12%, to £424 million (2011: £484 million). The decrease was driven by Italy where credit protection sales fell reflecting low levels of loan activity by partner banks and motor sales were also lower.

Net written premiums for the segment decreased £1,570 million, or 35%, to £2,942 million (2011: £4,512 million) due to lower sales as described above.

Total adjusted operating profit increased £80 million, or 24%, to £414 million (2011: £334 million)

General insurance and health adjusted operating profit increased by £55 million to £53 million profits (2011: £2 million loss) driven mainly by the Italian business which saw its combined operating ratio fall below 100%.

The profit before tax attributable to shareholders' profits was £340 million (2011: £48 million loss).

## Year ended 31 December 2011

Long-term insurance and savings sales decreased £1,865 million, or 26%, to £5,181 million (2010: £7,046 million) and was primarily driven by management actions to reduce sales of capital intensive participating business.

In Italy, challenging conditions and management actions to focus on capital efficient products and move the product mix led to a fall in participating business sales, with life sales down £1,463 million, or 33%, to £2,993 million (2010: £4,456 million) In Spain, sales decreased by £158 million, or 8%, to £1,926 million (2010: £2,084 million).

Our general insurance sales increased by £46 million, or 11%, to £484 million (2010: £438 million).

Net written premiums decreased by £1,153 million, or 20%, to £4,512 million (2010: £5,665 million) primarily driven by lower sales as described above.

Total adjusted operating profit decreased £47 million, or 12% to £334 million (2010: £381 million).

Loss before tax attributable to shareholders' profits was £48 million in 2011 (2010: £224 million profit). The loss primarily reflected negative investment variances.

In Italy, the UDS balance was £1,449 million negative as at 31 December 2011 (2010: £420 million negative). The method for estimation of the recoverable negative UDS balance was changed in 2011 to a real-world embedded value method. Further details on this including the impact of this change are set out in section 'Financial statements IFRS - Note 41 - Unallocated divisible surplus'.

## Higher growth markets

The table below presents the sales, net written premiums, adjusted operating profit and profit before tax attributable to shareholders' profits under IFRS of Higher growth markets for the three years ended 31 December 2012, 2011 and 2010.

	2011 £m			2010	2011	2010
Sales						
Long-term insurance and savings business						
Asia	1,765	1,782	1,617			
Poland (including Lithuania)	373	487	603			
Other	403	320	295			
Total long-term insurance and savings business	2,541	2,589	2,515			
General insurance and health Asia						
Poland (including Lithuania)	12	10	72			
Other	0	8	51			
Total general insurance and health	65	65	199			
Investment sales	272	264	223			
Total sales	<b>2,944</b>	3,086	2,961			
Net written premiums	1,240	1,215	1,190			
Adjusted operating profit before tax						
Long-term insurance and savings business						
Poland (including Lithuania)	153	167	157			
Asia	69	108	70			
Other	8	4	2			
General insurance and health Asia	230	279	229			
Poland (including Lithuania)						
Non-insurance and fund management	(	(8)	(6)			
Total adjusted operating profit before tax	(23)	(25)	(10)			
Integration and restructuring costs	202	202	172			
Integration and restructuring costs	(9)	(9)	(15)			
Profit before tax attributable to shareholders' profits	193	157	157			
Year ended 31 December 2012						
Total sales for the segment were £2,944 million, a decrease of £95 million or 3% (2011: £3,039 million). Long-term insurance and savings sales in Asia decreased by £17 million, or 1%, to £1,765 million (2011: £1,782 million) with higher sales in Singapore more than offset by lower sales in other markets. Long term sales in Poland decreased by £114 million, or 23%, to £373 million (2011: £487 million) as a result of lower appetite for unit-linked products and regulatory changes relating to pensions Sales in other markets increased by £83 million or, 26%, to £403 million (2011: £320 million) driven by Turkey which saw a 35%						

Adjusted operating profit before tax after integration and restructuring costs

sales increase as a result of expansion of the bancassurance and direct sales channels.

Overall net written premiums in the general insurance and health business increased to £274 million (2011: £264 million).

In Asia, net written premiums in the general insurance and health business rose to £120 million (2011: £108 million) due to growth in Singapore.

Adjusted operating profit decreased by £27 million, or 12%, to £202 million (2011: £229 million). The change mainly reflects the non recurrence of a Hong Kong reserving change which benefited the results by £25 million in 2011.

Profit before tax attributable to shareholders increased by £39 million, or 22%, to £217 million (2011: £178 million).

Year ended 31 December 2011

Total sales increased by £78 million, or 3%, to £3,039 million (2010: £2,961 million) despite uncertain economic conditions and regulatory climates in China and India. The strong performance in Asia, up 10%, reflects the success of our existing bancassurance partnerships. Life and pension sales in Poland decreased 19% to £467 million as a result of legislation changes

Net written premiums increased by £25 million, or 2%, to £1,215 million (2010: £1,190 million).

Adjusted operating profit increased by £57 million, or 33%, to £229 million (2010: £172 million). This includes a reserving change benefit in Hong Kong of £25 million in 2011.

Profit before tax increased by £17 million, or 11%, to £178 million (2010: £161 million).

Aviva Investors

The table below presents the investment sales, adjusted operating profit, profit before tax attributable to shareholders' profits under IFRS and funds under management of Aviva Investors for the three years ended 31 December 2012, 2011 and 2010. As set out in 'Financial Statements IFRS - note 3 - Subsidiaries', the internal asset management operations of Aviva Investors North America are being sold with the US life business and have been classified within discontinued operations.

	2012	2011	2010
Continuing operations			
Investment sales	2,727	1,598	1,616
Fund management	39		60
Long-term insurance and savings business - Pooled Pensions <sup>1</sup>			
Total adjusted operating profit before tax	42	53	63
Integration and restructuring costs	(33)	(30)	(28)
Adjusted operating profit before tax after integration and restructuring costs	35	23	
Profit before tax attributable to shareholders' profits			
Assets under management (including discontinued operations)	36	29	

<sup>1</sup> Aviva investors adjusted operating profit includes profit relating to the Avwi Investors Pooled Pension business 274,484 262,506 259,787

Year ended 31 December 2012

Aviva Investors' adjusted operating profit for fund management from continuing operations decreased by £11 million, or 22%, to £39 million (2011: £50 million). The reduction in profits was as a result of lower performance fees, partially offset by lower operating expenditure driven by cost savings.

Profit before tax attributable to shareholders from continuing operations decreased by £34 million, or 94%, to £2 million (2011: £36 million), mainly due to the reduction in adjusted operating profit and a one-off profit in 2011 arising on the disposal of Aviva Investors Australia.

Aviva Investors' funds under management (including discontinued operations), increased by £11 billion, or 4%, to £274 billion (2011: £263 billion). This is due to capital appreciation more than offsetting negative net flows. Further

details are given in 'Financial Statements IFRS - note 55 - Assets under management'

Year ended 31 December 2011

Aviva Investors' adjusted operating profit for fund management was £50 million, a decrease of £10 million, or 17% (2010: £60 million). The fall in adjusted operating profit reflected the impact of ongoing investment in our global infrastructure and clients re-evaluating their risk appetite in the face of the continuing economic downturn which, in some instances, led them to re-allocate towards lower fee-bearing asset classes, with a consequential impact on revenue.

Profit before tax attributable to shareholders from continuing operations was £36 million, an increase of £7 million, or 24% (2010: £29 million), which benefited from the £23 million profit recognised on the sale of our Australian asset management subsidiary, offset by an impairment charge made against the value of an intangible asset.

Aviva Investors' funds under management (including discontinued operations) were £263 billion, an increase of £3 billion, or 1% (2010: £260 billion). The increase was a result of positive net funded sales, and capital appreciation, partially offset by the impact of the sale of our business in Australia.

Corporate centre and Group debt costs and other interest (from continuing operations)

The table below presents corporate centre and Group debt costs and other interest from continuing operations for the three years ended 31 December 2012, 2011 and 2010.

2010 Cm	2012 C	2011 C	2010 C
Corporate centre	(136)	(138)	(143)
Group debt costs and other interest	(648)	(644)	(204)
Other Group operations	(176)		(204)

Year ended 31 December 2012

Corporate centre costs decreased by £2 million, to £136 million (2011: £138 million). This was driven by a reduction in central spend and share award costs, partly offset by higher project costs, including the impact of meeting greater financial and regulatory requirements

Group debt and other interest costs increased by £11 million, or 2% to £659 million (2011: £648 million). This increase principally relates to higher interest costs on internal lending arrangements driven by changes in internal loan balances throughout the year. Group debt costs and other interest includes a net pension charge of £35 million (2011: £46 million). This represents the difference between the expected return on pension scheme assets and the interest charge on pension scheme liabilities

Other Group operations costs have remained flat at £204 million (2011: £204 million). This includes balances described as non-insurance in the market sections above, and £48 million relating to the running costs of the Aviva Europe and North America regional offices, which have subsequently both closed. It also includes Group banking and finance charges of £26 million and marketing spend of £22 million.

Year ended 31 December 2011

Corporate centre costs were £138 million, a decrease of £5 million, or 3% (2010: £143 million). The decrease principally reflected a reduction in project spend of £18 million in the year, and was offset by central spend which increased by £11 million arising from continued commitment to meeting increased regulatory and reporting requirements

Group debt and other interest costs were £648 million, an increase of £4 million, or 1% (2010: £644 million). This increase principally related to higher interest costs on internal lending arrangements driven by changes in internal loan balances throughout the year.

Group debt costs and other interest included net pension charge of £46 million (2010: £87 million). This represented the difference between the expected return on pension scheme assets and the interest charge on pension scheme liabilities.

*Other Group operations incurred costs of £204 million (2010: £176 million).*

Adjusted operating profit before tax (from continuing operations)

#### Year ended 31 December 2012

Adjusted operating profit before tax decreased by £201 million, or 10%, to £1,888 million (2011: £2,089 million) for the reasons set out above.

Year ended 31 December 2011

Adjusted operating profit increased by £265 million, or 15%, to £2,089 million (2010: £1,824 million) for the reasons set out above.

Discontinued operations

United States

In December 2012 the Group announced the sale of its United States life and related internal asset management businesses (US Life) to Athene Holding Ltd for £1.0 billion after the repayment of an external loan. The transaction is expected to be completed in 2013. See 'Financial statements IFRS - Note 3 - Subsidiaries' for further details. As a result of this announcement the results of US Life for 2012 and comparative periods have been classified as discontinued operations. The table below presents sales, net written premiums, adjusted operating profit and IFRS profit/(loss) before tax attributable to shareholders for the three years ended 31 December 2012, 2011 and 2010.

	2012 fm	2011 Em	2010 Cm
Sales			
Life	1,441	1,093	999
Annuities	2,598	2,839	3,729
<b>Total sales</b>	<b>4,039</b>	<b>3,932</b>	<b>4,728</b>
Net written premiums	3,589	3,620	4,485
Adjusted operating profit before tax			
Long-term insurance and savings business	200	197	174
Non-insurance	(16)	(11)	(6)
Fund management	55	37	34
<b>Total adjusted operating profit before</b>	<b>223</b>	<b>202</b>	
Integration and restructuring costs	(7)	(7)	
	(9)		
<b>Adjusted operating profit before tax after</b>	<b>232</b>	<b>216</b>	<b>193</b>
integration and restructuring costs			
<b>(Loss)/profit before tax attributable to shareholders' profits</b>	<b>(2,696)</b>	<b>262</b>	<b>149</b>

#### Year ended 31 December 2012

Sales increased by 3% to £4,039 million (2011: £3,932 million). Life sales were up 32% to £1,441 million (2011: £1,093 million) as the business focussed on accelerating the growth of the life insurance business. Sales of our annuity products declined by 8% to £2,598 million (2011: £2,839 million) as a result of pricing actions taken throughout the year. Net written premiums decreased by 1% to £3,589 million (2011: £3,620 million) as higher sales were offset by increased outward reinsurance premiums.

*Adjusted operating profit increased by £16 million, or 7%, to £239 million (2011: £223 million). Long-term insurance and savings adjusted operating profit remained broadly flat at £200 million (2011: £197 million). Fund management operations generated profits of £55 million (2011: £37 million).*

Loss before tax attributable to shareholders was £2,696 million (2011: £262 million profit) which mainly relates to the impairment to write the value of the business down to fair value less costs to sell.

#### Year ended 31 December 2011

*Sales decreased by £796 million, or 17%, to £3,932 million (2010: £4,728 million).*

Annuity sales in 2011 declined by £890 million, or 24%, to £2,839 million (2010: £3,729 million), primarily driven by a focus on value over volume, with strong annuity price competition and increased consumer demand for variable annuity products in the first half of 2011.

Life sales increased by £94 million, or 9%, to £1,093 million (2010: £999 million) reflecting a focus on growth in life business.

Net written premiums decreased by £865 million, or 19%, to £3,620 million (2010: £4,485 million) due to lower annuity sales.

Adjusted operating profit increased by £21 million, or 10%, to £223 million (2010: £202 million) as our in-force book grew and we maintained strong spread management and disciplined pricing in a competitive environment.

Profit before tax attributable to shareholders' profits increased by £113 million, or 76%, to £262 million (2010: £149 million). The increase was mainly as a result of improved operating results and favourable short term investment variances.

Delta Lloyd

On 6 May 2011, the Group sold 25 million shares in Delta Lloyd, reducing our holding at that date to 42.7% of Delta Lloyd's ordinary share capital, representing 40% of shareholder voting rights. As the Group no longer commanded a majority of shareholder voting rights, it no longer controlled Delta Lloyd. Accordingly, from 6 May 2011, the Group ceased to consolidate the results and net assets of Delta Lloyd and its results up to that date were shown as discontinued operations. For the period from 6 May 2011 to 5 July 2012, the Group had an associate interest in Delta Lloyd. In July 2012, following a further sell-down, the Group's holding fell to 19.8% of Delta Lloyd's ordinary share capital representing 18.6% of shareholder voting rights and for the remainder of 2012 it was treated as a financial investment. In January 2013, the Group sold the remainder of its holding in Delta Lloyd. The table below presents sales, net written premiums, adjusted operating profit and IFRS (loss)/profit before tax for Delta Lloyd as a subsidiary for the three years ended 31 December 2012, 2011 and 2010.

	2012 fm	2011 Cm	2010 Cm
Continued operations			
Sales			
Long-term insurance and savings business	—	1,255	3,793
General insurance and health	—	557	
	1,177		
<b>Total sales</b>	<b>—</b>	<b>1,812</b>	<b>4,970</b>
Net written premiums	—	2,043	4,340
Total adjusted operating profit - discontinued operations	—	191	524
(Loss)/profit before tax attributable to shareholders' profits	—	(726)	895

#### Year ended 31 December 2012

The Group's share of the loss of its associate interest in Delta Lloyd to 5 July 2012 was £304 million.

#### Year ended 31 December 2011

Delta Lloyd's adjusted operating profit for the period to 6 May 2011, when it was deconsolidated, was £191 million. The Group's share of the profits of its retained interest in Delta Lloyd as an associate for the remainder of 2011 was £133 million.

From the start of 2011 to the partial disposal on 6 May 2011, the AAA collateralised bond spread narrowed by about 80 basis points ("bps") as a result of changes in the underlying bond index. This movement was the main driver of the adverse life investment variance of £820 million and the loss before tax of £726 million seen in the first four months of 2011.

## Selected consolidated financial data

This data is derived from our consolidated financial statements which have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU)

In December 2012 the Group announced the sale of its US Life and related internal asset management operations, which have been classified as held for sale in the statement of financial position and their results shown as discontinued operations

The results presented as discontinued operations for 2011 and preceding years also include the results of Delta Lloyd N.V. which was deconsolidated during 2011. Between May 2011 and July 2012 Delta Lloyd was accounted for as an associate within continuing operations. In July 2012, following a further sell-down, the Group's shareholding fell below 20% and from July 2012 Delta Lloyd was treated as a financial investment within continuing operations at fair value through profit and loss.

Following a review of the classification of contracts issued by the Italian Life business, certain portfolios have been reclassified from participating insurance to participating investment contracts. This change has been reflected for all years in the table below. There is no impact on the result for any period as the result of this reclassification.

### Income statement data

Amounts in accordance with	Restated 2011	Restated 2010	Restated 2009	Restated 2008
IFRS Continuing operations		£m	£m	£m
<b>Income</b>				
Gross written premiums	22,744			
Premiums ceded to reinsurers	(1,571)			
	26,255			
	(1,548)			
	)			
	27,192			
	(1,606)			
	)			
	25,690			
	(2,294)			
	25,428			
	(1,613)			
	)			
Premiums written net of reinsurance	21,173			
Net change in provision for unearned premiums	(16)			
	24,707			
	(236)			
	25,586			
	(72)			
	23,396			
	552			
	23,81			
	5,296			
<b>Net earned premiums</b>	21,157			
Fee and commission income	1,27			
Net investment income (expense)	3			
Share of (loss)/profit after tax of joint ventures and associates	21,106			
(Loss)/profit on the disposal and remeasurement of subsidiaries and associates	(277)			
	(164)			
	24,471			
	1,465			
	4,341			
	(123)			
	565			
	25,51			
	4			
	1,45			
	1			
	16,74			
	6			
	14			
	1			
	16			
	3			
	23,948			
	1,552			
	19,902			
	(463)			
	122			
	24,11			
	1			
	1,672			
	(17,9			
	46)			
	(1,10			
	1)			
	(8)			
	43,095			
	44,015	45,061	30,719	6,7
<b>Expenses</b>				



Claims and benefits paid, net of recoveries from reinsurers	(23,601)			
Change in insurance liabilities, net of reinsurance	(430)			
Change in investment contract provisions	(4,450)			
Change in unallocated divisible surplus	(6,316)			
Fee and commission expense	(4,472)			
Other expenses	(2,845)			
Finance costs	(735)			
	(24,380)			
	(2,284)			
	1,478			
	2,721			
	(4,326)			
	(2,779)			
	(776)			
	(22,240)			
	(2,837)			
	(9,212)			
	362			
	(5,500)			
	(2,116)			
	(682)			
	(21,080)			
	)			
	(1,119)			
	)			
	(11,096)			
	)			
	(1,479)			
	)			
	(4,081)			
	)			
	(3,583)			
	) (755)			
	(23,425)			
	) 7,219			
	10,880			
	4,452			
	(4,038)			
	(2,668)			
	(847)			
	(42,849)	(30,346)	(42,225)	(43,193) (8,427)
Profit/(loss) before tax	246	1,79		
Tax attributable to policyholders' returns	(221)	0		
	)	(394)		
	37	)		
	3	1,86		
	17	9		
	8	(217		
	)	)		
		(1,69		
		9)		
		1,068		
Profit/(loss) before tax attributable to shareholders' profits	25			
Tax attributable to shareholders' profits	(227)			
	551			
	(134			
	)			
	1,39			
	6			
	(345			
	)			
	1,65			
	2			
	(440			
	)			
	(63			
	1)			
	294			
(Loss)/profit after tax from continuing operations	(202			
(Loss)/profit after tax from discontinued operations	)			
	(2,848)			
	417			
	(357			
	)			
	1,05			
	1			
	841			
	1,21			
	2			
	103			
	(337			
	)			
	(548			
	)			
	)			
Total (loss)/profit for the year	(3,050)	60	1,892	1,315 (885)

Amounts in accordance with IFRS

(Loss)/profit per share attributable to equity shareholders:

Basic (pence per share)	(113.1)p	5.8	37.8p	(36
Diluted (pence per share)	(113.1)p	p	8)p	37 5p
		5.7	(36 8)p	
		p		

50 4p  
49 6p

Continuing operations (15.2)p (15.2)p	35	3p
Continuing operations 11 1p 10 9p	(15.7)p	35
- Basic (pence per share)	Op	(15.8)p
- Diluted (pence per share)		

Dividends paid per share	19 Op	26 Op	25 5p	24 Op
	33 Op			

Number of shares in issue at 31 December	2,946
Weighted average number of shares in issue for the year	2,910
	2,906
	2,845
	2,820
	2,784
	2,767
	2,705
	2,658
	2,643

#### Statement of financial position data

Amounts in accordance with	2012 £m	Restated 2011 £m	Restated 2010 £m	Restated 2009 £m	Restated 2008 £m
<b>Total assets</b>	315,689	312,376	370,107	354,391	354,562
Gross insurance liabilities					
Gross liabilities for investment contracts		174,742	120,745	3,428	6,066
Unallocated divisible surplus	304,329	297,013	352,382	339,305	339,989
Core structural borrowings	15,363	17,725	15,086	14,573	
Other liabilities					
<b>Total liabilities</b>					
<b>Total</b>	113,091	110,494	168.69		
	6,931	9			
	5,139	112,40	<b>18</b>		
	68,674	8 3,866			
		5,489			
	147,37				172,55
	9				0
	113,36				109,85
	6 650				9 2,325
	5,255				5,525

Annual report on Form 20-F 2012

## Information on the company

### History and development of Aviva

#### General

Aviva, a public limited company incorporated under the laws of England and Wales, provides customers with long-term insurance and savings, general and health insurance, and fund management products and services. Over the last few years we have simplified and streamlined Aviva, focusing on markets where we can produce attractive returns.

We are committed to serving our customers well in order to build a strong, sustainable business which makes a positive contribution to society and which our people are proud to work for.

#### Our history

The Group was formed by the merger of CGU pic and Norwich Union pic on 30 May 2000. CGU pic was renamed CGNU pic on

completion of the merger, and subsequently renamed Aviva pic on 1 July 2002.

CGU pic and Norwich Union pic were both major UK-based insurers operating in the long-term insurance business and general insurance markets. Both companies had long corporate histories. Hand in Hand, which was incorporated in 1696, was acquired by Commercial Union in 1905, which itself was incorporated in 1861. General Accident pic was incorporated in 1865. Norwich Union pic was founded as a mutual society in 1797 and operated as such until 1997 when it demutualised and became an English public limited company. CGU pic was formed in 1998 from the merger of Commercial Union pic and General Accident pic.

In 2011 and 2012 the Group has undertaken and announced a number of disposals as we have continued the process of streamlining our business. Further details of these can be found in the sections 'Financial statements IFRS - note 3

- Subsidiaries', 'note 15 - Interests in, and loans to, joint ventures' and 'note 16 -Interests in, and loans to, associates'.

## Business overview

### Our aims and strategy

In July 2012, we announced our new strategic plan which has three main objectives:

- **Narrow focus**  
We aim to focus on fewer business segments where we believe we can produce attractive returns with a high probability of success.
- **Build financial strength**  
We will achieve target economic capital levels in line with our industry peers, reduce capital volatility and bring leverage down to a conservative level. We announced new target economic capital levels of 160-175%
- **Improve financial performance**  
We aim to deliver a higher level of revenue growth, lower losses and claims and higher return on capital, notwithstanding the subdued economic environment in developed markets. During 2012 we announced a new expense reduction target of £400 million.

## Our business

### Overview

Following the announcement in the second quarter of 2012 relating to the restructuring of the Group, the Group's operating segments were changed to align them with the new management reporting structure. The new operating segments are: UK & Ireland; France, Canada, Italy, Spain and Other, Higher growth markets and Aviva Investors. In December we announced the sale of our United States life, savings and related internal fund management business and this has been classified as a discontinued operation for the purposes of reporting financial performance.

Due to the size of the UK & Ireland segment, it has been split into separate Life and General Insurance segments, which undertake long-term insurance and savings business and general insurance, respectively. Aviva Investors, our fund management business, operates across most markets providing fund management services to third-party investors and to our long-term insurance businesses and general insurance operations.

Our business operates across three main market sectors - life insurance and savings; general and health insurance; and fund management.

Life insurance and savings business Long-term insurance and savings business from continuing operations accounted for approximately 74% of our total business based on worldwide total sales from continuing operations for the year ended 31 December 2012. We reported total long-term insurance and

savings new business sales from continuing operations of £20.6 billion and investment sales of £4.6 billion for the year ended 31 December 2012. Our focus remains on growing our business profitably and improving our operational efficiency so that we can fully benefit as our major markets return to economic growth.

### Market position

In the UK we are a market leader and have a market share of 12% based on annual premium equivalent (APE)<sup>1</sup> according to the Association of British Insurers (ABI) data as at 30 September 2012. Sales of life, investment and general insurance products in the UK represented 49% of our worldwide sales for the year ended 31 December 2012. Further details of our position in each market are set out in the market sections below.

### Brands and products

We have operated under the Aviva brand globally since 2010.

Our long-term insurance and savings businesses offer a broad range of life insurance and savings products. Our products are split into the following categories:

- **Pensions** - is a means of providing income in retirement for an individual and possibly his or her dependants. Our pension products include personal and group pensions, stakeholder pensions and income drawdown.
- **Annuities** - is a type of policy that pays out regular amounts of benefit, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of people. Deferred annuities are asset accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked
- **Protection** - is an insurance contract that protects the policyholder or his or her dependants against financial loss on death or ill-health. Our product ranges include term assurance, mortgage life insurance, flexible whole life and critical illness cover
- **Bonds and savings** - are accumulation products with single or regular premiums and unit-linked or guaranteed investment returns. Our product ranges include single premium investment bonds, regular premium savings plans, mortgage endowment products and funding agreements
- **Investment sales** - comprise retail sales of mutual fund type products such as unit trusts, individual savings accounts ("ISAs") and open ended investment companies ("OEICs").
- **Other** - includes equity release and structured settlements.

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

1 APE is a recognised sales measure in the UK and is the total of net annual premiums plus 10% of single premiums

General insurance and health insurance General insurance and health insurance accounted for 26% of our total worldwide sales for the year ended 31 December 2012. In the year ended 31 December 2012, we reported general and health insurance net written premiums of £8.9 billion.

### Market position

We are a leading general insurer in the United Kingdom and Canada and also have general insurance operations in France, Italy, Ireland, Poland and Turkey. We sell health products in the UK, Ireland, Singapore and Indonesia. In the year ended 31 December 2012, 52% of our total general insurance and health new business from continuing operations was written in the UK.

### Brands and products

Our general insurance business operates under the Aviva brand globally and concentrates on the following products:

- Personal lines - motor, household, travel and creditor;
- Commercial lines - fleet, liability and commercial property insurance;

- Health insurance - private health insurance, income protection and personal accident insurance, as well as a range of corporate healthcare products; and
- Corporate and specialty risks - products for large clients or where the risk is specialised.

### Distribution

Customers can buy our products through a range of distribution channels, including:

- **Direct** - In many of our markets, customers can buy our products over the telephone or via the internet. This method of distribution is most commonly available for simple, low cost products which do not require advice.
- **Direct sales force** - In some of our European and Asian markets we operate direct sales forces that only sell Aviva's products and the sales forces receive commission on the products they sell.
- **Intermediaries** - We offer a range of long-term insurance, savings, retirement, general insurance and health insurance products which can be bought through an intermediary, such

as an independent financial adviser or an insurance broker. Intermediaries receive a commission on sales of Aviva's products.

- Corporate partnerships, bancassurance and joint ventures -Aviva is a corporate partner for many organisations, including banks and other financial institutions, who wish to offer their customers insurance products. We have various distribution agreements with bancassurance partners and joint ventures across the markets in which we operate. In return for offering our products to their customers, the bank or joint venture partners receive a commission as a percentage of sales and in some cases achieve extra commission if agreed target levels of sales are met. Certain agreements have a profit sharing element based on a predetermined percentage. In some cases, if the agreed targets are not met, certain terms of the contract can be renegotiated. Under the joint venture agreements, the cost of running the venture are often split between the partners.

Further details of the distribution channels specific to each market are included in the following market analysis

#### Fund management

Aviva Investors, our fund management business, provides fund management services to Aviva's long-term insurance and savings, and general insurance operations as well as to third-party investors. The main fund management operations are in the UK, North America, Europe, Asia Pacific and the Middle East. All sales of retail fund management products are included in our long-term insurance and savings business sales.

In December 2012 it was announced that the internal asset management operations of Aviva Investors North America would be sold alongside the United States life business.

#### Market position

Aviva Investors was ranked 43<sup>rd</sup> globally by assets under management, according to the Towers Watson World 500 largest asset managers study 2011 ranking of asset managers by assets under management. Total worldwide funds managed by Aviva Investors at 31 December 2012 was £274 billion, including £38 billion relating to the United States Life and related internal asset management operations which are classified as discontinued operations in the financial statements. The substantial majority of this relates to Aviva's insurance and savings operations.

#### Brands and products

Aviva Investors operates under a single brand across our markets. Our business invests in most significant asset classes on behalf of institutional, pension fund and retail clients. In the US, Aviva Investors also own an asset management company called River Road Asset Management LLC.

## Developed markets

UK & Ireland life

### Business overview and strategy

In 2012, Aviva began combining its UK and Irish life insurance businesses under a single management structure, with the aim of allowing Ireland to leverage the scale and expertise that exists in the UK.

The UK business is a leading long-term insurance and savings provider with an overall market share of 12%, based on third quarter 2012 ABI returns. The Irish business is a large life and pension provider in Ireland.

Our strategy is to hold leading positions in workplace savings, individual annuities and protection whilst delivering strong margins and an Internal Rate of Return (IRR) in excess of the Group's target, overall and at a product level.

Our Irish long-term business is carried out through a subsidiary, Aviva Life Holdings Ireland Limited ("ALHI"), which is 75% owned by Aviva and 25% owned by Allied Irish Bank ("AIB"). ALHI holds four subsidiaries, one of which is Ark Life Assurance Company Limited ("Ark Life") which carries out bancassurance business via a distribution agreement with AIB. The original distribution agreement was renewable in 2011 but, on 15 December 2011, AIB notified the Group that they did not wish to renew it and the existing shareholders' agreement governing ALHI was terminated. The termination of this agreement triggered the ability for both parties to exercise put and call options that will result in the unwind of the original structure such that the Ark Life business returns 100% to AIB and the Group will purchase the 25% minority stake in ALHI. The formal exercise of these options was approved on 17 January 2012 and, as a result, the Ark Life business became held for sale on that date. Completion of the transaction is subject to agreement of terms with AIB and regulatory approval. Completion is expected in the next 12 months.

### Market and competition

The UK industry has entered a period of significant regulatory change, with the Retail Distribution Review (RDR) and Auto-Enrolment, transforming the way that long-term savings products are bought and sold. We have been selling a full suite of RDR compliant products since September 2012 and during 2012 processed our first schemes under Auto-Enrolment. We also hold leading positions in the protection and annuities marketplaces which are largely unaffected by the RDR.

The UK long-term savings market is highly competitive and we consider our main competitors to be Standard Life, Prudential, Legal & General, and Lloyds Banking Group.

In Ireland, the economic environment remains challenging. The life insurance market in Ireland is largely consolidated. We

consider our main competitors to be Bank of Ireland Life, Irish Life, Canada Life and Friends First.

#### Products

In the UK, we provide a comprehensive product range focused on both the consumer and corporate market with an approximate 70:30 split. The pensions and 'at retirement' products we offer include stakeholder and personal pensions, equity release, annuities, income drawdown and with-profits products. Our annuity offerings include immediate life, enhanced, fixed-term annuities and with-profits pension annuities. We provide a number of traditional life insurance products, including level-term, decreasing-term (with or without critical illness), guaranteed whole life insurance, and guaranteed lifelong protection plans. Our savings and investment products include ISAs, investment bonds, funds, base rate trackers, investments with guarantees and with-profits products.

In Ireland, our long-term insurance and savings business offers a wide range of protection, bonds, savings and pension products. Our protection products include life insurance, mortgage protection, specified illness and guaranteed and whole life cover products. The pension range covers retirement

and investment products including government personal retirement savings accounts (PRSA) schemes.

#### Distribution

We have a multi-distribution strategy, which means we sell our products through intermediaries, corporate partners, in the workplace, and directly to customers. We are a leading provider in the UK intermediary market with a 12.5% share.<sup>2</sup>

In 2012, in the UK, we agreed an exclusive distribution deal with Tesco for the sale of protection products, following the extension of our distribution agreements with Santander and Barclays in 2011. We are also the provider of choice to the Royal Bank of Scotland and other leading organisations including the Post Office. We remain committed to building on our existing relationships and distribution partnerships as well as to growing our workplace and direct channels.

### UK & Ireland general insurance Business overview and strategy

In 2012, Aviva continued to combine its UK and Irish general insurance businesses, allowing Ireland to leverage the scale and expertise that exists in the UK. We are a leading general insurer

in both the UK and Ireland with market shares of 10.5%<sup>3</sup> and 15.1%<sup>4</sup> respectively, and have approximately 9 million customers. We employ around 11,000 people and operate from a number of locations throughout the UK and Ireland, including Norwich, Perth, Glasgow, London, Dublin and Galway.

We focus on personal and commercial insurance. In the UK we hold top three positions in all our major classes of business<sup>3</sup>. In Ireland we are a leader in general insurance<sup>4</sup> and health insurance. We believe our key strengths include underwriting excellence, claims and cost management and excellent customer service. We focus on the fundamentals of the insurance business to maximise returns through the insurance cycle and provide stability of earnings.

#### Market

The UK is the third largest insurance market in the world.<sup>5</sup> In 2011, the top four companies had a 32%<sup>3</sup> share of the general insurance market.

The UK and Ireland general insurance markets are cyclical in nature and remain very competitive, particularly in personal lines, where the market is highly commoditised.

Following significant premium rate increases in recent years in response to rising claims costs and frequencies, the UK personal motor market has seen rate reductions in 2012 reflecting intense competition and regulatory change. Challenging conditions also apply to other UK classes of business, with rating increases typically limited to low single digits. In Ireland, the market remains challenging reflecting the economic downturn, increased competition and market contraction of 3% in 2010 and a further 5% in 2011.

In the UK our main competitors are Direct Line Group, RSA, The Admiral Group, AXA, Zurich, Lloyds Banking Group, Allianz and Ageas. In Ireland, our competitors include RSA, AXA, Zurich and Liberty

#### Products

We provide a wide range of general insurance products both in the UK and Ireland. In the UK we have a business mix of approximately 60% personal lines and 40% commercial lines. Our UK personal products include motor, home and travel insurance. Our UK commercial products include motor, property and liability insurance for small and medium size enterprises

("SMEs") and the larger UK Corporate and Speciality Risks market.

In Ireland our products include property, motor, travel, farm and business insurance and our health insurance business provides products for both the personal and company sector.

#### Distribution

We have a multi-distribution strategy. Our personal products are sold directly to customers over the phone and through our websites [www.aviva.co.uk](http://www.aviva.co.uk), [www.aviva.ie](http://www.aviva.ie) and [www.quotemehappy.com](http://www.quotemehappy.com), via brokers and through corporate partnerships. Our Quotemehappy insurance products are also available through price comparison websites. For commercial insurance, we focus on broker distribution and believe that independent brokers remain the best source of advice for business customers

In Ireland, to deliver further efficiency benefits, we closed our network of high street branches and transferred customers to both One Direct and strategic broker partners, which ensured they retained access to local face-to-face solutions for their insurance needs

#### France

##### Business overview and strategy

France is the fourth largest insurance market in the world<sup>5</sup>. Aviva France operates through two main companies. Aviva Vie and Antarius (JV structure with Credit Du Nord). Aviva France, one of the top ten insurance businesses in France, is ranked seventh in life insurance (excluding bancassurance) and tenth in general insurance as measured by gross written premiums, according to L'Argus de l'Assurance, as at 31 December 2011. Our health business has a 1.8% share of the market based on 2011 premium income<sup>6</sup>. Aviva France's strategy is to continue to diversify and grow our business profitability.

#### Market

The life insurance market is driven by individual savings and dominated by bancassurance, which has accounted for around 60% of the life insurance market over the past decade according to the FFSA. We believe that the current volatility in the financial markets has affected customer confidence but that over a longer

2 ABISUISQ32012

3 Source Delamator analysis of market share based on 2011 GWP a Source Irish Insurance Federation, 2011

5 NewSwiss Re Sigma Study (World insurance 2011)

6 Source Federation française des sociétés d'assurance (FFSA)

period, multi-funds policies and unit-linked funds are the best insurance vehicles for performance. We believe the long-term insurance and savings market in France has longer-term growth potential due to the ageing population and the growing need for private pensions.

The general insurance market in France is mature and highly competitive. For several years, price competition was high as insurers sought market share, particularly in the personal lines market. In our opinion, the market has now entered a phase of price increases that currently makes up the majority of its marginal growth.

#### Products

Aviva France provides a wide range of insurance solutions: life and long-term savings, general insurance and asset management through Aviva Investors France. The products sold through our life channel are long-term savings, pensions and regular premium products and a broad range of protection products, primarily for individuals, and with a focus on the unit-linked market.

We have a longstanding relationship with the Association Française d'Epargne et de Retraite (AFER) which is the largest retirement savings association in France with 735,000 members as at 31 December 2011, to manufacture and distribute the AFER savings product. In the general insurance market our product range includes household, motor, health and legal protection products and also a range of insurance products for

farms, craftsmen, tradesmen and small to medium sized entities and specific products for building firms and motor fleets.

#### Distribution

Aviva France has developed a multi-distribution model combining retail, direct and bancassurance networks through owned distribution channels, independent networks and partnerships. Our retail networks sell through 896 tied agents, a direct sales force made up of more than 280 advisors and 700 Union Financière de France (UFF) consultants (Aviva France also holds a majority stake in UFF) and more than 1,000 active brokers in the life, health and construction markets. Direct distribution is sold through Eurofil for personal general insurance. Aviva Direct for health and protection and Epargne Actuelle for the AFER product. Eurofil is the second largest direct general insurer and Aviva Direct is the leading provider of direct protection in France according to the FFSA as at December 2011. We operate in the bancassurance market through our partnership with Credit du Nord, a subsidiary of Societe Generale, selling life, savings, protection and general insurance products. This partnership gives Aviva access to over 19 million customers, as at December 2011

#### Canada

##### Business overview and strategy

Aviva Canada is the country's second largest general insurer<sup>7</sup>. Through its distribution partners it provides a range of personal and commercial lines insurance products to nearly three million

policyholders. It has an 8.4% market share and a top five position in all major provinces.<sup>7</sup> Aviva Canada employs approximately 3,800 people and operates from a head office in Toronto, with other offices located throughout Canada.

We believe that we are well placed for continued growth and that our success is underpinned by our two strategic priorities of building strong broker relationships and maintaining sophisticated pricing and underwriting. We believe the transformation of our personal lines business over the last few years has ensured the business is highly competitive. We expect that continued refinement to our models will allow us to leverage this position to positively react to market opportunities. We will continue to address increasing customer demand for choice, simplicity and self-service by working with our broker partners on processes and technology solutions in order to help them compete with other channels.

7 MSA Research Inc, 2011 online database

### Market

As the eighth largest<sup>8</sup> in the world, Canada's general insurance market is established and stable. The four largest provinces generate around 89% of total premiums with Ontario, the largest, representing 48% of total Canadian premiums.<sup>9</sup>

The Canadian general insurance industry is highly fragmented with many small players and no dominant consumer brand. Steady consolidation has resulted in the top five companies representing 40% of the market and the top two companies, Intact Financial and Aviva, controlling 24% of the market.<sup>9</sup> The rest of the industry includes several national carriers as well as smaller, provincially based or niche companies.

Whilst direct and affinity channels are gradually increasing in market share, the traditional broker channel accounts for over 65% of distribution.<sup>10</sup> In addition to the growth of direct and affinity channels, insurance carriers are increasingly supporting and controlling distribution through investment in brokers.

### Products

The general insurance products that we provide through our Canadian companies are:

- Personal, home and motor insurance,
- Small and medium-size enterprise commercial insurance, including motor, property, liability, boiler and machinery, and surety, and
- Niche personal insurance products including holiday and park model trailers, hobby farms, boats as well as antique, classic and custom cars.

22

Aviva <+>

Annual report on Form 20-F 2012

## Information on the company continued

website; black box service for motor insurance; new quotation tools);

- Two of the leading general insurance companies announced their merger: Unipol and Fondiaria Sai;
- The insurance regulator went through a restructure and as of 1 January 2013 is reporting to the Bank of Italy. It is now called IVASS (Istituto per la Vigilanza suite Assicurazioni).

### Products

Our long-term insurance and savings business offers a wide range of products covering protection, bonds and savings and pensions.

We are focussed on less capital intensive products. We have reduced product guarantees and launched three new life products all with improved economic returns and reduced capital consumption.

We have increased our share of unit-linked business and reduced our with-profit sales, to manage down our exposure to this sector. We have been focusing to further develop our offering in protection where we are one of the market leaders.

Our general insurance business in Italy mainly provides motor and home insurance products to individuals, as well as small commercial risk insurance, including marine insurance, to businesses. In 2013 we will further develop our partnership with Banco Popolare distributing motor insurance through their branches.

### Distribution

We operate in Canada through a distribution network focused on approximately 1,700 independent group and retail brokers who distribute our core personal and commercial line products. In addition, we work closely with both independent and wholly owned specialty brokers to distribute specialty personal line products.

### Italy, Spain and Other

#### Italy

##### Business overview and strategy

Aviva Italy is the country's sixth largest life insurer, with a market share of 4.44% based on 2011 premiums (excluding Eurovita)<sup>11</sup> and is the 12th largest general insurance company with a market share of 1.54%.<sup>12</sup> We have approximately 2.5 million customers across both the Life and General Insurance businesses.

Aviva Italy has set up a transformation plan to navigate through the current challenging economic environment and consolidate its business structure. Aviva Italy aims to reinforce its business partnerships with three of the five largest Italian banks and with 500 agents.

#### Market

The Italian life market is dominated by the top 10 providers which represent around 79% of the total market share.<sup>13</sup> The life insurance industry in Italy reported a decline in volumes as of 30 September 2012 with gross written premiums down by 10.2% compared to the same period in 2011, whilst the general insurance segment decreased by 2.1% in the same period.<sup>14</sup>

In 2012 the Italian insurance industry went through three major changes:

- The Italian government introduced new legislation (Decreto Monti) which has led insurance companies to transform both their product ranges and their customer relationships (eg. separate private area for customers on the company

fi New Swiss Re Sijma Study (Work/ insurance 2011)

9 MSA Research Inc, 2011 online database

10 A'co Insurance Report (or Canada)

11 Assonazione Nazionale? Ira le Imprese Assicuratrici (ANUM)

12 ANIA as of 31 December 2011

13 ANIA www.ania.it/risorse/BBII/CA20N%erTii.dcl\_lavorn\_diretio\_naliano.html

14 MASS (stituto per la vigilanza sulle Ass'urazioni)

### Distribution

Our products are distributed through bancassurance partnerships with UniCredit Group, Banco Popolare Group and Unione di Banche Italiane (UBI). These partnerships give us access to more than 5,900 branches. In addition, we also have approximately 5,500 sales advisers, and 600 insurance (multi-mandate) agents and brokers as at the end of 2012.

### Spain

#### Business overview and strategy

Aviva Spain is the country's fifth largest long-term insurer by gross written premiums with a market share of 5% in the third quarter of 2012.<sup>15</sup> Aviva Spain sells protection, long-term savings and pensions, health and accident insurance through a bancassurance network based on joint ventures with six banks. We also sell through Aviva Vida y Pensiones, the wholly-owned Aviva branded long-term insurance company and through our exclusive distribution agreement with Spanish mutual insurance company Pelayo.

Our strategy in Spain is to maintain our bancassurance footprint and further develop our retail operations and attract new partners when the opportunities arise. In December 2012, we announced our intention to sell our share of our joint venture with Aseval to Bankia S.A for £494 million. We expect this transaction to be completed during the second quarter of 2013.

#### Market

The Spanish market is significantly affected by the current economic climate and the financial sector continues to be under pressure as a result of the ongoing restructuring process and mergers taking place. Any opportunities arising from these will be considered by Aviva on their merits. In relation to distribution agreements with bancassurance partners, Aviva is protected financially within our contracts with Spain's savings banks ("the cajas") from any detrimental affect arising from these mergers.

The top positions in the long-term life insurance market are dominated by bank-owned or bank-insurer joint ventures, with the overall bancassurance channel accounting for more than 74% of gross written premiums at the end of 2011<sup>16</sup> in the Spanish life insurance market.

Customers in Spain are accustomed to receiving advice through banking channels, and we continue to use our relationship with our partners to capitalise on this whilst developing our retail agents and broker distribution network.

### Products

We offer a wide range of bonds, savings, and protection products. Investment products include both unit linked and traditional plans, where profit sharing is regularly used to increase the policy return. Our traditional plans include savings schemes and income products. Pension savings products have valuable tax advantages. We offer a flexible range of individual and group pension plans with alternative investment choices. We also offer protection products, covering both mortgages and credit loans typically providing cover for the family in the event of death or disability. The ongoing focus is on less capital intensive products.

### Distribution

Through bancassurance partnerships we have established subsidiaries to distribute our products with each of the banks as set out below

- Unicorp Vida - in conjunction with Unicaja since 2001;
- CxG - in conjunction with Caixa Galicia since 2001;
- Caja Espana Vida - in conjunction with Caja Espana since 2001;
- Caja Granada Vida - in conjunction with Caja Granada since 2002;

- Cajamurcia Vida - in conjunction with Cajamurcia since 2007; and
- Aseval - in conjunction with Bancaja (now Bankia) since 2000 (sale announced December 2012 as set out in 'Financial statements IFRS - note 3 - Subsidiaries').

Aviva Vida y Pensiones distributes our products through professional intermediaries (financial advisers, agents and brokers), supported by a branch office network and call centres. In 2012 we saw the start of distribution through Pelayo's network of 200 branches and approximately 1,000 exclusive agents.

Our distribution relationships have enabled us to maintain our position as the largest provider of individual protection products in the market<sup>17</sup>.

### Other

The Italy, Spain and Other segment also includes our Romanian pensions business, which is held for sale as at 31 December 2012, our reinsurance and run-off businesses and the results of our life businesses in Hungary, the Czech Republic and Romania up until the date of sale in July 2012.

## Higher growth markets

### Business overview and strategy

The higher growth markets segment covers our operations in nine markets in Asia as well as Poland, Lithuania, Turkey and Russia.

As at 30 June 2012, our Singapore subsidiary ranks fifth by APE according to the Life Insurance Association,<sup>18</sup> providing employee benefits and healthcare insurance. In Singapore, we have a strong relationship with the Development Bank of Singapore (DBS).

In China, through our 50% joint venture with COFCO Ltd, we are ranked in the top five among the foreign life insurers in terms of APE.<sup>19</sup> We have a presence in 12 provinces and over 50 branches. Due to regulatory changes in bancassurance, we are developing alternative distribution channels to reach high net worth customers.

In India, with a distribution network of 140 branches, we operate in partnership with the Dabur Group through a 26% interest in Aviva Life Insurance Company India Ltd. Tighter regulations on unit-linked products are driving an industry shift towards traditional products such as endowment and health

<sup>15</sup> Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones (IKEA)

<sup>16</sup> ICEA in the publication Canales de Distribución - Estadística 2011

1 ICEA at 30 September  
7 2012 title insurance  
1 Association  
8 APE data released by National Insurance Industry  
1 Communication Club  
9

## Information on the company continued

policies. As at 31 August 2012, we ranked ninth among the private life insurance companies in India based on APE according to the Insurance Regulatory and Development Authority (IRDA).<sup>20</sup>

In Asia we are focused on creating franchise value through organic growth. Increasing the value of our new business remains our first priority. We are achieving this through scale benefits and by focusing our product mix on higher margin products.

As of 30 June 2012, our Polish life operation is the fourth largest overall life insurer in Poland (including JV Life), with a market share of 7% based on total premium income according to the Polish Financial Supervision Authority (KNF).<sup>21</sup> Our product strategy for pensions in Poland is to retain our status as one of the market leaders in terms of assets and customers. We have updated our pay and bonus structure for our sales force to link compensation directly with the value generated by the sale.

We also operate in Turkey (offering both general insurance and life products) and Russia (life operations).

Russia is held for sale at 31 December 2012 and we announced the disposal in February 2013

### Market

We believe the fundamentals of the Asian markets are strong. The Asian Development Bank predicts GDP growth for emerging markets in Asia of 7.2% in 2012.<sup>22</sup> Despite inflationary

pressures, we believe Asia's strong domestic demand and intra-regional trade is likely to sustain this growth momentum, with China and India driving the overall trend. We expect Asia to be the fastest growing region for life insurance globally, with the potential for 15-20% average market growth per annum over the next decade. We believe that South East Asia in particular offers one of the highest insurance margins in the world. By strengthening our multi-channel distribution capability as well as managing our product portfolio for margin and profit, we believe we are well-positioned to continue delivering strong growth in franchise value.

Outside of Asia, the Polish market for protection products has seen significant growth since 1999, although penetration rates remain relatively low according to KNF statistics. We expect the insurance market in Turkey to continue to grow as its economy matures.

### Products

Our Asian businesses offer a range of protection, bonds and savings and pension products, including universal life, participating and non-participating endowments, unit-linked single and regular premium life insurance, other savings and pensions products and a range of accident and health insurance products.

Outside of Asia, our life business in Poland provides a broad range of unit-linked, annuities and bonds and savings products

and health insurance. For institutions we offer group life insurance and employee pension programmes, which are both unit-linked products. Our pension business offers a standard product for all customers as part of the privately managed second pillar pensions market. We offer general insurance products to both commercial entities and individuals in Poland. For institutions we offer selected commercial lines risks. For individuals we offer home, accident and travel insurance, which are primarily sold by tied agents, as well as motor insurance, which is sold primarily through our direct operation. In Russia, we sell a wide range of products including personal and group life as well as personal accident policies. In Turkey, we sell life and savings products including unit-linked pensions, supplemented by protection insurance and other savings products. Our Turkish general insurance operations sell personal motor, household, commercial property, small and medium size enterprises, personal accident, marine and travel insurance.

#### Distribution

Across Higher growth markets we operate a multi-distribution strategy. In Singapore, we have a core bancassurance relationship with DBS Bank. In China and South Korea, we distribute the majority of our products through bancassurance and IFAs. In Hong Kong, India and Malaysia, bancassurance is the main distribution channel. We are investing in other channels, such as direct marketing, to diversify our sources of revenue.

Outside of Asia, the direct sales force and bancassurance is the main distribution channel for most of the Polish group and is made up of 2,200 tied insurance agents. Our biggest relationship is a joint venture with Bank Zachodni WBK (a subsidiary of Banco Santander) that sells both life and general insurance products through the bank's network of over 620 branches.<sup>25</sup> We also cooperate with independent insurance agencies and brokers. Our mutual funds are also sold in brokerage houses and our individual products are supported by call centre and website sales. We also have a direct platform (internet and call centre) for distribution of motor insurance. In Turkey, we operate through a multi-channel distribution framework consisting of bancassurance, direct sales force, corporate sales, agencies, telemarketing and brokers. In Russia we focus on bancassurance, where we sell through 21 banks and through brokers.

<sup>20</sup> mp/fm^itdaQ&MI&MI&WcmiArnT&m^islav^DfMBfI&mid^! | 8

<sup>21</sup> KNF [www.knf.pl/CiCwr%nameVA\\_rifrimije\\_riw\\_2011k\\_lcm75.27692ils](http://www.knf.pl/CiCwr%nameVA_rifrimije_riw_2011k_lcm75.27692ils)

<sup>22</sup> Awan Dwlomeni outlocA 2011 update, December 2011

## Aviva Investors

### Business overview and strategy

Aviva Investors was established in 2008 when the Aviva Group combined all of its major fund management components into a single global fund management business. As at 31 December 2012, we had £274 billion in assets under management including £38 billion relating to the United States Life and related internal asset management operations which are classified as discontinued operations in the financial statements. Aviva Investors offers a range of investment management services, most notably in the UK, Europe, the US and Asia Pacific.

Our largest clients are the long-term insurance, savings, and general insurance businesses of Aviva, to whom we provide bespoke asset management services across a broad spectrum of asset classes.

We provide external clients with bespoke segregated solutions or offer access to a variety of fund ranges. Our principal target clients for the larger segregated solutions tend to be large pension funds and financial institutions such as insurance companies and banks.

Our strategy is to grow our share of higher-margin, external business, offering client-focused solutions and products to our customers across our international network.

### Products and distribution

Our products cover a broad range of asset classes. In Europe, we have a range of SICAVs (open-ended collective investment schemes), which are domiciled in France, Luxembourg and Poland. These funds have different share classes depending on the size and type of investor. Our traditional distribution model for these funds focuses on wholesale distributors, asset allocators and small to mid-size institutional investors.

In the UK, we largely sell segregated mandates and specialist funds to pension schemes, local authorities and insurance companies. We also supply products to the retail and wholesale markets, principally through UK domiciled equity, bond and real estate funds. These are promoted to investors via IFAs, fund platforms, fund supermarkets and discretionary asset managers. In addition, we have a range of pooled pension funds which are aimed at the smaller pension fund market. These funds are normally defined benefit schemes and tend to be advised by investment consultants.

<sup>23</sup> Bank2achorim WBK <http://indyvvdualni.bzwvbk&wiaklhpub-aiv^OMz-ib4rikorruw^-tSIAR^&1u-riacowek-i-bankomatow.html>

We manage hedge funds in the UK and the US. These funds are generally registered offshore and are promoted to institutional clients, family offices and wealth managers. They include both fund of fund and single strategy funds across fixed interest and convertibles markets. In the US we also have an asset management company called River Road Asset Management LLC.

We also have a range of specialist property funds. These funds are targeted at specialist real estate buyers and large institutions (mostly pension funds and local authorities), and provide real estate solutions to a wide range of risk appetites, ranging from secure income generating funds to leveraged growth funds.

We have six money market funds, domiciled in Dublin and Paris, addressing the sterling and euro money market segments. These funds are sold by a specialist sales team and target corporate treasury functions.

## Discontinued operations

### United States

#### Business overview and strategy

On 21 December 2012, the Group announced that it had agreed to sell its United States life operations, consisting of our United States life and annuities business (Aviva USA) and the related asset management operations of Aviva Investors North America, to Athene Holding Ltd. Completion of the sale is expected in

2013. As the disposal will result in the loss of a major geographical area of operations, previously presented as "United States" in the segmental reporting note, the results of Aviva USA for all periods presented in the income statement have been classified as a discontinued operation. Aviva USA has been classified as held for sale in the statement of financial position as at 31 December 2012.

### Market

Aviva USA is a leading provider of fixed indexed life insurance and fixed indexed annuities in the USA. According to AnnuitySpecs.com, as of 30 September 2012, Aviva USA is ranked first in the market for the sale of fixed indexed life products with a 14% market share, and second for the sale of fixed indexed annuities with a 13% market share.<sup>24</sup>

### Products

Aviva USA offers both protection and savings products, with traditional fixed as well as indexed accumulation options that pay interest based on the movement of a market index. Depending on such movement, indexed policies can deliver higher returns than traditional fixed products, especially when interest rates are low. Indexed products also serve to protect the customer's investment and provide a guaranteed income even when the market is down.



Aviva USA also offers a range of optional extras or riders' that can be added to policies to meet customised individual needs

In the savings market, Aviva USA's fixed annuity portfolio offers tax-advantaged savings opportunities and protection against the risk of outliving one's assets. Some of these products include a guaranteed lifetime withdrawal benefit that allows customers to make guaranteed minimum withdrawals from their annuity for the entirety of their lives.

**Distribution**

Aviva USA uses a multi-channel distribution strategy by focusing on more than 50 key distribution partners. Its distribution channels include career marketing organisations, independent marketing organisations, brokerage general agents and personal producing agents. Its network covers all 50 states with agents largely contracted through key distribution partners.

Delta Lloyd

Delta Lloyd is a financial services provider in the Netherlands and Belgium, operating in the life insurance and pensions, general insurance, fund management and selected banking markets.

The Group ceased to control Delta Lloyd on 6 May 2011 and its results for 2011 up to that date and prior years are presented as discontinued operations.

As explained in 'Financial Statements IFRS - note 3 -Subsidiaries', and 'Financial Statements IFRS - note 16 -Interests in, and loans to. Associates', for the period from 7 May 2011 to 5 July 2012, the Group had an associate interest in Delta Lloyd. From 6 July 2012, following a further sell-down, the Group's stake was treated as a financial investment. The Group's share of Delta Lloyd's results as an associate and its interest in Delta Lloyd as a financial investment are both included in 'other Group activities' within continuing operations.

In January 2013, the Group sold its remaining stake in Delta Lloyd.

# Organisational structure

## Organisational structure

The following chart shows, in simplified form, the organisational structure of the Group as at 31 December 2012. Aviva pic is the holding company of the Group.

Parent company  
Aviva pic

Avfwi-COFCOU  
e Insurance  
Company  
Untried\*



Avtvaptc\*

Aviva Group ■  
Holdings  
United\*

### Subsidiaries

The principal subsidiaries of the Company are listed below by country of incorporation. All are wholly-owned, directly or indirectly, and transact insurance or reinsurance business, fund management activities or services in connection therewith, unless otherwise stated.

Aviva USA  
Incorporation



Aviva Investors  
Holdings United\*

Avtva Central ?  
Services UK  
United\* ~



Aviva  
Employment  
Services  
United\*

Aviva  
International  
Insurance  
United\*

Aviva  
Insurance ■  
United\*\*\*, v

Aviva  
International  
Holdings Uniwid

A complete list of the Group's subsidiaries is contained in the Group's annual return to Companies House.



\* Incorporated in England and Wales

\*\* Incorporated in People's Republic of China

Aviva pic has a 50% interest in the joint venture \*\*\* incorporated in Scotland

\*\*\*\* Includes certain investment management businesses incorporated in the United States

### United Kingdom

Aviva Annuity UK Limited  
Aviva Central Services UK Limited  
Aviva Consumer Products UK Limited  
Aviva Employment Services Limited  
Aviva Equity Release UK Limited  
Aviva Health UK Limited  
Aviva Insurance Limited  
Aviva Insurance Services UK Limited  
Aviva International Insurance Limited  
Aviva Investors Global Services Limited  
Aviva Investors Pensions Limited  
Aviva Investors UK Fund Services United  
Aviva Investors UK Funds Limited  
Aviva Life & Pensions UK Limited  
Aviva Life Services UK Limited  
Aviva Risk Management Solutions UK Limited  
Aviva UKGI Investments Limited  
Gresham Insurance Company Limited  
The Ocean Marine Insurance Company Limited

### Barbados

Victoria Reinsurance Company Ltd

### Bermuda

Aviva Re Limited

### Canada

Aviva Canada Inc. and its principal subsidiaries:  
Aviva Insurance Company of Canada Elite  
Insurance Company Pilot Insurance Company  
Scottish & York Insurance Co. Limited S&Y  
Insurance Company ■ Traders General  
Insurance Company

### France

Aviva France SA and its principal subsidiaries:  
Antarius S.A. (50.0%) Aviva Assurances  
S.A. (99.9%) Aviva Investors France S.A.  
(99.9%) Aviva Vie SA (99.9%) Aviva  
Epargne Retraite (99.9%) Eurofil S.A.  
(99.9%)

**Union Financiere de France Banque (Banking)**

(74.3%) Hong Kong

**Aviva Life Insurance Company**

**Limited Indonesia**

**PT Asuransi Aviva Indonesia**

**(60.0%) Ireland**

Aviva Insurance Europe SE

Aviva Health Group Ireland Limited (70.0%)

Aviva Life & Pensions Ireland Limited (75.0%)

**Italy**

Aviva Italia Holding S.p.A. and its principal

subsidiaries Avipop Assicurazioni S.p.A. (50.0%)

Avipop Vita S.p.A. (50.0%) . Aviva Sp.A. (51.0%)

Aviva Assicurazioni Vita S.p.A. (50.0%) Aviva Italia

S.p.A. . Aviva Previdenza S.p.A. (55.0%) Aviva Vita

S.p.A. (25.5%) Eurovita Assicurazioni S.p.A.

(41.0%)

Organisational structure continued

**Lithuania**  
Uzdaroji akcine gyvybes draudimo ir pensiju; bendrove "Aviva Lietuva"

**Poland**  
Aviva Powszechna Towarzystwo Emerytalne Aviva BZ WBK S.A. (90.0%)  
Aviva Towarzystwo Ubezpieczen na Zycie SA (90.0%)  
Aviva Towarzystwo Ubezpieczen Ogolnych SA (90.0%)

**Russia**  
Closed Joint Stock Insurance Company Aviva (Zao)

Singapore  
Aviva Ltd

Navigator Investment Services

**Limited Spain**  
Aseguradora Valenciana S A, de Seguros y Reaseguros (Aseval) (50.0%)  
Aviva Vida y Pensiones, SA de seguros y reaseguros Caja Espana Vida, Compania de Seguros y Reaseguros (50.0%)  
Caja Murcia Vida y Pensiones, de Seguros y Reaseguros S.A. (50.0%)  
Caja Granada Vida, de Seguros y Reaseguros, S.A. (25.0%)  
CxG Aviva CorporaciOn CaixaGalicia de Seguros y Reaseguros, S.A. (50.0%)

Unicorp Vida, Compania de Seguros y Reaseguros

(50.0%) Turkey

Aviva Sigorta A.S. (98 6%)

**United States**  
Aviva USA Corporation and its principal subsidiaries:  
Aviva Life and Annuity Company  
Aviva Investors North America, Inc.  
River Road Asset Management, LLC

**Associates and joint ventures**  
The Group has ongoing interests in the following operations that are classified as associates or joint ventures. Further details of those operations that were most significant in 2012 are set out in notes 15 and 16 to the financial statements.

**United Kingdom**  
The Group has interests in several property limited partnerships. Further details are provided in note 15 to the financial statements.

**China**

**Aviva-COFCO Life Insurance Co. Limited**  
(50.0%) India

**Aviva Life Insurance Company India Limited**

(26.0%) Italy

**Banca Network Investimenti SpA (50.0%)**

**Malaysia**  
CIMB Aviva Assurance Berhad (49.0%)  
CIMB Aviva Takaful Berhad (49.0%)

**South Korea**

**Woori Aviva Life Insurance Co, Ltd**

(47.3%) Turkey

**AvivaSA Emeklihk ve Hayat A.S**

(49.8%) Vietnam

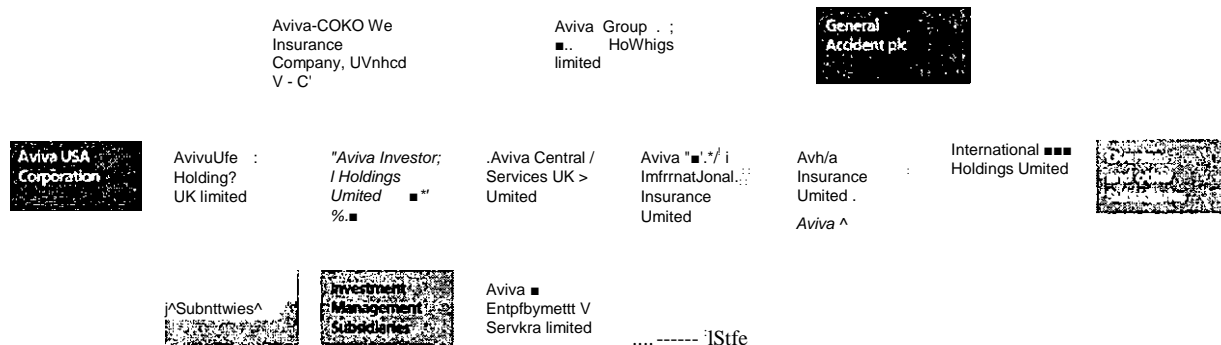
Vietinbank Aviva Life Insurance Company Limited (50.0%)

**Group Restructuring**  
On 28 February 2013, a major restructuring of the Group was completed, which will have economic effect from 1 January 2013. Prior to the restructure, Aviva Insurance Limited ("AIL") acted both as the main UK general insurance underwriter as well as a holding company for the Group's non-UK operations. In order to enhance the governance relating to AIL and reduce the UK general insurance policyholders exposure to the non-UK operations, Aviva International Holdings Limited ("AIH"), the owner of the majority of the non-UK operations has been transferred to Aviva Group Holdings Limited ("AGH").in consideration for a loan from AIL, secured on the non-UK operations by way of the shareholding in the UK holding companies including AIH. At the same time, the shares in AIL, held by Aviva International Insurance Limited ("AIL") were transferred to AGH in consideration for a loan secured on the shares of AIL.

The impact of the above restructuring is to reduce the complexity of the current Group corporate structure resulting in a greater degree of direct control of subsidiaries creating a flatter, more transparent corporate structure.

The following chart shows, in simplified form, the organisational structure of the Group after the completion of the restructure:

Aviva pic



# Analysis of investments

## Analysis of investments

We invest our policyholders' funds and our own funds in order to generate a return for both policyholders and shareholders. The financial strength of the Group and both our current and future operating results and financial performance are, therefore, in part dependent on the quality and performance of our investment portfolios in the UK, Europe, North America and Asia.

For additional information on our financial investments, see 'Financial statements IFRS - Note 22 - Financial investments'. For a quantitative analysis of funds under management by Aviva and third-party fund managers, see 'Financial statements IFRS - Note 55 - Assets under management'.

### Investment strategy

Our investment portfolio supports a range of businesses operating in a number of geographical locations. Our aim is to match the investments held to support a line of business to the nature of the underlying liabilities, whilst at the same time considering local regulatory requirements, the level of risk inherent within different investments, and the desire to generate superior investment returns, where compatible with this stated strategy and risk appetite

### Long-term insurance and savings business

As stated above, we aim to optimise investment returns whilst ensuring that sufficient assets are held to meet future liabilities and regulatory requirements. As different types of life insurance business vary in their cash flows and in the expectations placed upon them by policyholders, we need to hold different types of investments to meet these different cash flows and expectations.

The UK with-profits business is comprised largely of long-term contracts with some guaranteed payments. We are therefore able to invest a significant proportion of the funds supporting this business in equities and real estate. This is because the long-term nature of these contracts allows us to take advantage of the long-term growth potential within these classes of assets, whilst the level of guaranteed payments is managed to mitigate the level of risk that we bear in relation to the volatility of these classes of assets

Non-UK participating business, annuities and non-participating contracts in all countries, have a high level of guaranteed future payments. We endeavour to match the investments held against these types of business to future cash flows. We therefore have a policy of generally holding fixed income securities and mortgage loans with appropriate maturity dates

With unit-linked business, the primary objective is to maximise investment returns, subject to following an investment policy consistent with the representations that we have made to our unit-linked product policyholders.

### General insurance and health business

The general insurance and health business is comprised of shorter-term liabilities than the long-term insurance business. Furthermore, all the risk attaching to the investments is borne by our shareholders. As a result, the investment portfolio held to cover general insurance liabilities contains a higher proportion of fixed income securities than the portfolio held to cover life insurance liabilities.

### Property partnerships

As part of their investment strategy, the UK and certain European policyholder funds have invested in a number of property limited partnerships ("PLPs"), either directly or via property unit trusts ("PUTs"), through a mix of capital and loans. The nature of our involvement in property partnerships is set out in the second and third paragraphs of the Investment vehicles section of 'Financial Statements IFRS - Accounting policies - (D) Consolidation principles'. Property partnerships are accounted for as subsidiaries, joint ventures or financial investments depending on our participation and the terms of each partnership agreement. For each property partnership accounted for as a subsidiary, joint venture or financial investment, we are exposed to falls in the value of the underlying properties which are reflected as unrealised gains/losses on investment properties, our share of joint venture results and unrealised gains/losses on financial investments, respectively. However, the majority of these are in policyholder funds (rather than shareholder funds) so such losses are offset by changes in the amounts due to policyholders or unitholders, or UDS.

## Analysis of investments continued

## Analysis of investments

We distinguish between policyholder, participating fund and shareholder investments, which are terms used to reflect the differing exposure to investment gains and losses. Policyholder assets are connected to our unit-linked business, where the policyholder bears the investment risk on the assets in the unit-linked funds. Our exposure to loss on policyholder assets is limited to the extent that income arising from asset management charges is based on the value of assets in the funds. Participating fund assets relate to some of our insurance and investment contracts which contain a discretionary participation feature, which is a contractual right to receive additional benefits as a supplement to guaranteed benefits. Our exposure to investment losses on participating funds is generally limited to our participation in the fund. Shareholder assets are other assets held within our businesses that are not backing unit-linked liabilities or participating funds.

Investments held at 31 December 2012 and 31 December 2011 are listed below:

	Pdkyhotoer assets tm	Participating fund assets Cm	SharehoUer assets Em	analysed	less assets of operations classified for sale £m	Garryvng value in the statement of
Investment	582		(18) 10.815			
property Loans	21,767		(3.397			
Financial			) 24,537			
investments	61,654					
Debt securities	1,423		(33.617			
Equity securities	2,131		) 128.006			
Other	67,453	109,250	87,557	264,260.		
investments	10,833		(1.248			
	4,17		) 27,934			
	2		) 1,550			
	161,623		) 28,543			
<b>Total</b>	33,777		30.093			
	6,079					
	5.562					
16,472	83,497					
22.500	9.854					
23.704	4.258					
<b>Total %</b>	<b>25.5%</b>	<b>41.3%</b>	<b>33.2%</b>	<b>100.0</b>		
	<b>100.0%<sup>1</sup></b>					
201	64,215	108,171	83,773	(347) 255,812		
	256,159					
2011 %	25.1%	42.2%	32.7%	100.0		
	100.0%					

As the table indicates, approximately 33.2% of total investments can be directly attributed to shareholders. The apportionment of our shareholder assets is predominantly weighted towards debt securities and loans. In comparison, policyholder and participating funds contain a greater proportion of equities and other investments (e.g. unit trusts), reflecting the underlying investment mandates.

We carry investments on our statement of financial position at either fair value or amortised cost. At 31 December 2012, approximately 97% of the Group's total investments were carried at fair value on the statement of financial position.

Financial investment balances included in the remainder of these disclosures include financial investments of operations classified as held for sale/For more information about financial investments analysed according to their accounting classification and valuation approach, as well as the cost, unrealised gains and losses, impairments, fair value and other information concerning financial investments, see 'Financial statements IFRS - Note 22 - Financial investments'.

## Analysis of investments continued

## Debt securities

**Participating fund asset and shareholder debt securities analysed by credit rating and sector**

Participating fund asset and shareholder debt securities analysed by credit rating and product type as at 31 December 2012 are set out in the table below. Government and corporate debt securities are further analysed by type of issuer

			Fratings			Non-rated Cm	Total C m
2012 - Participating, fund assets							
<b>Government</b>							
UK government	10.61	1	10,653				
Non-UK government	0	1	31,600	10,471	833		
	6.77	1					
	9	0					
		4					
	11.830						
		28					
	1,677						
<b>Corporate</b>							
Public utilities	18	93	1,712	17,287			
Convertibles and bonds with warrants			21	19,328			
Other corporate bonds	3,881	4,955	11,902	2,369			
			1,01				
			2,284				
			9.73				
			1				
		20					
		1,739					
<b>Certificate of deposits</b>			42	12	614	—	674
<b>Structured</b>	307	58	132	47	39		584
<b>Wrapped credit</b>							
Other	402	57	1	22			9
<b>Total</b>	21,997	17,123	16,060	21,976	3,821		2,520
	83,497						
<b>Total %</b>	26.3%	20.5%	19.2%	26.3%	4.6%	3.1%	100.0%
2011	30,540	11,204	24,004	9,786	1,465	2,451	79,450
2011 %	384%	14.1%	30.2%	12.3%	1.8%	3.2%	100.0%

## Ratings

## 2012 - Shareholder assets

<b>Government</b>				
UK government	3,251			
Non-UK government	4,582		1,671	40

8

1  
4,557

4

1,208  
Non-rated  
Cm19  
7  
5  
03,533  
12,108

<b>Corporate</b>							
Public utilities			Convertible and bonds with warrants	Other	corporate bonds	C e	rti fic

ate of deposits

Structured	18	3,797	153	5,983		
	5	19	—	139		
	27	6	12,25	4,885		
	1,349	0	34,598			
	3,14	58		3		
	3	304		9		
	— 143			0		
	3,027	554	1,776	15		
			112	4,220		
			11,57			
			7			
			21			
			143			
			45			
			2			
			1,394			
			165			
			177			
Wrapped credit	201	81	80	38	46	447
Other	45	1	59	44	63	236
Total	12,288	8,877	17,780	15,424	1,924	5,361 61,654
Total %	19.9%	14.4%	28.8%	25.0%	3.1%	8.8% 100.0%
2011	13,011	7,831	17,903	12,101	2,416	5,338 58,600
2011 %	22.2%	13.4%	30.6%	20	4.1%	9.0% 100.0%
			7%			

We grade debt securities according to external credit ratings issued at the balance sheet date. The credit rating used for each individual security is the median rating of the available ratings from the major credit rating agencies. If a credit rating is available from only one of these rating agencies then this rating is used. If an individual security has not been given a credit rating by any of the major rating agencies, the security is classified as 'non-rated'.

For the table above we have expressed our rating using a rating scale whereby investment grade debt securities are classified within the range of AAA (extremely strong) to BBB (good) ratings, with AAA being the highest possible rating. Debt securities which fall outside this range are classified as less than BBB. This rating scale is analogous with that used by major rating agencies.

At 31 December 2012, the proportion of our shareholder debt securities that are investment grade increased to 88.1% (2011: 86.9%). The remaining 11.9% of shareholder debt securities that do not have an external rating of BBB or higher can be split as follows:

■ 3.1% are debt securities that are rated as below investment grade;

■ 3.7% are US private placements which are not rated by the major rating agencies, but are rated as investment grade by the Securities Valuation Office of the National Association of Insurance Commissioners ("NAIC"), a US national regulatory agency; and,

■ 5.1% are not rated by the major rating agencies or the NAIC.

Of the securities not rated by an external agency or NAIC most are allocated an internal rating using a methodology largely consistent with that adopted by an external rating agency, and are considered to be of investment grade credit quality; these include £2.4 billion of debt securities held in our UK Life business, predominantly made up of private placements and other corporate bonds, which have been internally rated as investment grade.



## Analysis of investments continued

## Total wrapped credit

In respect of the wrapped credit investments, the table below shows the credit rating of the securities as they are officially rated, and an estimate of their rating without the guarantee. As rating agencies do not provide credit ratings for individual wrapped credit securities without consideration of the insurance guarantee, the credit ratings disclosed in the table below are based on internal best estimates.

	Rating with insurance guarantee		Rating without insurance guarantee		Rating with insurance guarantee		Rating without insurance guarantee	
	Fair value £m	Fair value £m	Fair value £m	Fair value £m	Fair value £m	Fair value £m	Fair value £m	Fair value £m
<b>2012</b>								
<b>Wrapped credit</b>								
AAA	1	0.2%		0.0%			0.0%	0.0%
AA	269	48.3%	29	5.2%	292	43.8%	32	4.8%
A	94	16.8%	12	22.3%	127	19.0%	15	22.5%
BBB	1	18.7%	4	28.7%	131	19.6%	0	31.0%
Less than BBB	0	7.6%	16	7.7%	51	7.7%	20	7.7%
Non-rated	4	8.4%	0	33.4%	66	9.9%	7	32.1%
Not available without insurance guarantee	4	0.0%	43	2.7%		0.0%	5	1.9%
	2		18				1	
	4		6				21	
	7		15				4	
							13	
	<b>557 100.0%</b>		<b>557 100.0%</b>		<b>667 100.0%</b>		<b>667 100.0%</b>	
<b>RMBS agency</b>								
AAA	<b>907 100.0%</b>		<b>907 100.0%</b>		<b>1,378 100.0%</b>		<b>1,378 100.0%</b>	

## Exposures to peripheral European countries

Included in our debt securities and other financial assets are exposures to peripheral European countries. All of these assets are valued on a mark to market basis under IAS 39, and therefore our statement of financial position and income statement already reflect any reduction in value between the date of purchase and the balance sheet date. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds.

Net of non-controlling interests, our direct shareholder and participating fund asset exposure to the government (and local authorities and agencies) of Italy is £4.9 billion (2011: £6.4 billion), a decrease of £1.5 billion. Gross of non-controlling interests, 82% of our shareholder asset exposure to Italy arises from investment exposure of our Italian business.

## Direct sovereign exposures to Greece, Ireland, Portugal, Italy and Spain (net of non-controlling interests, excluding policyholder assets)

	Participating		Shareholder Total	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	£bn	£bn	£bn	£bn
Greece				
Ireland	0.4			
Portugal	0.3			
Italy	4.5			
Spain	0.9			
	0.3			
	0.2			
	56			
	0.8			
	0.4			
	0.5			
	0.2			
	0.			
	8			
	0.			
	3			
	0.4			
	0.3			
	4.9			
	1.4			
	05			
	0.			
	2			
	6.			
	4 1			
	1			
<b>Total Greece, Ireland, Portugal, Italy and Spain</b>	<b>6.</b>	<b>6.9</b>	<b>0.9</b>	<b>1.</b>
				<b>7.0</b>
				<b>8.2</b>

Direct sovereign exposures to Greece, Ireland, Portugal, Italy and Spain (gross of non-controlling interests, excluding policyholder assets)

	2012	Participating 31	31	December 31 2011	December 2011	£bri
	fbn		December 31 2011	December 2011	fbn	fbn
			fbn	fbn		
Greece						
Ireland	<b>0.4</b>					
Portugal	<b>0.3</b>					
Italy	<b>8.5</b>					
Spain	<b>1.3</b>					
			0.4			
			0.2			
			9.7			
			1.0			
			<b>0.6</b>			
			<b>0.9</b>			
			02			
			1.1			
			<b>06</b>			
			<b>0.4</b>			
			<b>0.3</b>			
			<b>9.1</b>			
			<b>2.2</b>			
			<b>06</b>			
			<b>02</b>			
			<b>10.</b>			
			<b>8</b>			
			<b>1.6</b>			
<b>Total Greece, Ireland, Portugal, Italy and Spain</b>	<b>10.5</b>		11.3	1.5	1.	12.0
						13.2

## Analysis of investments continued

### Equity securities

The table below analyses our investments in equity securities by sector.

	PolkyhoiuW fm	Participating Shareholder £m	Shareholder £m	Total £ m	
Public utilities	2,571	1,095	18	3,684	
Banks, trusts and insurance companies Industrial, miscellaneous and all other Non-redeemable preference shares	3,904	2,395	959	7,258	
	15,935	6,340	123	22,398	437
		90	24	323	
<b>Tota</b>	<b>22,500</b>	<b>9,854</b>		<b>1,423</b>	
	<b>33,777</b>				
Total %	66.6%	29.2%	4.2%	100.0%	
201	20,602	10,788	1,293	32,683	
2011	63.0%	33.0%	4.0%	100.0%	

At 31 December 2012, shareholder investment in equity securities amounted to £1,423 million. The investments include a strategic holding in Italian banks of £289 million (£148 million net of non-controlling interests).

Of our £7,258 million exposure to equity investments in banks, trusts and insurance companies, £959 million relates to shareholder investments, which includes our strategic holding as mentioned above.

### Other investments

The table below analyses other investments by type.

	Policyholder £m	PartiafMting Shareholder fm	Shareholder £m	Total £ m
Unit trusts and other investment vehicles Derivative financial instruments Deposits and credit institutions	22,8	762	26,756	
Minority holdings in property management undertakings Other	23,41	1,117	1,590	
	515	180	739	
	14	15	584	
	311	57	424	
	3,1			
	71			
	432			
	44			
	555			
	56			
<b>Tota</b>	<b>23,704</b>		<b>4,258</b>	
	2,131	30,093		
Total %	78.8%	14.1%	7.1%	
201	23,233	5,078	2,066	30,377
201-1	76.5%	16.7%	6.8%	100.0%

### Property

Our global headquarters are located in St. Helen's, 1 Undershaft, London, England, EC3P 3DQ. In addition, we have major offices in the following locations:

- UK: UK Life, York; UK General Insurance, Norwich; Aviva Investors, London;
- Asia: Singapore;
- North America- Scarborough, Ontario, Canada and West Des Moines, Iowa, USA, and
- Europe: Paris, France, Dublin, Ireland; Madrid, Spain, Warsaw, Poland; and Milan, Italy.

As of 31 December 2012, we owned and occupied land and buildings for our own use with a total book value of £245 million (2011: £215 million). We believe that these facilities are adequate for our present needs in all material respects. We also hold other properties, both directly and indirectly, for investment purposes, valued at £9,075 million at 31 December 2012 (2011: £9,848 million).

# Contractual obligations

## Contractual obligations

Contractual obligations with specified payment dates at 31 December 2012 included the following:

	Less than one year	and five years	After five years	Total
	Between one and	from	from	of
	and			the
Insurance and investment contracts				
Long-term business				
— Insurance contracts - non-linked <sup>1</sup>	7,044	15,195	11,633	75,415
— Investment contracts - non-linked <sup>2</sup>	57,547			—
— Linked business <sup>2</sup>	66,09			—
General insurance <sup>3</sup>	9	3,848	1,957	3,475
	6,176			15,456
	136,866		19,043	13,590
Other contractual obligations <sup>4</sup>				
Borrowings		92	1,68	12,40
Operating lease obligations		1	6	9,587
Capital commitments		23	183	4,42
Payables and other financial liabilities <sup>5</sup>		8	3	1,606
Net asset value attributable to unitholders		18,78,890	248,389	07
		1,699	136,21	8,567
		11,146		
<b>Total</b>	<b>158,435</b>	<b>20,509</b>	<b>15,807</b>	<b>93,492,288,243</b>

Reconciliation to the statement of financial position

Total contractual obligations above	288,243
Effect of discounting contractual cash flows for insurance contracts	(24,804)
Contractual undiscounted interest payments <sup>6</sup>	(7,910)
Difference between carrying value of borrowings and undiscounted cash flows of principal	(611)
Contractual cash flows under operating leases and capital commitments Difference	(1,186)
between derivative liabilities contractual cash flows and carrying value Liabilities of	(1,366)
operations classified as held for sale Non-contractual/short-term obligations	41,411
— Unallocated divisible surplus <sup>7</sup>	
— Provisions <sup>8</sup>	6,931
— Current and deferred tax liabilities	1,119
— Other liabilities	659
<b>Total liabilities per statement of financial position</b>	<b>304,329</b>

Amounts shown in respect of Long-term insurance contracts represent estimated undiscounted cash flows for the Group's life assurance contracts. In determining the projected payments, account has been taken of the contract features, in particular that the amount and timing of the contractual payments reflect either surrender, death or contract maturity. In addition, the undiscounted amounts shown include the expected payments based on assumed future investment returns on assets backing insurance and investment contract liabilities. The projected cash flows exclude the unallocated divisible surplus of sub-profit funds (see below).

All linked contracts and almost all non-linked investment contracts may be surrendered or transferred on demand. For such contracts the earliest contractual maturity is therefore at the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. Although we expect surrenders transfers and maturities to occur over many years, the total liability for linked non-linked investment contracts is shown in the less than one year column above.

Amounts shown in respect of general insurance contracts are based on undiscounted estimates of future claim payments, including for those classes of business for which discounted provisions are held, see 'Financial statements FRS - Note 36 - Insurance liabilities'. The timing of cash flows reflects a best estimate of when claims will be settled. The Group has no material finance leases for property and equipment. Includes obligations for repayment of collateral received under stock lending arrangements and derivative transactions amounting to £4,460 million.

When subordinated debt is issued or bank notes perpetual, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £72 million. Contractual

undiscounted interest payments are calculated using fixed interest rates or prevailing market floating rates as applicable.

The unallocated divisible surplus represents the excess of assets over liabilities, including policyholder 'asset share' liabilities in the UK, which reflect the amount payable under the realistic Peak 2 reporting regime of the FSA. Although accounted for as a liability, as permitted by IFRS 4, there is currently no expected payment date for the unallocated divisible surplus.

Provisions include pension obligations, which have been excluded from the contractual obligations table above due to the uncertainty of the amount and timing of future cash flows. The Group operates both funded defined benefit and funded defined contribution pension schemes. Details of which are provided in 'Financial Statements FRS - Note 44 - Pension obligations'. We have a contractual obligation to fund these schemes. However, the amount and timing of the Group's cash contributions to these schemes is uncertain and will be affected by factors such as future investment returns and demographic changes. Our cash funding of defined contribution schemes is based on percentages of salary. Our cash contribution to defined benefit schemes is agreed in advance with scheme trustees. The Company and trustees have agreed to a long-term funding plan where contributions, together with anticipated growth on scheme investments are expected to eliminate the funding deficits over time. Contributions to these and the other schemes are regularly reviewed in light of changes in expectations of investment returns and other assumptions. The discounted scheme liabilities have an average duration of 20 years in the main UK scheme, 21 years in the RAC scheme, 22 years in the Irish scheme and 13 years in the Canadian scheme.

## Risk and capital management

### Risk management objectives

As a global insurance group, risk management is at the heart of what we do and is the source of value creation as well as a vital form of control. It is an integral part of maintaining financial stability for our customers, shareholders and other stakeholders.

Our sustainability and financial strength are underpinned by an effective risk management process which helps us identify major risks to which we may be exposed, establish appropriate controls and take mitigating actions for the benefit of our customers and investors. The Group's risk strategy is to invest its available capital to optimise the balance between return and risk whilst maintaining an appropriate level of economic (i.e. risk-based) capital and regulatory capital in accordance with our risk appetite. Consequently, our risk management objectives are to:

- Embed rigorous risk management throughout the business, based on setting clear risk appetites and staying within these;
- Allocate capital where it will make the highest returns on a risk-adjusted basis; and
- Meet the expectations of our customers, investors and regulators that we will maintain sufficient capital surpluses to meet our liabilities even if a number of extreme risks materialise.

Aviva's risk management framework has been designed and implemented to support these objectives. The key elements of our risk management framework comprise our risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles & responsibilities; and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing. These elements are expanded in the Financial statements IFRS - Note 53.

### Principal risks and uncertainties

In accordance with the requirements of the FSA Handbook (DTR 4.1.8) we provide a description of the principal risks and uncertainties facing the Group here and in note 53. Our disclosures covering 'risks relating to our business' in line with reporting requirements of the Securities Exchange Commission (SEC) provide more detail and can be found in the shareholder information section 'Risks relating to our business'.

#### Risk environment

Financial market conditions during 2012 were volatile although positive overall, benefiting from the expansionary monetary policies followed by central banks across a number of economies in the second half of the year. However, the continued political and economic uncertainty relating to the Eurozone combined with the high levels of debt in many western economies continues to act as a brake on economic growth and raises the likelihood of a low growth, low interest rate environment persisting for some time.

Reflecting the wider financial and economic conditions, both UK and international regulatory authorities have implemented, or are in the process of considering, enhanced regulatory requirements intended to prevent future crises arising or assure the stability of institutions under their supervision. A good example of this in the UK is the Prudential Regulatory Authority's (PRA) proposed focus on ensuring that firms have adequate resolution arrangements in place

Further regulatory uncertainty arose from the ongoing discussions regarding the technical standards for, and the implementation date of, Solvency II. Aviva continues to actively participate in the development of Solvency II through key European industry working groups

#### Risk profile

The types of risk to which the Group is exposed have not changed significantly over the year and remain credit, market, insurance, asset management, liquidity, operational and reputational risks as described in note 53 of the IFRS financial statements.

Reflecting Aviva's objective of building financial strength and reducing capital volatility, the Group has taken steps to amend its risk profile. These include a net sell down of approximately €3.6 billion (gross of minority interests) Italian government bonds, a reduction in credit exposure to European financial institutions and a move towards a more general reduction in credit risk predominantly achieved through the sale of the Group's US subsidiary (which remains subject to regulatory approval) Restrictions on non-domestic investment in sovereign and corporate debt from Greece, Ireland, Italy, Portugal and Spain remain in place and balance sheet volatility was further reduced through the sell down of Delta Lloyd in July 2012. As described in note 53, a number of foreign exchange rate, credit and equity hedges are also in place. The reduction in credit and equity exposure noted above also reflects a broader move towards a more balanced risk profile

Subsequent to the year end, the Group has also taken action to improve its access to dividends from the Group's insurance and asset management businesses by undertaking a corporate restructuring whereby Aviva Group Holdings (AGH) has purchased from Aviva Insurance Limited (AIL) its interest in the majority of its overseas businesses. This purchase has been funded by intercompany loans. It is planned to pay down the intercompany loan balances over time, in addition to meeting the Group's normal operating expenses, taxes, interest on our external debt, dividends and repayment of maturing debt.

Going forward, the Group's focus is on fewer businesses as is reflected in the sale of Aviva's Czech Republic, Hungarian and Romanian life businesses, the sale of Aviva's interest in our Sri Lanka joint venture, our remaining stake in Delta Lloyd and the agreed sale of the US business, the Romanian pensions business, Aviva Russia, and our stake in the Malaysian joint venture CIMB. The process of exiting these non-core businesses will reduce the amount of the Group's capital employed in less economically profitable areas, decrease balance sheet volatility and required capital, and will allow capital to be re-employed in businesses that enhance the Group's return on risk based capital. Execution risk is inherent in the completion of all strategic transactions, with a corresponding potential impact on capital requirements and liquidity.

As a result of the sale of businesses (in particular the US), the Group's future earnings have been reduced and the tangible net asset value of the Group has fallen (leading to an increase in the leverage ratio to close to 50%). We have plans in place to improve earnings through managing the deployment of capital to maximise return and expense reduction (though clearly execution risk remains). These additional earnings, combined with higher retained profits, should enable us to reduce our external leverage ratio to 40% in the medium term and reduce internal leverage.

### Capital management

#### Capital management objectives

The primary objective of capital management is to optimise the balance between return and risk, whilst maintaining economic -and regulatory capital in accordance with risk appetite. Aviva's capital and risk management objectives are closely interlinked, and support the dividend policy and earnings per share growth, whilst also recognising the critical importance of protecting policyholder and other stakeholder interests.

Overall capital risk appetite, which is reviewed and approved by the Aviva Board, is set and managed with reference to the requirements of a range of different stakeholders including shareholders, policyholders, regulators and rating agencies. Risk appetite is expressed in relation to a number of key capital and

**Risk and capital management  
continued**

risk measures, and includes an economic capital risk appetite of holding sufficient capital resources to enable the Group to meet its liabilities in extreme adverse scenarios, on an ongoing basis, calibrated at a level consistent with a AA range credit rating. In managing capital we seek to:

- maintain sufficient, but not excessive, financial strength in accordance with risk appetite, to support new business growth and satisfy the requirements of our regulators and other stakeholders giving both our customers and shareholders assurance of our financial strength;
- optimise our overall debt to equity structure to enhance our returns to shareholders, subject to our capital risk appetite and balancing the requirements of the range of stakeholders;
- retain financial flexibility by maintaining strong liquidity, including significant unutilised committed credit facilities and access to a range of capital markets;
- allocate capital rigorously across the Group, to drive value adding growth through optimising risk and return; and
- declare dividends with reference to factors including growth in cash flows and earnings.

Capital is measured and managed on a number of different bases. These are discussed further in the following sections.

**Accounting basis:**

Capital employed by segment and financing of capital

The table below shows how our capital, on an IFRS basis is deployed by segment and how that capital is funded.

	2012	2011
	£m	£m
Long-term savings	11,237	11,237
General insurance and health	11,467	7
Fund management	6,089,225	5,875
Other business	(1,059)	184
Corporate <sup>1</sup>	(588)	(1,102)
Delta Lloyd		508
United States	365	776
<b>Total capital employed</b>	<b>16,499,20,618</b>	<b>20,618</b>

**Financed by:**

	2012	2011
Equity shareholders' funds	8,204	12,643
Non-controlling interests	1,574	1,530
Direct capital instruments and fixed rate tier 1 notes	1,382	990
Preference shares	200	200
Subordinated debt	4,337	4,550
External debt	802	705
<b>Total capital employed</b>	<b>16,499,20,618</b>	<b>20,618</b>

<sup>1</sup> 'Corporate' includes centrally held tangible net assets, the staff pension scheme surplus and also reflects internal lending arrangements. These internal lending arrangements, which net out on consolidation, are in relation to the following:

- Aviva Insurance Limited (Ail) acts as both a UK general insurer and as the primary holding company for our foreign subsidiaries. Internal capital transactions place allocate a portion of the total capital of the company to the UK general insurance operations, giving rise to notional lending between the general insurance and holding company activities. These mechanisms also allow for some of the assets of the general insurance business to be made available for use across the Group.

<sup>2</sup> - Subsequent to the year end, the Group has taken action to improve its access to dividends from the Group's insurance and asset management business by undertaking a corporate restructure. This will see the Group's interest in the majority of its overseas businesses moved to Aviva Group Holdings Limited from Aviva Insurance Limited.

- Certain subsidiaries, subject to continuing to satisfy stand-alone capital and liquidity requirements, ban funds to corporate and holding entities. These bans satisfy arm's length criteria and all interest payments are made when due.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings.

At the end of 2012 we had £16.5 billion (2011: £20.6 billion) of total capital employed in our trading operations measured on an IFRS basis. The reduction is primarily driven by the Group's loss after tax, actuarial losses on staff pension schemes and the payment of the dividend.

In May 2012 we issued US\$650 million of hybrid Tier 1 Notes. The Notes are perpetual and may be called from November 2017. The Notes qualify as Innovative Tier 1 capital

In June 2012 US\$300 million of Lower Tier 2 floating rate notes were redeemed at first call.

**Regulatory capital - overview**

Individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the Financial Services Authority (FSA). These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an aggregate Group level, where we have a regulatory obligation to have a positive position at all times. This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the UK and Ireland with-profit life funds. The minimum solvency requirement for our European businesses is based on the Solvency 1 Directive. In broad terms, for EU operations, this is set at 4% and 1% of non-linked and unit-linked life reserves respectively and for our general insurance portfolio of business is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For our major non-European businesses (the US and Canada) a risk charge on assets and liabilities approach is used.

**Regulatory capital - Group  
European Insurance Groups  
Directive**

	2012	2011
	£bn	£bn
Insurance Groups Directive (IGD) capital resources Less: capital resource requirement (CRR)	5.2	9.2
Insurance Groups Directive (IGD) excess solvency	14.4	14.1
Cover of EU minimum (calculated excluding UK Life funds)	(5.2)	(5.4)
	3.8	2.2
	(11.9)	3.8
		1.7 times
		3 times

The EU Insurance Groups Directive (IGD) regulatory capital solvency surplus has increased by £1.6 billion since 31 December 2011 to £3.8 billion. The key movements over the period are set out in the following table:

under current regulatory rules and are expected to be treated as Fixed Rate Tier 1 capital under Solvency II transitional rules. The transaction had a positive impact on Group IGD solvency and Economic Capital measures.

	£bn
IGD solvency surplus at 31 December 2011	2.2
Adjusted operating profits net of other income and expenses	0.9
Dividend and appropriations, net of shares issued in lieu of dividends	(0.7)
Market movements including foreign exchange <sup>1</sup>	1.3
Pension scheme funding	(0.2)
Movement in hybrid debt	0.2
UK reinsurance transactions	0.1
<b>Increase in Capital Resources Requirement</b>	<b>(0.1)</b>
<b>Other regulatory adjustments</b>	<b>0.1</b>
<b>Estimated IGD solvency surplus at 31 December 2012</b>	<b>3.8</b>

<sup>1</sup> Market movements include the impact of equity, credit spread, interest rate and foreign exchange movements net of the effect of hedging instruments.

**Regulatory capital - UK Life with-profits fund**

The available capital of the with-profits funds is represented by the realistic inherited estate. The estate represents the assets of the long-term with-profits funds less the realistic liabilities for non-profit policies within the funds, less asset shares aggregated across the with-profits policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs, guarantees and promises. Realistic balance sheet information is shown below for the three main UK with-profit funds. Old With-Profit Sub-Fund (OWPSF), New With-Profit Sub-Fund (NWPSF) and With-Profit Sub-Fund (WPSF). These realistic liabilities have been included within the long-term business provision and the liability for insurance and investment contracts on the consolidated IFRS statement of financial position at 31 December 2012 and 31 December 2011.

	2012		2011	
	Estimated realistic assets	Estimated realistic liabilities	Estimated realistic assets	Estimated realistic liabilities
NWPS	173	(173)	29	03
F	(26)	183	(16)	03
OWPS	5		1	8
	38	5	(36)	07
				(04)
				(01)
Aggregate			2	1
				19

- 1 Represents the realistic share of future bonuses of £0.3 billion (5 December 2011 £0.3 billion). Realistic liabilities adjusted to eliminate the shareholders' share of future bonuses are £0.6 billion (31 December 2011 £0.8 billion). These realistic liabilities make provision for guarantees, options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £1.8 billion (31 December 2011 £1.8 billion). NWPSF, OWPSF and WPSF respectively 131 December 2011 £1.9 billion and £3.1 billion for NWPSF, OWPSF and WPSF respectively.
- 2 Estimated realistic inherited estate at 31 December 2011 was £1.6 billion and £1.6 billion for NWPSF, OWPSF and WPSF respectively.
- 3 This represents the realistic estate of 107 million (31 December 2012 107 million) held within NPSF1 (a non-profit fund within UKIAP included within other UK operations).
- 4 The WPSF fund includes the Provident Mutual (PML) fund, which has realistic assets and liabilities of £1.7 billion and therefore does not impact the realistic inherited estate.

**Investment mix**

The aggregate investment mix of the assets in the three main with-profits funds at 31 December 2012 was

	2011	%	2012
Equity	23%		22%
Property	16%		17%
Fixed interest	51%		54%
Other	10%		7%

The equity backing ratios, including property, supporting with-profit asset shares are 71% in NWPSF and OWPSF, and 64% in WPSF.

**Economic capital**

We use a risk-based capital model to assess economic capital requirements and to aid in risk and capital management across the Group. The model is based on a framework for identifying the risks to which business units, and the Group as a whole, are exposed. Where appropriate, businesses also supplement these with additional risk models and stressed scenarios specific to their own risk profile. When aggregating capital requirements at business unit and Group level, we allow for diversification benefits between risks and between businesses, with restrictions to allow for non-fungibility of capital where appropriate. This means that the aggregate capital requirement is less than the sum of capital required to cover all of the individual risks. The capital requirement reflects the cost of mitigating the risk of insolvency to a 99.5% confidence level over a one year time horizon (equivalent to events occurring in 1 out of 200 years) against financial and non-financial tests

The financial modelling techniques employed in economic capital enhance our practice of risk and capital management. They enable understanding of the impact of the interaction of different risks allowing us to direct risk management activities appropriately. These same techniques are employed to enhance product pricing and capital allocation processes. Unlike more traditional regulatory capital measures, economic capital also recognises the value of longer-term profits emerging from in-force and new business, allowing for consideration of longer-term value emergence as well as shorter-term net worth volatility in our risk and capital management processes. We continue to develop our economic capital modelling capability for all our businesses as part of our development programme to increase the focus on economic capital management and meeting the emerging requirements of the Solvency II framework and external agencies.

**Solvency II**

The development of Solvency II continues in 2012 with a view to complete discussions about legislation. The key priority is concluding the discussions on the Omnibus II directive to provide clarity about the implementation date as well as the role of transitionals in the Level 2. Once this is concluded we expect the European Commission to complete the development of the Level 2 implementing measures that will establish the technical requirements governing the practical application of Solvency II. Aviva continues to actively participate in these developments through the key European industry working groups and by engaging with the FSA and HM Treasury to inform the ongoing negotiations in Brussels.

**Rating agency**

Credit ratings are an important indicator of financial strength and support access to debt markets as well as providing assurance to business partners and policyholders over our ability to service contractual obligations. In recognition of this we have solicited relationships with a number of rating agencies. The agencies generally assign ratings based on an assessment of a range of financial factors (e.g. capital strength, gearing, liquidity and fixed charge cover ratios) and non-financial factors (e.g. strategy, competitive position, and quality of management).

Certain rating agencies have proprietary capital models which they use to assess available capital resources against capital requirements as a component in their overall criteria for assigning ratings. Managing our capital and liquidity position in accordance with our target rating levels is a core consideration in all material capital management and capital allocation decisions.

The Group's overall financial strength is reflected in our credit ratings. The Group's rating from Standard and Poor's is A+ ("strong") with a Stable outlook; Aa3 ("excellent") on review for downgrade from Moody's; and A ("excellent") with a Stable outlook from A.M. Best.

**Financial flexibility**

The Group's borrowings are comprised primarily of long dated hybrid instruments with maturities spread over many years, minimising refinancing risk. In addition to central liquid asset holdings of £1.4 billion, the majority of which was held within Aviva Insurance Limited at the 2012 year end, the Group also has access to unutilised committed credit facilities of £2.1 billion provided by a range of leading international banks.

# **Basis of preparation**

## **Accounting basis of preparation**

International Financial Reporting Standards (IFRS)  
Our consolidated financial statements are prepared under IFRS, using standards issued by the International Accounting Standards Board (IASB) and endorsed by the EU and those parts of the Companies Act 2006 applicable to those reporting under IFRS. In addition to fulfilling this legal obligation, the Group has also complied with IFRS as issued by the IASB and applicable at 31 December 2012.

The financial data contained in the report has been prepared using the Group's accounting policies set out on pages 108 to 119.



# Governance

## **In this section**

Chairman's governance letter	38
Board of directors	40
Group Executive	43
Directors' report	45
Corporate governance report	49
Nomination Committee report	55
Audit Committee report	57
Risk Committee report'	60
Corporate Responsibility Committee report	63
Directors' remuneration report	64

# Chairman's governance letter

I have taken corporate governance incredibly seriously throughout my career as a leader of major financial services organisations around the world, and will continue to do so at Aviva. This is also firmly the position of our Board. A system of good governance keeps shareholder interests front of mind, and ensures a balanced outcome for stakeholders in general. Tone is always set from the top, and we have therefore made a number of changes in 2012 to enhance but also simplify the Group's governance arrangements. As a cornerstone of this, the way authority is delegated throughout the Group was revised to give greater empowerment to businesses whilst strengthening central controls over the major risks in the Company, and these are subject to regular scrutiny by the Board Committees.

**UK Corporate Governance Code** The UK Corporate Governance Code (Code) sets out the standards of corporate governance that UK premium listed companies must meet. The Company aims to meet all the Code requirements and I am pleased to confirm that the Company has complied with most of the principles and provisions of the Code throughout the year. However, there is one area of non-compliance to which I should draw your attention and which relates to my role as executive chairman for part of the year.

I joined the Board as chairman designate in September 2011 with the intention of learning about the Group and the business in order to succeed Lord Sharman as chairman on 1 July 2012. However, as we approached the 2012 annual general meeting, the Company came under strong shareholder pressure to accelerate change, and the Board asked me, as a former seasoned CEO, to take executive responsibility for the Group, and to seek and appoint a new Group Chief Executive Officer (Group CEO). Consequently, in the period from 1 July to 31 December 2012 whilst we did not comply with the Code requirement for the separation of the roles of chief executive and chairman, this was clearly in the interest of shareholders, and firm action was taken during this period to put the Group on to a firmer footing, that may not otherwise have taken place in such a short timeframe. This included major changes to the composition of the Board. We appointed Mark Wilson as Group CEO from 1 January 2013 and this regularised the

position, such that we are now compliant with the Code.

Further details of how the Company has applied the Code principles and complied with its provisions are set out in the Corporate Governance Report on pages 49 to 54.

## Role of the Board

The Board is responsible to shareholders for promoting the long term success of the Company, and in particular, for setting the Group's strategic aims, monitoring management's performance against these strategic aims, setting the Group's risk appetite and ensuring the Group is adequately resourced and that effective controls are in place in the business. The Board sets the values, tone and culture of the Group. As a regulated Group, the Board also has a duty to protect the interests of policyholders.

**Effectiveness of the Board** The effectiveness of the Board is vital to the success of the Group and we undertake a rigorous evaluation each year in order to assess how well the Board, its Committees, the directors and myself are performing and how our effectiveness could be improved. Given the significant changes to the Board during the year I felt that an internal effectiveness review led by myself would be appropriate for 2012. The review was carried out using questionnaires followed by discussion at Board and Committee meetings and through meetings between myself and each director individually. The review focused on the effectiveness of the Board and each Committee, how efficiently time at meetings was used, and the appropriateness of the balance of skills, knowledge and experience represented by Board and Committee members. Overall, the directors concluded that the Board and its Committees operated effectively and agreed that the actions identified for focus and improvement in previous reviews had been addressed and implemented during the year. Areas identified for greater Board focus in 2013 included allocating a greater proportion of time to in-depth discussion of the markets in which the Group operates and their competitive position and re-focusing strategy discussions on long-term strategy, as well as continuing to monitor the Group's capital and liquidity position. I also concluded that each director contributes effectively and demonstrates full commitment to his/her duties.

## Board changes

There have been a number of changes to the Board during the year and in early 2013:

- Lord Sharman retired from the Board and as chairman on 30 June 2012. He chaired the Board during a period of significant economic uncertainty, bringing extensive experience in the international financial services industry to bear during his tenure.
- Andrew Moss, group chief executive, left the Group in May 2012 having led the consolidation of our international presence and the integration of 40 brands into the very powerful single Aviva brand.
- Mark Wilson replaced Andrew Moss as Group CEO with effect from 1 January 2013
- Igal Mayer, chief executive of Aviva Europe, resigned in April 2012 when the Group was restructured into Developed Markets and Higher Growth Markets.
- Leslie Van de Walle resigned as a non-executive director in May 2012 to pursue other activities
- Mary Francis stepped down from the Board in October 2012 to pursue other interests. Mary had previously been chairman of the Risk Committee.
- Eileen Goh resigned from the Board at the end of the year to concentrate on her commitments in Asia.
- Trevor Matthews, executive director and chairman, Developed Markets, will step down from the Board prior to the 2013 AGM
- Richard Goeltz, senior independent director, and Russell Walls, chairman of the Audit Committee, will both have completed nine years service in May 2013 and will retire from the Board on 8 May 2013. Both have been senior and valuable members of the Board.
- H Glyn Barker joined the Board as a non-executive director in February 2012 and will become chairman of the Audit Committee on 8 May 2013.
- At the same time, we are actively refreshing the Board with new non-executive appointments:
  - Sir Adrian Montague joined the Board in January 2013 bringing strong insurance and pic credentials, and will become senior independent director on 8 May 2013.
  - Bob Stein joined the Board in January 2013 bringing strong insurance and actuarial skills.
  - We are actively searching for two additional female non-executive directors.

On behalf of the Board I would like to thank all the directors for their contribution to the Company during the year, and particularly those who have retired, or will retire, in 2013 for their dedicated service.

**John McFarlane**  
Chairman 6  
March 2013

## Board of directors



**John McFarlane**  
**Oai Tian (Born June 1947)**

Appointed to the Board in September 2011 and became executive chairman in July 2012 and non-executive chairman following the appointment of Mark Wilson as Group CEO on 1 January 2013. Currently a non-executive director of Westfield Holdings Ltd (retail mall

developer and operator) and Old Oak Holdings Ltd (financial holding company). Former chief executive officer of Australia and New Zealand Banking Group Ltd (banking), executive director of Standard Chartered pic (banking), head of Citicorp and Citibank UK and Ireland, and managing director of Citicorp Investment Bank Ltd (banking). Former director and council member of the London Stock Exchange (financial services) and former non-executive director of the Royal Bank of Scotland Group pic (banking). National Westminster Bank pic (banking). Capital Radio pic (media), The Securities Association (UK securities regulator), the Auditing Practices Board (auditing regulator) and the Business Council of

Australia. Former chairman of the Australian Bankers Association and president of the International Monetary Conference. He is chairman of the Board and the Nomination Committee. He has substantial global listed company experience and an excellent track record spanning over 30 years in the UK and international financial services industry.

As executive chairman, he was instrumental in driving forward the Company's strategic plan to narrow the focus of the Group's business portfolio, build financial strength and improve financial performance. He successfully managed the implementation of a culture and values change programme, cutting bureaucracy and delayering the

organisation He has extensive experience in banking, including investment, corporate and retail banking, and in general management, insurance, strategy, risk and cultural change His wide-ranging board and executive experience provides him with the requisite skills for his chairmanship of the Company and the Board.



**Mark Wilson**  
**Group chief executive officer**  
**(Born August 1966)**

Appointed to the Board as Group CEO designate in December 2012 and became Group CEO on 1 January 2013. Formerly chief executive officer and president of AIA Group (insurance), and former chief executive of AXA China and AXA South East Asia (insurance). He also previously held a number of senior management positions at National Mutual in New Zealand (insurance).

He has over 25 years of operational and executive experience in the insurance industry across life assurance, general insurance and asset management, in both mature and growth markets. He has extensive experience of leading major international insurance companies and has an excellent track record as a focused and inspirational business leader. At AIA Group and AXA, he successfully developed and implemented short, medium and long-term strategies, delivered robust change programmes and developed and transformed business performance and cultures in challenging market conditions.



**Patrick Regan**  
**Chief financial officer**  
**(Born March 1966)**

Appointed to the Board in February 2010 as chief financial officer and, since April 2012, has assumed responsibility for Aviva USA. He is chairman of Aviva Investors and is currently a member of the supervisory board of Delta Lloyd N.V.

Formerly group chief financial officer and chief operating officer of Willis Group Holdings Ltd (insurance broking), group financial controller for RSA Insurance Group pic (insurance) and finance and claims director, UK general insurance for AXA Insurance (insurance) He also held a number of senior management positions at GE Capital (financial services) and specialised in corporate finance and investigations at Grant Thornton (professional services).

He has extensive global experience in various executive functions within the insurance industry He also has an excellent track record of driving change programmes and corporate actions to deliver improved profitability. He has been instrumental in improving the Group's financial strength, resilience and performance against the backdrop of a challenging macro-economic and regulatory environment. He has brought his significant financial acumen and analytical skills to bear in driving forward the change agenda and in successfully delivering the Group's strategic priorities.



**Trevor Matthews**  
**Executive director and chairman.**  
**Developed Markets**  
**(Born March 1952)**

Appointed to the Board in December 2011 as chief executive, Aviva UK. In April 2012, he became chairman of the UK &

Ireland board and was appointed executive director and chairman, Developed Markets. Currently chairman of the Financial Skills Partnership and a commissioner for the UK Commission for Employment and Skills. Previously chief executive officer and vice chairman of Friends Life (life assurance) and chief executive officer of Friends Provident pic (life assurance). Former chief executive of Standard Life Assurance Company Ltd (life assurance), president and chief executive officer of Manulife Japan (life assurance) and executive vice president, Canadian operations and chairman, Manulife Bank, Toronto (financial services). He has also held senior management positions at National Australia Bank (banking) and Legal & General Assurance Holdings Australia Ltd (insurance).

He has over 40 years of experience in the financial services industry with a track record of achievement in the insurance sector globally. He has brought to the Board an in-depth operational and functional knowledge of insurance, both in the UK and overseas. He will be stepping down from the Board prior to the 2013 AGM



**Glyn Barker**  
**Independent non-executive director**  
**(Born September 1953)**

Appointed to the Board in February 2012. Currently chairman of Irwin Mitchell (law firm), a non-executive director of Transocean Ltd (offshore drilling) and The Berkeley Group Holdings pic (construction) and a trustee of the English National

Opera. Formerly vice-chairman UK of PricewaterhouseCoopers LLP with responsibility for leading the executive team for the Europe, Middle East, Africa and India region and was previously UK managing partner, UK head of assurance and a member of the UK management board of PricewaterhouseCoopers LLP. He is a member of the Audit, Nomination and Risk Committees.

He has extensive experience as a business leader and a trusted adviser to FTSE 100 companies and their boards on a wide variety of corporate and finance issues. He brings to the Board a deep understanding of accounting and regulatory issues together with in-depth transactional and financial services

experience. He will become chairman of the Audit Committee on 8 May 2013.



**Richard Karl Goeltz**  
**Senior independent non-executive director**  
**(Born September 1942)**

Appointed to the Board in May 2004 and became senior independent non-executive director in January 2009 Currently a nonexecutive director of the New Germany Fund (investment trust),

the Central Europe and Russia Fund (investment trust) and the European Equity Fund (investment trust), and is also a member of the Council and Court of Governors of the London School of Economics and Political Science. Former non-executive director of the Warnaco Group Inc. (clothing), vice-chairman and chief financial officer of American Express Company (financial services) and director and chief financial officer of NatWest Group pic (banking). Former non-executive director of Delta Air Lines, Inc (transport) and Federal Home Loan Mortgage Corporation (Freddie Mac) (financial services) and a former member of the Accounting Standards Board (UK)

He has a strong financial background and has over 20 years' experience in the

financial services industry He has held a broad range of executive and non-executive positions in major global corporations. His experience of audit and governance committees has been invaluable in providing effective oversight as a member of the Company's Audit Committee

He is currently a member of the Audit and Nomination Committees and will retire from the Board, as senior independent non-executive director, and from the Audit and Nomination Committees after nine years of service to the Board on 8 May 2013



**Michael Hawker AM**  
**Independent non-executive director**  
**(Born October 1959)**

Appointed to the Board in January 2010. Currently a non-executive director of Macquarie Group Ltd (banking) and Macquarie Bank Ltd (banking), Washington H Soul Partinson Pty Ltd (investment), International Rugby Development Ltd (rugby), and IRFB Services (Ireland) Ltd (rugby). He is chairman and non-executive director of the Australian Rugby Union and SANZAR Pty Limited (rugby union) and is a non-executive director of the George Institute for Global Health (UK). He is a member of the advisory council at General Enterprise Management Services International Ltd (private equity), and council member of the International Rugby Board Formerly chief executive and managing director of Insurance Australia Group (insurance), group chief executive of business and consumer banking at Westpac Banking Corporation (banking) and chairman of the Insurance Council of Australia. Senior fellow of the Financial Services Institute of Australasia and a fellow of the Australian Institute of Company Directors. He is chairman of the Risk Committee and a member of the Audit, Nomination and Remuneration Committees. He will step down as a member of the Remuneration Committee on 8 May 2013.

He has a wealth of knowledge and experience gained over a long career in the banking and insurance industries, in both executive and non-executive roles in Europe, Asia and Australia. He has been a highly effective chairman of the Risk Committee during a period of significant volatility in the external economic environment.



**Gay Huey Evans**  
**Independent non-executive**  
**director (Born July 1954)**

Appointed to the Board in October 2011. Currently a non-executive director of the London Stock Exchange Group plc (financial services), Clariden Leu (Europe) Ltd (financial services), Bank

Itau BBA International Limited (banking) and the Financial Reporting Council. Member of the management board and of the panel of finance experts of the Panel of Recognised International Market Experts in Finance (PRIME Finance), and a trustee of Wellbeing of Women (UK) (charity) and The Wigmore Hall Trust (charity). Formerly chairman of the International Swaps and Derivatives Association, Inc. (ISDA) (financial trade association), vice-chairman, investment banking & investment management at Barclays Capital (banking) and she held senior management positions at Citi Alternative Investments (EMEA) (banking), the Financial Services Authority (UK regulator) and Bankers Trust Company (banking). She is chairman of the Corporate Responsibility Committee and a member of the Nomination and Remuneration Committees.

She has over 30 years of experience within the financial services industry, having held key positions in government and in a number of global financial and banking institutions In addition to the financial expertise she brings to the Board, her experience at the Financial Services Authority continues to provide an insight into the priorities and focus of the Group's lead regulator

**Board of directors  
continued****Sir Adrian Montague CBE  
Independent non-executive  
director (Born February 1948)**

Appointed to the Board in January 2013. Currently chairman of 3i Group pic (private equity) and Anglian Water Group Ltd (utilities), deputy-chairman and senior independent director of UK Green Investment Bank pic (investment bank) and a non-executive director of Skanska AB (construction). Formerly chairman of Friends Provident pic (life insurance), British Energy Group pic (utilities), Michael Page International pic (recruitment), and Cross London Rail Links Ltd (Crossrail), and was formerly deputy-chairman of Network Rail Ltd (railway network authority) and Partnerships UK pic (public private partnership). He was also previously chief executive of the Treasury Taskforce. He is a member of the Audit, Corporate Responsibility and Nomination Committees. He will become senior independent non-executive director on 8 May 2013.

Sir Adrian brings his significant experience of the financial services industry and in government and regulatory circles to the Board.

**Bob Stein  
Independent non-executive  
director (Born February 1949)**

Appointed to the Board in January 2013. Currently a non-executive director and vice-chair of the audit committee of



Assurant, Inc (US specialty insurance) and is a trustee emeritus of the board of trustees of the Actuarial Foundation. He spent most of his working life at Ernst & Young in the US, where he held a number of managing partner roles in the actuarial, insurance and financial services practices in the US and globally, culminating in being managing partner, global actuarial practice. He is a member of the Nomination, Risk and Remuneration Committees.

He brings significant accounting and financial services experience to the Board

**Russell Walls  
Independent non-executive  
director (Born February 1944)**

Appointed to the Board in May 2004. Currently non-executive director of Biocon Ltd (biopharmaceuticals), Signet Jewelers Ltd (retail), Syngene Ltd (contract research pharmaceuticals), and Mytrah Energy Ltd (wind power producer). Former group finance director of BAA pic (transport), Wellcome pic (pharmaceuticals) and Coats Viyella pic (textiles), treasurer and trustee of the British Red Cross (charity) and a member of the Finance Commission of the International Federation of the Red Cross (charity). Formerly senior independent director and chairman of the audit committee of Stagecoach Group pic (transport) and Hilton Group pic (leisure) and a non-executive director of Delphic Diagnostics Ltd (medical), and Mersey Docks and Harbour Company (transport).

He has a strong financial background and a wealth of international experience across a range of sectors. With his deep financial acumen, analytical approach and extensive audit experience over a long financial career, he has been a



robust Audit Committee chairman against a backdrop of macro-economic instability and changes to the audit environment.

He is currently chairman of the Audit Committee and a member of the Nomination and Risk Committees and will retire from the Board, as Audit Committee chairman and from the Nomination and Risk Committees after nine years of service to the Board on 8 May 2013.

**Scott Whewey  
Independent non-executive  
director (Born August 1966)**

Appointed to the Board in December 2007. Former chief executive officer of Best Buy Europe (retail services), director of The Boots Company pic (now known as The Boots Company Ltd) (pharmacy) and managing director and retail director of Boots the Chemist at Alliance Boots pic, and director of the British Retail Consortium. He formerly held a number of senior executive positions at Tesco pic (retail services), including chief executive of Tesco in Japan. He is chairman of the Remuneration Committee and a member of the Corporate Responsibility and Nomination Committees.

He has a wealth of business experience in the retail sector and his understanding of customer priorities has been greatly beneficial in driving the customer agenda and excellence in customer service within the business. He has chaired the Remuneration Committee with vigour and has rebuilt the Group's standing with its significant investors in relation to the Group's remuneration policy. Following the issues raised at the 2012 annual general meeting, he led an extensive consultation exercise with the Company's major shareholders and a significant review of the Group's remuneration policies and practices.

**Group  
Executive**

The Group Executive is made up of the executive directors and the senior executives whose biographies appear below. The Group Executive meets weekly

as a forum for the Group CEO to discuss the strategic, financial, reputational and commercial aspects of the Group. The forum does not have decision-making

authority in its own right and authority rests with each of the members (within their respective remits)

**David Barral**  
**Chief executive officer, Aviva UK & Ireland Life (Born March 1962)**

Appointed chief executive officer, Aviva UK Life in June 2011. In March 2012 he took on additional responsibility for Aviva's Life business in Ireland, becoming chief executive officer, Aviva UK & Ireland Life. He became a member of the Group Executive in April 2012.

He was formerly chief operating officer for Aviva UK Life responsible for customer propositions, pricing and customer operations.

He joined Aviva in 1999 as director of independent financial advisor business and was appointed distribution director in 2005 covering independent financial advisor (IFA), retail, partnership and employee benefit channels. In 2008 he was appointed marketing director and led the Aviva rebrand for the UK Life business.

During his time at Aviva, he has spearheaded much of the UK Life and pensions business' activities to champion the customer, including supporting a move to the open market option for UK annuity customers.

Prior to joining Aviva, he spent 20 years in financial services including roles in sales, marketing, operations and business transformation at organisations including Eagle Star, Prudential and Morgan Grenfell.

**Paul Boyle**  
**Chief audit officer**  
**(Born July 1959)**

Joined Aviva in November 2010 as chief audit officer and became a member of the Group Executive in August 2012.

He was formerly the first chief executive of the Financial Reporting Council (FRC), the UK's independent regulator responsible for promoting confidence in corporate reporting and governance, from 2004 until 2009. Whilst in this role, he led the establishment of the International Forum of Independent Audit Regulators serving as its chairman or vice-chairman from 2006 until 2009. Before joining the FRC, he was a member of the leadership team at the Financial Services Authority, serving as chief operating officer from 2000 until 2004. He has also held senior management roles in WH Smith Group pic and Cadbury Schweppes pic.

**Kirstine Cooper**  
**Group general counsel and company secretary**

**(Born August 1964)**

Joined Aviva in 1991 and is the group general counsel and company secretary for Aviva pic and heads the Office of the Chairman. She was appointed to the Group Executive in May 2012 and leads the legal and company secretarial function for Aviva globally.

She is a lawyer and worked in the legal function at Aviva's legacy companies before leading the property division of General Accident and the group legal function of CGU for eight years. She was formerly deputy group company secretary and legal counsel of Aviva pic. Since her appointment as group general counsel and company secretary she has created Aviva's first global legal leadership team.

**Carole Jones**  
**Acting group HR director**  
**(Born June 1960)**

Joined Aviva in 1990 and is acting group HR director with responsibility for managing human resources across the Group. She joined the Group Executive in July 2012.

She has been with the Group for more than 20 years, initially as HR manager in the UK Life and General Insurance businesses. In 2006 she was appointed acting human resources director for the Group's Norwich Union Life business in the UK, and in 2008 she relocated to the US where she led the HR function for Aviva's North American region until she returned to the UK as director of HR strategy & organisational development in 2011. She was appointed acting group HR director in July 2012.

**John Lister**  
**Group chief risk and capital officer (Born April 1958)**

Joined Aviva in 1986 and is the group chief risk and capital officer. He has overall responsibility for managing capital across Aviva, preparing the business for Solvency II and ensuring that an appropriate risk management framework is in place.

He has more than 25 years' experience working in the UK Life business. He is an actuary and spent the first nine years of his career in a variety of senior actuarial roles across the UK Life business before becoming its chief actuary in 2005. In 2009 he became finance director of Aviva UK Life, and in April 2012 he was appointed group chief capital officer.

His role was expanded in July 2012 and he became group chief capital and risk officer, with responsibility for the Group's risk and capital functions, and a member of the Group Executive reporting to Mark Wilson for risk matters and Patrick Regan for capital matters.

**Amanda Mackenzie**  
**Chief marketing and communications officer**

**(Born December 1963)**

Joined Aviva in March 2008 and is chief marketing and communications officer with responsibility for all Group marketing, communications and public affairs. She is also the executive sponsor for diversity and inclusion. She joined the Group Executive in 2008.

She oversaw the rebrand of the Group and set up the global marketing and communications function.

She has 25 years of marketing and advertising experience, including director roles at British Airways Airmiles, BT and British Gas. She is a non-executive director at Mothercare pic.

**David McMillan**  
**Chief executive officer, Aviva Europe (Born February 1966)**

Joined Aviva in November 2002 and is chief executive officer Aviva Europe with accountability for the Group's businesses in Italy, Lithuania, Poland, Russia, Spain and Turkey. He is also chairman of Aviva France SA. He joined the Group Executive in April 2012.

He was previously group transformation director with responsibility for managing the implementation of Aviva's strategic plan across the Group, refocusing and optimising the Group's business portfolio, achieving financial strength, improving performance, and building a high-performance ethic across Aviva.

He was previously chief executive officer, Aviva UK & Ireland General Insurance, chief operating officer for Aviva UK General Insurance, chairman of Aviva Global Services and non-executive director of Aviva Health and began his career with Aviva as director of partnerships (bancassurance).

Prior to joining Aviva, he spent 12 years as director of management consultancy with PricewaterhouseCoopers LLP. His role involved leading projects spanning mergers and acquisitions, retail banking, organisational strategy and change.

**Cathryn Riley**  
**Chief operations officer**  
**(Born April 1962)**

Joined Aviva in 1996 and is chief operations officer with responsibility for IT, business change and shared services across the Group. She joined the Group Executive in May 2011.

She joined Commercial Union in 1996 and subsequently held a number of senior roles in its successor companies, CGU and Norwich Union. She served as

operations director and retail director at Norwich Union and spent seven years in various executive roles within Aviva's UK General Insurance business. She has also previously served as managing director Norwich Union Healthcare, business services director of Norwich Union Life, chief operating officer Aviva UK Life, chief operating officer and chief information officer of Aviva Europe and UK commercial director. She is currently a non-executive director of Equitable Life.

**Robin Spencer**  
**Chief executive officer, Aviva UK**  
**& Ireland General Insurance (Born**  
**January 1970)**

Joined Aviva in 1995 and is chief executive officer, UK & Ireland General Insurance with responsibility for leading Aviva's largest general insurance business. He joined the Group Executive in January 2010.

He was previously group chief risk officer, chief financial officer and subsequently president and chief executive officer of Aviva Canada. Prior to that, he was global finance transformation director.

He previously worked in Group Finance in London and held a number of senior finance roles with Norwich Union Insurance, including finance director for London & Edinburgh, a subsidiary of Aviva. Prior to joining Aviva, he spent five years with Procter & Gamble in the UK.

**Maurice Tulloch**  
**President and chief executive officer,**  
**Aviva Canada (Born March 1969)**

Joined Aviva in 1992 and is president and chief executive officer of Aviva Canada with responsibility for the strategic direction and operation of Canada's second largest property and casualty insurer, and the second largest general insurance operation in the Group. He joined the Group Executive in July 2012.

He was previously executive vice-president and chief operating officer, Aviva Ontario and specialty distribution and previously held several senior management positions in the Group

He is chair of the Insurance Bureau of Canada (IBC), chair of the Property & Casualty Insurance Compensation Corporation (PACICC) Board, chair of the Insurance Institute of Canada (IIC) Board and a member of the General Insurance Statistical Agency (GISA) Board.

He is a member of IBC's National Auto Insurance Committee, GISA's Executive Committee and Statistical Plan Committee, Toronto Financial Services Alliance (TFSA) Leadership Council Committee, and the Financial Services Commission of Ontario (FSCO) CEO Advisory Committee.

**Jason Windsor**  
**Chief strategy and development**  
**officer (Born August 1972)**

Joined Aviva in May 2010 and is the chief strategy and development officer, with additional executive responsibility for overseeing Aviva Investors. He joined the Group Executive in February 2013.

He was formerly chief strategy & planning officer with responsibility for mergers, acquisitions and disposals, the Group's strategic financial plan and oversight of Aviva's Investor Relations function.

Prior to joining Aviva, he was managing director in the Financial Institutions Group at Morgan Stanley, with management responsibility for the European asset management sector.



# Directors' report

The directors submit their Annual Report and Accounts for Aviva plc, together with the consolidated financial statements of the Aviva group of companies, for the year ended 31 December 2012.

The Performance Review on pages 1 to 36, the Corporate Responsibility Report on page 63, Shareholder Information on pages 81 to 104 (which includes the risks relating to our business), the Corporate Governance Report on pages 49 to 54, and the Directors' Remuneration Report on pages 64 to 80 are incorporated into this Directors' Report by reference and, together with this Directors' Report constitute the Business Review required under the Companies Act 2006 and the Management Report required under Disclosure and Transparency Rule 4 1.5R. Details of material acquisitions and disposals made by the Group during the year are contained in note 3.

## Results

The Group's results for the year are shown in the consolidated income statement on page 120.

## Principal activity

The Company is the holding company of the Aviva plc group of companies (Group) whose principal activities are the provision of general insurance, life assurance, long term savings and fund management services.

## Dividends

The directors are recommending a final dividend of 9.00 pence per ordinary share (2011: 16.00 pence), which, together with the interim dividend of 10.00 pence per ordinary share paid on 16 November 2012 (2011: 10.00 pence), produces a total dividend for the year of 19.00 pence per ordinary share (2011: 26.00 pence). The total cost of ordinary dividends paid in 2012 was £757 million (2011: £738 million) Subject to shareholder approval at the 2013 Annual General Meeting, the final dividend for 2012 will be paid on 17 May 2013 to all holders of ordinary shares on the Register of Members at the close of business on 22 March 2013 (and approximately five business days later for holders of the Company's American Depositary Receipts).

## Share capital and control

The issued ordinary share capital of the Company was increased by 40,259,323 ordinary shares during the year. 3,335,566 shares were allotted under the Group's employee share and incentive plans and 36,923,757 shares were allotted under the Aviva Scrip Dividend Scheme for the May 2012 and November 2012 dividends. At 31 December 2012 the issued ordinary share capital totalled 2,945,972,261 shares of 25 pence each and the issued preference share capital totalled 200 million shares of £1 each. Accordingly, the issued and paid-up ordinary share capital constituted 79% of the Company's total issued share capital and the issued preference share capital constituted 21 % of the Company's total issued share capital at 31 December 2012. All the Company's shares in issue are fully paid up and the ordinary and preference shares have a Premium and Standard listing respectively on the London Stock Exchange. The Company is listed on the New York Stock Exchange (NYSE) in the form of American Depositary Shares, referenced to ordinary shares, under a depositary agreement with Citibank. Details of the Company's share capital and shares under option at 31 December 2012 and shares issued during the year are given in notes 26 to 29.

The rights and obligations attaching to the Company's ordinary shares and preference shares, together with the powers of the Company's directors, are set out in the Company's articles of association, copies of which can be obtained from Companies House and the Company's website at [www.aviva.com/investor-relations/corporate-governance/article-s-of-association](http://www.aviva.com/investor-relations/corporate-governance/article-s-of-association), or by writing to the group company secretary.

With the exception of restrictions on transfer of the ordinary shares under the Company's employee share incentive plans whilst the shares are subject to the rules of the plans, there are no restrictions on the voting rights attaching to the Company's ordinary shares or the transfer of securities in the Company.

Where, under an employee share incentive plan operated by the Company, participants are the beneficial owners of shares but not the registered owners, the voting rights are normally exercised at the discretion of the participants. No person holds securities in the Company carrying special rights with regard to control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights. Unless expressly specified to the contrary in the articles of association, the articles of association may only be amended by special resolution of the Company's shareholders in general meeting. There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts and joint venture agreements. None are considered to be significant in terms of their potential impact on the business of the Group as a whole. All of the Company's employee share incentive plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions and pro rata reduction as may be applicable under the rules of the employee share incentive plans.

At the Annual General Meeting (AGM) in 2013, shareholders will be asked to renew the directors' authority to allot new securities. Details are contained in the 2013 Notice of Annual General Meeting (Notice of AGM)

## Authority to purchase own shares

At the Company's 2012 AGM, shareholders renewed the Company's authorities to make market purchases of up to 290 million ordinary shares, up to 100 million 8M% preference shares and up to 100 million 8<sup>3</sup>/n% preference shares. These authorities were not used during the year or up to the date of this Report. At the 2013 AGM, shareholders will be asked to renew these authorities for another year and the resolution will once again propose a maximum aggregate number of ordinary shares which the Company can purchase of less than 10% of the issued ordinary share capital. Details are contained in the Notice of AGM. The Company held no treasury shares during the year or up to the date of this Report.

## Major shareholdings

The table below shows the holdings of major shareholders in the Company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules as at 31 December 2012 and 5 March 2013.

## Shareholding interest

Shareholder	At 31 December 2012		At 5 March 2013	
	Nature of holding	Notified holdings	Notified holdings	Nature of holding
BlackRock, Inc <sup>1</sup>		5 15% Indirect	5 15% Indirect	3
Legal S General Group pic <sup>2</sup>		98% Direct	98% Direct	3 86%
AXA S A <sup>1</sup>		Direct & indirect	Direct & indirect	

<sup>1</sup> Holding includes holdings of subsidiaries

<sup>2</sup> Interest held by Legal S General Assurance (Pensions Management) Ltd

## Directors

The directors as at the date of this Report are shown together with their biographical details on pages 40 to 42. During the year and up to the date of this Report, the following Board appointments, resignations and retirements occurred. Glyn Barker - appointed 27 February 2012 Igal Mayer - resigned 19 April 2012 Leslie Van de Walle - resigned 2 May 2012 Andrew Moss - resigned 8 May 2012

Lord Sharman of Redlynch - retired 30 June 2012  
 Mary Francis - resigned 3 October 2012  
 Mark Wilson - appointed 1 December 2012 and became  
 Group CEO on 1 January 2013  
 Euleen Goh - resigned 31 December 2012  
 Sir Adrian Montague - appointed 14 January 2013  
 Bob Stein - appointed 28 January 2013

### Directors' interests and indemnity arrangements

At no time during the year did any director hold a material interest in any contract of significance with the Company or any of its subsidiary undertakings other than an indemnity provision between each director and the Company and employment contracts between each executive director and a Group company. There is no arrangement or understanding with any shareholder, customer, supplier, or any other external party, to appoint a director or a member of the Group Executive. The Company has purchased and maintained throughout the year, directors' and officers' liability insurance in respect of itself and its directors. The directors also have the benefit of the indemnity provision contained in the Company's articles of association. The Company has executed deeds of indemnity for the benefit of each director of the Company, and each person who was a director of the Company during the year, in respect of liabilities that may attach to them in their capacity as directors of the Company or of associated companies. These indemnities were granted at different times according to the law in place at the time and where relevant are qualifying third-party indemnity provisions as defined by section 234 of the Companies Act 2006. These indemnities were in force throughout the year and are currently in force. Details of directors' remuneration, service contracts, employment contracts and interests in the shares of the Company are set out in the Directors' Remuneration Report.

### Financial instruments

Group companies use financial instruments to manage certain types of risks, including those relating to credit, foreign currency exchange, cash flow, liquidity, interest rates, and equity and property prices. Details of the objectives and management of these instruments are contained in the Risk and Capital Management section on pages 33 to 35, the Shareholder Information section on pages 81 to 104 and an indication of the exposure of the Group companies to such risks is contained in note 53 to the consolidated financial statements.

### Health and safety

Aviva is committed to providing a safe and healthy working environment for all staff, contractors and anyone who is or may be affected by the business' undertakings. The Group's health and safety standard sets out the range of policies, procedures and systems required to manage risks and promote wellbeing. This includes appropriate staff consultation through nominated health and safety representatives. The Group CEO has overall accountability for health and safety across the organisation. Health and safety performance is regularly reviewed through the Corporate Responsibility Committee.

### Charitable donations

Aviva takes its corporate citizenship seriously and recognises the role it plays in the communities in which it operates and the role they play in its business. The Group's flagship community development programme is 'Street to School'. Further details of this and the Group's other charitable, community and corporate responsibility initiatives are disclosed in the Corporate Responsibility Report on page 63.

During 2012, £5.7 million was donated to UK-based charities by the Company and its subsidiaries. A total of £8.9 million was donated by the Group world-wide.

### Political donations

At the 2012 AGM, shareholders passed a resolution, on a precautionary basis, to authorise the Company to make political donations and/or incur political expenditure (as such terms are defined in sections 362 to 379 of the Companies Act 2006), in each case in amounts not exceeding £100,000 in aggregate. As the authority granted will expire on 9 May 2013, renewal of this authority will be sought at this year's AGM. Further details are available in the Notice of AGM. The definitions of political donations and political expenditure used in the Companies Act 2006 are broad in nature and this authority is sought to ensure that any activities undertaken throughout the Group, which could otherwise be construed to fall within these provisions, can be undertaken without inadvertently infringing them. It is not the policy of the Company to make donations to EU political organisations or to incur other political expenditure.

During the year, the Aviva USA Political Action Committee, which is funded solely by voluntary contributions from employees of Aviva USA Corporation (a subsidiary of the Company), made contributions to six candidate campaigns and industry political action committees. The total sum of the donations made was \$32,500 and the donations were used to support candidates for nomination and/or election to public office.

### Group employees

The Group's statement on its employees is set out in the Corporate Responsibility Report. In summary, the Group's commitment to communication and dialogue with employees continues. The existence of a Group-wide intranet enables engagement and communication with employees throughout the Group. It also helps management to share information, ideas and opportunities quickly and to achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Company. A strong emphasis is placed on the provision of news and information through a range of media. Employees have opportunities to voice their opinions and ask questions through intranet sites, question and answer sessions with the Group CEO, via telephone conferencing, opinion surveys and the Group's Employee Promise Survey which is open to all employees. Face-to-face briefings and team meetings are actively encouraged and are held in business units across the Group. The Group's businesses in the UK have established employee consultative forums and a European Consultative Forum convenes annually to discuss matters impacting the business across Europe. The Group ensures that involvement of employees in its performance is encouraged by allowing eligible employees in the UK to participate in the Group's employee share ownership plans.

### Employee practice

The Group respects all fundamental human rights and is guided in the conduct of its business by the provisions of the United Nations Universal Declaration of Human Rights and the International Labour Organization core labour standards. The Group also supports the United Nations Global Compact Principles. The Group is committed to providing equal opportunities to all employees, irrespective of their gender, sexual orientation, marital status, race, nationality, ethnic origin, disability, age, religion or union membership status. Aviva is an inclusive employer and values diversity among its employees. These commitments extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal.

### Creditor payment policy and practice

It is the Group's policy to pay creditors when they fall due for payment and the Company follows the government endorsed Prompt Payment Code which can be found at [www.promptpaymentcode.org.uk](http://www.promptpaymentcode.org.uk). Terms of payment are agreed with suppliers when negotiating each transaction and the

*policy is to abide by those terms, provided that the suppliers also comply with all relevant terms and conditions. In respect of Group activities in the UK, the amounts due to trade creditors at 31 December 2012 represented 17.9 days of average daily purchases through the year (2011: 22.2 days).*

### **Disclosure of information to the auditor**

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor, PricewaterhouseCoopers LLP (PwC), is unaware and each director has taken all steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that PwC is aware of that information.

### **Change of auditor**

Following a tender process in 2011, PwC was appointed as the Company's external auditor commencing with the 2012 financial year and its appointment was approved by shareholders at the 2012 AGM. PwC is subject to annual re-election and resolutions on its appointment and seeking authorisation for the directors to set the auditor's remuneration are included in the Notice of AGM.

### **Annual General Meeting**

The 2013 AGM of the Company will be held on Thursday, 9 May 2013 at the Barbican Centre, Silk Street, London EC2Y 8DS at 11am. The Notice of AGM convening the meeting describes the business to be conducted thereat.

### **Related party transactions**

Details of related party transactions are disclosed in note 56 which is incorporated into this Report by reference.

### **Value of interests in land**

Any difference between market value and the value included in the balance sheet regarding the Group's interests in land are disclosed in notes 17 and 18 and are incorporated into this Report by reference.

### **Events after the reporting period**

On 8 January 2013 the Company announced its intention to sell the Group's remaining stake in Delta Lloyd N V, a Dutch listed insurance company. The sale took place by way of an accelerated book build offering and the Group's entire remaining holding of 34,288,795 ordinary shares in Delta Lloyd N V. was sold at a price of €12.65 per share. The sale completed on 14 January 2013.

On 17 January 2013 the Company announced it had agreed to sell the Group's stake in its Malaysian joint ventures, CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad, to Sun Life Assurance Company of Canada for £152 million payable in cash. The deal is subject to regulatory approval and is expected to complete during the first half of 2013.

On 27 February 2013 the Company announced it had agreed to sell Aviva Russia to Blagosostoyanie, a non-state pension fund in Russia, for a consideration of €35 million payable in cash. The sale is subject to approval by the Federal Antimonopoly Service of the Russian Federation and it is expected that the sale will complete during the first half of 2013.

On 8 March 2013 the Company completed the transaction with AIB. Further details can be found in 'Financial Statements - IFRS - note 3 - Subsidiaries'.

### **Going concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Performance Review. The Performance Review is set out on pages 1 to 36 and includes the Risk and Capital Management section on pages 33 to 35. In addition, the financial statements sections include notes on the Group's borrowings (note 45); its contingent liabilities and other risk factors (note 48); its capital structure and position (note 50); management of its risks including market, credit and liquidity risk (note 53); and derivative financial instruments (note 54).

The Group has considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company and the Group as a whole have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### **Directors' responsibilities**

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable IFRS as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Directors' responsibility statement**

Each of the directors listed on pages 40 to 42 confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit/(loss) of the Group; and
- The Directors' Report and the Management Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board on 6 March 2013.

**Mark Wilson**

Group chief executive  
officer

**Patrick Regan**

Chief financial officer

## Corporate governance report

This Report sets out the role and activities of the Board, its effectiveness, and how the Group is governed. The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board believes that a strong system of governance is essential to help the business run smoothly and aid effective decision making in order to support the achievement of the Group's objectives

### The UK Corporate Governance Code

As a UK listed company, Aviva seeks to comply with the UK Corporate Governance Code 2010 (the Code). An amended version of the Code was issued in September 2012 which is applicable to companies with a UK premium listing with financial years beginning on or after 1 October 2012; the Company will report on its compliance with the 2012 version of the Code in its 2013 Annual Report and Accounts.

It is the Board's view that the Company has been fully compliant throughout the accounting period with the relevant provisions of the Code with the exception of the following-a Provision A.2.1 states that the roles of chairman and chief executive should not be exercised by the same individual and provision A 3.1 states that the chairman should be independent on appointment to the Board John McFarlane joined the Board as chairman designate in 2011 with the intention that he would take over the chairmanship of the Company on the retirement of Lord Sharman in June 2012. However, due to the unforeseen departure of Andrew Moss in May 2012, the Board asked John McFarlane to take on executive responsibility for running the Company in the interim period until a new Group CEO was appointed. As a result from 1 July 2012 until 1 January 2013 John McFarlane acted as executive chairman. He became non-executive chairman on 1 January 2013 on the appointment of Mark Wilson as Group CEO The Board believes that this non-compliance with the Code was justified in the circumstances given the timing of Andrew Moss' departure and the need to ensure the continued effective operation of the Company until a new Group CEO could be identified and appointed The Board was satisfied that there was a sufficient balance between executive and non-executive directors on the Board during this period to ensure that no one individual had unfettered decision-making powers. m Provision E.1.1 states that the senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders. Whilst Richard Goeltz did not meet with major shareholders during 2012, throughout the year John McFarlane and, separately, the chairman of the Remuneration Committee, undertook a programme of meetings with major shareholders to take soundings regarding the Company and to understand their concerns.

Further details of how the Company has applied the Code principles and complied with its provisions are set out in this Report, the Reports of each Board Committee and the Directors' Remuneration Report

Further information on the Code can be found on the Financial Reporting Council's website at [www.frc.org.uk](http://www.frc.org.uk).

### The Board

The Board is responsible to shareholders for promoting the long term success of the Company and, in particular, for setting the Group's strategic aims, monitoring management's performance against the strategic aims, setting the Group's risk appetite, ensuring the Group is adequately resourced and ensuring that effective controls are in place in the business. The Board also sets

the values and the culture of the Group and has a duty to protect the interests of policyholders

The specific duties of the Board are clearly set out in its terms of reference which address a wide range of corporate governance issues and lists those items that are specifically

reserved for decision by the Board. Matters requiring Board approval include:

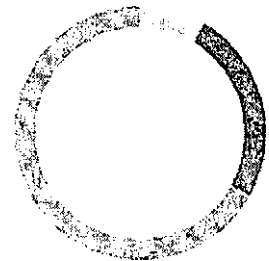
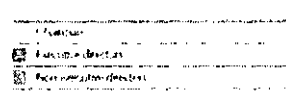
- Group strategy and business plans;
- Financial reporting and controls, capital structure and dividend policy;
- Group risk appetite and framework;
- Corporate governance,
- Remuneration policy,
- Significant transactions and expenditure; and
- Other matters (e.g. appointment and removal of the group company secretary and chief risk and capital officer. Board and Committee succession planning and the constitution of Board Committees).

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

### The directors

As at the date of this Report the Board comprises the chairman. Group CEO, two further executive directors and eight independent non-executive directors. The following charts show the balance of the Board between executive and non-executive representation, length of tenure and the diversity, of the Board in terms of gender and nationality.

### Balance of executive and non-executive directors



### Gender split of directors



3 i > ■..>

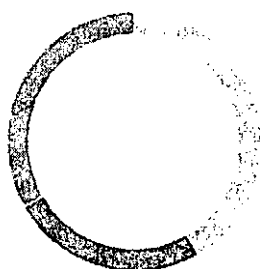
Length of tenure of non-executive

SI |,rr»«

The Board's policy is to appoint and retain non-executive directors who can apply their wider business knowledge and experiences to their understanding of the Aviva Group, and to review and refresh regularly the skills of the Board. In line with Code requirements regarding the independence of non-executive directors, several non-executive directors, including the chairman, retired in 2012 or are due to retire in 2013. The Report of the Nomination Committee sets out the work carried out during the year on succession planning which

Geographical

UK	5
UK	4
UK	4



culminated in the appointment of Sir Adrian Montague and Bob Stein as non-executive directors in January 2013 and Mark Wilson joining the Board in December 2012 and becoming Group CEO on 1 January 2013.

It is the Board's view that independent non-executive directors need to be able to present objective, rigorous and constructive challenge to management, drawing on their wider experiences to question assumptions and viewpoints and where necessary defend a given position. The independent non-executive directors should also assist management in the development of the Company's strategy. To be effective, an independent director needs to acquire a sound understanding of the industry and the Company so as to be able to evaluate properly the information provided. Having considered the matter carefully, the Board is of the opinion that all of the current non-executive directors are independent and free from any relationship or circumstances that could affect, or appear to affect, their independent judgement. Accordingly, over half of the Board members, excluding the chairman, are independent non-executive directors. All of the current directors that served during 2012 were subject to a formal performance evaluation during 2012 except Mark Wilson as he only joined the Board in December 2012. Non-executive directors who had served on the Board for more than six years were subject to a particularly rigorous review of their independence. As at the date of this Report, Richard Goeltz and Russell Walls have served on the Board for more than six years and they will both be retiring from the Board on 8 May 2013 having completed nine years of service. Biographical details including a summary of the skills and experience the directors bring to the Board are set out on pages 40 to 42.

Each director must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively. On average, directors spend at least 41 days a year on Company business, with the chairmen of the Audit, Risk and Remuneration Committees spending substantially more

**The chairman and Group CEO**

Role profiles are in place for the chairman and Group CEO which clearly set out the duties of each role. The chairman's priority is leadership of the Board and ensuring its effectiveness; the Group CEO's priority is the management of the Group. The Board has delegated the day-to-day running of the Group to the Group CEO within certain limits, above which matters must be escalated to the Board for consideration and approval. As noted

above, the roles of chairman and Group CEO were combined and undertaken by John McFarlane prior to the 2013 AGM until the end of the year. The Board agrees with the principle in the Code requiring these roles to be carried out by separate individuals. However, due to unforeseen circumstances during the year the Board unanimously agreed that it was in the best interests of the Company for the benefit of its shareholders to combine the roles for a short period until a new Group CEO could be recruited. From 1 January 2013 the roles are no longer combined.

**Senior independent director**

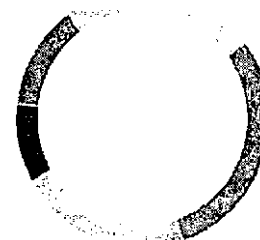
Richard Goeltz has served as the senior independent director since January 2009 and as an independent non-executive director for nearly nine years. Sir Adrian Montague will take over this role on 8 May 2013 when Richard Goeltz retires from the Board. The role of the senior independent director is to provide a sounding board for the chairman, to serve as an intermediary for the other directors where necessary and to be available to shareholders should they have concerns that they have been unable to resolve through normal channels, or when such channels would be inappropriate. During the year, the non-executive directors, led by Richard Goeltz, have met twice without the chairman present and he led the review of the chairman's performance during the year.

**Board activities during 2012**

The work of the Board follows an agreed annual work plan and principally falls under six main areas. The following chart shows how the Board allocated its time during 2012.

Allocation of Board agenda time

Succession planning, Board composition and independence	10%
Strategic planning, business plans and performance	20%
Financial reporting and other financial information and shareholder issues	20%
Governance and compliance	10%
Other	40%



The Board monitored the performance of the Group and its compliance with the governance framework described below through regular

- Group CEO reports highlighting issues such as strategic planning and execution; updates on ongoing corporate transactions; financial forecasts and results; the Group's vision and values; the external environment; personnel changes and market and competitor developments;
- Chief financial officer reports on a range of issues including financial results and forecasts, capital; operational performance, strategic initiatives; pensions funding deficit; investor relations and rating agency updates; risk appetite; corporate transactions and progress against Solvency II;
- Reports and recommendations from each Board Committee, and
- Reports from business units and functions.

As part of its annual work plan, the Board reviewed and approved all financial results announcements, the Annual Report and Accounts, the operational plan and dividend payments; considered succession plans for the Board and Group Executive; approved all changes to the composition of the Board and its Committees; reviewed the performance of the group chief executive; received regular updates on progress against strategy; considered personnel issues including the results of the annual employee promise survey; and reviewed public policy trends.

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

- Agreed a revised strategic plan to narrow the focus of the Group, build financial strength and improve financial performance,
- Approved the Group transformation project to implement the revised strategic plan;
- Appointed PwC as the Company's auditor following a tender process.
- Approved the sale of Aviva USA Corporation;
- Approved a further sale of Aviva's stake in Delta Lloyd N.V.;
- Approved the issue of Tier 1 hybrid debt;
- Approved the project to merge the Group's Irish General Insurance business into the UK General Insurance business;
- Reviewed the progress of the project to reorganise and flatten the Group's legal entity structure; and
- Considered and approved a new IT strategy

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

#### Board effectiveness

The effectiveness of the Board is vital to the success of the Group and the Company undertakes a rigorous evaluation each year in order to assess how well the Board, its Committees, the directors and the chairman are performing. The aim is to improve the effectiveness of the Board and its Committees and the Group's overall performance. The evaluation process for 2012 was led by the chairman and supported by the group company secretary. For a number of years the Board effectiveness review had been facilitated by external consultants. However, given the number of changes to the composition of the Board during the year the chairman considered that it would be more appropriate to carry out the 2012 effectiveness review internally using questionnaires tailored to the Board and each Committee. The results were discussed by the Board and each of the Committees and actions agreed. The review focused on the effective operation of the Board and each Committee, the effective use of meeting time, the appropriateness of the balance of skills, knowledge and experience of the Committee members, and identified key areas of focus for the Board and each Committee for 2013. Overall, the directors concluded that the Board and its Committees operated effectively and agreed that the issues identified for action or improvement in previous reviews had been implemented or addressed during the year. Areas identified for greater Board focus in 2013 included allocating a greater proportion of time to in-depth discussions of the markets in which the Group operates and their competitive positions and re-focusing strategy discussions towards the Group's long-term strategy, as well as continuing to monitor the Group's capital and liquidity position. The focus of the Board Committees in 2013 are detailed in each Committee's Report.

The review of the performance of the chairman, led by the senior independent director, concluded that the chairman continued to lead the Board effectively and had been instrumental in the progress which the Company and the Group had made during the year to deliver the Group's strategy.

The chairman assessed the performance of the executive directors in their capacity as directors of the Company and also assessed the performance of the non-executive directors. To assess the executive directors in respect of their executive duties a separate process was carried out by the chairman measuring performance against each executive director's role objectives.

The chairman concluded that each director contributes effectively and demonstrates full commitment to his/her duties.

#### Induction, training and development

The Board believes strongly in the development of all of its employees and directors and it is a requirement of each director's appointment that they commit to continuing their development.

During the year, directors attended a number of internal courses, including on Solvency II, the Internal Model approval process and how rating agencies rate insurance companies. Training sessions have also been built into the Board's and Committees' work plans for 2013.

The Board has a comprehensive induction programme for new executive and non-executive directors which is tailored to their particular needs and which consists of several separate training sessions over a number of months. These include presentations from key members of senior management, visits to the Group's main operating businesses and functions, and meetings with the external auditor and one of the Company's corporate brokers. Further or follow-up meetings are arranged where a director requires a deeper understanding on a particular issue. All new directors also receive induction materials which includes the current strategic and operational plan, recent Board and Committee minutes and meeting packs, organisational structure charts, role profiles, a history of the Group, and relevant policies, procedures and governance material.

#### Directors' attendance

The Company requires directors to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company in order to perform their duties. The attendance of the directors at the Board meetings held in 2012 is shown in the table below and the attendance at Committee meetings is shown in the Committee reports.

#### Board attendance 2012

	Number of meetings attended	Percentage attendance <sup>1</sup>
Glyn Barker (appointed 27 February 2012)	1	79%
(retired 3 October 2012) Richard Karl Goeltz	1	'
Euleen Goh (retired 31 December 2012) Michael Hawker Gay	9	90%
Huey Evans ■ John McFarlane Trevor Matthews	1	'
Igal Mayer (resigned 19 April 2012) Andrew Moss (resigned 8 May 2012) Patrick Regan	5	100%
Lord Sharman (retired 30 June 2012) Leslie Van de Walle (retired 2 May 2012) Russell Walls Scott Whewey	1	100
Mark Wilson (appointed 1 December 2012)	5	%
	1	93%'
	4	100%
	1	93%'
1 this shows the percentage of meetings which the director attended during the year whilst a member of the Board	5	93%'
2 The director was unable to attend Board meetings due to prior commitments and the meetings being called at short notice or where a conflict of interest prevented the director from taking part in the meeting	1	50%'
	4	71%'
	1	93%'
	4	100%
During 2012, <sup>1</sup> there were fifteen Board meetings held, of which, eight were scheduled Board meetings and seven were additional Board meetings called at short notice. In addition the Board delegated responsibility for certain items, such as giving final approval to proposals broadly agreed by the full Board, to specially created sub-Committees of the Board which met seven times during 2012.	2	60%'

During 2012,<sup>1</sup> there were fifteen Board meetings held, of which, eight were scheduled Board meetings and seven were additional Board meetings called at short notice. In addition the Board delegated responsibility for certain items, such as giving final approval to proposals broadly agreed by the full Board, to specially created sub-Committees of the Board which met seven times during 2012.

The chairman and the non-executive directors met several times in the absence of the executive directors and the non-executive directors met in the absence of the chairman, including one meeting chaired by the senior independent director to appraise the chairman's performance.

### Conflicts of interest

In line with the Companies Act 2006, the Company's articles of association allow the Board to authorise potential conflicts of interest that may arise and to impose such limits or conditions as it thinks fit. The decision to authorise a conflict of interest can only be made by non-conflicted directors (those who have no interest in the matter being considered) and in making such a decision the directors must act in a way they consider in good faith will be most likely to promote the Company's success. The Board's procedure to regularly review and approve actual and potential conflicts of interest as they arise and prior to the appointment of new directors operated effectively during the year.

### Governance structure

The Board is responsible for promoting the long term success of the Company for the benefit of shareholders. This includes ensuring that an appropriate system of governance is in place throughout the Group. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a 'three lines of defence' model and reserves to itself the setting of the Group's risk appetite. In-depth monitoring of the establishment and operation of prudent and effective controls in order to assess and manage risks associated with the Group's operations is delegated to the Audit Committee and the Risk Committee which report regularly to the Board. However, the Board retains ultimate responsibility for the Company's systems of internal control and risk management and their effectiveness. These frameworks play a key role in the management of risks that may impact the fulfilment of the Board's objectives. They are designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or losses. These frameworks are regularly reviewed and comply with the Turnbull Guidance (Internal Control' Revised Guidance for Directors).

### Risk Management Framework

The Risk Management Framework (RMF) is designed to identify, measure, manage, monitor and report significant risks to the achievement of business objectives and is embedded throughout the Group. It is codified through risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Group's world-wide operations. Further details on procedures for the management of risks are given in note 53.

### Internal controls

Internal controls facilitate effective and efficient business operations, the development of robust and reliable internal reporting and compliance with laws and regulations.

A Group Reporting Manual including International Financial Reporting Standards (IFRS) requirements and a Financial Reporting Control Framework (FRCF) are in place across the Group. FRCF relates to the preparation of reliable financial reporting and preparation of local and consolidated financial statements in accordance with IFRS and with the requirements of the Sarbanes-Oxley Act of 2002. The FRCF process follows a risk-based approach, with management identification, assessment (documentation and testing), remediation (as required), reporting and certification over key financial reporting-related controls.

The Board has delegated to the Group CEO the day-to-day management of the Company and approval of specific issues up to set financial limits including limits on revenue and capital expenditure, reinsurance spend and the settlement of claims. In turn the Group CEO has delegated

some of his authority to his direct reports. There is a similar delegated authority framework in place throughout the Group.

### First line

Management are responsible for the application of the RMF, for implementing and monitoring the operation of the system of internal control and for providing assurance to the Audit Committee, the Risk Committee and the Board.

The Group Executive members and each business unit chief executive officer are responsible for the implementation of group strategies, plans and policies, the monitoring of operational and financial performance, the assessment and control of financial, business and operational risks and the maintenance and ongoing development of a robust control framework and environment in their areas of responsibility.

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

Management regularly undertakes quality assurance procedures over the application of the FRCF process and FRCF controls. The results of the FRCF process are signed off by business unit chief executives and chief financial officers and FRCF compliance is reported up to the Disclosure Committee and the Audit Committee.

The Disclosure Committee is chaired by the chief financial officer and reports to the Audit Committee. It oversees the design and effectiveness of the Group's disclosure controls, for both financial and non-financial information, evaluates the Group's disclosure controls and reviews and endorses the Group's key periodic external reports, including the consolidated financial statements.

### Second line

The Risk function is accountable for the quantitative and qualitative oversight and challenge of the identification, measurement, monitoring and reporting of significant risks and for developing the RMF.

As the business responds to changing market conditions and customer needs, the Risk function regularly monitors the appropriateness of the Company's risk policies and the RMF to ensure they remain up to date. This helps to provide assurance to the various risk oversight committees that there are appropriate controls in place for all core business activities, and that the processes for managing risk are understood and followed consistently across the Group.

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

### Third line

The Internal Audit function provides independent and objective assessment on the robustness of the RMF and the appropriateness and effectiveness of internal control to the Audit and Risk Committees, business unit audit committees and the Board. Further information on the activities of the Internal Audit function is contained within the Audit Committee Report.



### Board oversight

The Risk Committee assists the Board in its oversight of risk and risk management across the Group and makes recommendations on risk appetite to the Board. The responsibilities and activities of the Risk Committee are set out in the Risk Committee Report on pages 60 to 62.

The Audit Committee, working closely with the Risk Committee, is responsible for assisting the Board in discharging its responsibilities for the integrity of the Company's financial statements, the effectiveness of the system of internal financial controls and for monitoring the effectiveness, performance and objectivity of the internal and external auditors. The responsibilities and activities of the Audit Committee are set out in the Audit Committee Report on pages 57 to 59.

Both the Audit and Risk Committees report regularly to the Board on their activities and make recommendations and escalate significant risk exposures to the Board as appropriate. They ensure that mitigating actions are taken when risks are, or are expected to move, out of appetite.

The chart below shows the Board and Committee structure that oversees the Company's frameworks for risk management and internal control.

#### Aviva plc Board

Audit Committee | Risk Committee | Remuneration Committee | Nomination Committee | Corporate Responsibility



Reputation

Further details on procedures for the management of risk operated by the Group are given in note 53.

### Effectiveness of controls

To support an assessment of the effectiveness of the Group's governance, internal control and risk management systems, the chief executive officer of each business unit is required to certify that-

- There are sound risk management and internal control systems that are effective and fit for purpose in place across the business, and
- Material existing or emerging risks within the business have been identified and assessed and the business operates in a manner which conforms to the minimum requirements outlined in Group risk policies and business standards

The chief risk officer of each business unit must certify that:

- The Risk function has reviewed and challenged the process supporting the business unit chief executive officer's certification, and is satisfied that it can provide reasonable assurance of the material accuracy and completeness of the business unit chief executive officer's assessment; and

- No material gaps exist in the RMF, as it applies to the business unit.

Any material risks not previously identified, control weaknesses or non-compliance with the Group's risk policies and business standards or local delegations of authority, must be highlighted as part of this process. This is then supplemented by investigations carried out at Group level and ultimately a Group CEO and group chief risk and capital officer certification for Aviva plc. In respect of 2012 and in view of the recent start of the Group CEO, the certification was made by the chief financial officer instead of the Group CEO. The effectiveness assessment also draws on the regular cycle of assurance activity carried out during the year.

The Audit Committee, working closely with the Risk Committee, on behalf of the Board, last reviewed the effectiveness of the systems of internal control and risk management in March 2013, covering all material controls, including financial, operational and compliance controls and the risk management framework and processes.

The necessary actions have been or are being taken to remedy any significant failings and weaknesses identified from these reviews. The Board confirms that there is an ongoing process for identifying, measuring, managing, monitoring and reporting the significant risks faced by the Group, which has been in place for the year under review and up to the date of approval of the Annual Report and Accounts

### Communication with shareholders

The Company places considerable importance on communication with shareholders and engages with them on a wide range of issues

The Group has an ongoing programme of dialogue and meetings between the executive directors and institutional investors, fund managers and analysts managed by the Company's Investor Relations function. At these meetings a wide range of relevant issues including strategy, performance, management, remuneration and governance are discussed within the constraints of information already made public, to understand any issues of concern to investors.

During the year, the chairman of the Remuneration Committee met with the Company's major institutional investors. In addition, the senior independent director was available to meet with major investors to discuss any areas of concern that could not be resolved through normal channels of investor communication. In 2012 the Board, through the Remuneration Committee chairman, consulted with institutional investors on executive remuneration

The Company's AGM provides a valuable opportunity for the Board to communicate with private shareholders. There is a dedicated email address and a query facility on the Company's website which shareholders can use to ask questions on the business of the AGM. The details of these are highlighted in the shareholder information section of the Notice of AGM. A presentation on the Group's performance is given at the AGM and made available on the website after the meeting at [www.aviva.com/agm](http://www.aviva.com/agm). Whenever possible, all directors attend the AGM and shareholders are invited to ask questions related to the business of the meeting during the meeting and have an opportunity to meet with the directors following the conclusion of the meeting. All the directors on the Board at the time of the 2012 AGM attended the meeting.

## New York Stock Exchange listing requirements

The Company's ordinary shares are admitted to the New York Stock Exchange (NYSE) and are traded as American Depositary Shares. As a foreign company listed on the NYSE, the Company is required to comply with the NYSE corporate governance rules to the extent that these rules apply to foreign private issuers. As a foreign private issuer, the Company is therefore required to comply with NYSE Rule 303A.11 by making a disclosure of the differences between the Company's corporate governance practices and NYSE corporate governance rules applicable to US companies listed on NYSE. These differences are summarised below together with Aviva's approach to compliance:

### NYSE Listing Rules

#### Independence criteria for directors

Independent directors must form the majority of the board of directors. A director cannot qualify as independent unless the Board affirmatively determines that the director has no material relationship with the company. NYSE rules prescribe a list of specific factors and tests that US companies must use for determining independence.

#### Non-executive director meetings

Non-management directors of each listed company must meet at regularly scheduled executive sessions without management and, if that group includes directors who are not independent, listed companies should at least once a year schedule an executive session including only independent directors.

#### Committees

US companies are required to have a nominating/corporate governance committee. In addition to identifying individuals qualified to become Board members, this committee must develop and

#### Code of business conduct and ethics

Companies are required to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

#### Shareholder approval of equity-compensation plans

Shareholders must be given the opportunity to vote on all equity-compensation plans 'material revisions' to those plans, with limited exceptions. Detailed definitions of 'material revisions' are provided by NYSE

### UK Corporate Governance Code

recommend to the Board a set of corporate governance principles.

At least half the Board, excluding the chairman, should comprise independent non-executive directors, as determined by the Board. The Code sets out its own criteria that may be relevant to the independence determination, but the Board is permitted to conclude affirmative independence notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, so long as it states its reasons.

The chairman should hold meetings with the non-executive directors without the executive directors present.

The Company is required to have a nomination committee but not a corporate governance committee.

Not required under the Code,

Shareholder approval is necessary for certain to equity-compensation plans and 'significant and changes' thereto, subject to certain exceptions, The Code does not provide a detailed definition or explanation of what are considered to be 'significant changes'.

### Aviva approach

The majority of the Board comprises independent non-executive directors who are deemed independent under the Code.

The independent non-executive directors meet without executive directors present at least once annually.

The Company has a Nomination Committee. The Board as a whole is responsible for the corporate governance of the Group and oversees this through reports to the Board and its Committees.

The Company has adopted a Business Ethics Code to which all employees are bound and a Code of Ethics for senior management, to comply with the Sarbanes-Oxley Act of 2002.

All new equity-compensation plans or amendments to existing plans that are required to be approved by shareholders under the Code are put to shareholders for approval.

By order of the Board

John McFarlane  
Chairman 6  
March 2013

## Nomination report

## Committee

This Report provides details of the role of the Nomination Committee and the work it has undertaken during the year.

### Committee role and responsibilities

The Board strongly believes that good governance and strong, responsible, balanced leadership by the Board are critical to creating long-term shareholder value and business success. The Committee assists the Board by regularly reviewing the composition of the Board and conducting a rigorous and transparent process when recommending or renewing the appointment of directors to the Board. The key responsibilities of the Committee are to:

- Evaluate and review the balance of skills, knowledge, and experience of the Board, taking into account the Company's risk appetite and strategy;
- Monitor succession plans for the appointment of non-executive directors, the group chief executive and other executive directors to the Board;
- Identify and nominate suitable candidates for appointment to the Board, including chairmanship of the Board and its Committees, against a specification of the role and capabilities required for the appointment;
- Assess the independence of each of the non-executive directors;
  - « Assess directors' conflicts of interest as they arise;
- Review the external interests and time commitments of the directors to ensure that each has sufficient time to undertake his/her duties to the Company, and
- Approve a report on the Committee's activities for inclusion in the Company's Annual Report and Accounts.

The full terms of reference for the Committee can be found on the Company's website at [www.aviva.com/terms-of-reference](http://www.aviva.com/terms-of-reference) and are also available from the group company secretary.

### Committee membership and attendance

As at the date of this Report, the Committee comprises the chairman and all the Company's independent non-executive directors. Prior to leaving the Group, Andrew Moss was also a member of the Committee. The table below shows the Committee members during the year and their attendance at Committee meetings

#### Membership and attendance

Cornvnttee member	Number of meetings attended	Percentage attendance <sup>1</sup>
John McFarlane (Chairman)**		100%
Lord Sharman <sup>1</sup>		100%
Glyn Barker <sup>4</sup>		50%
Mary Francis <sup>5</sup>		100%
Richard Karl Goeltz		75%
Euleen Goh*		100%
Michael Hawker*		100%
Gay Huey Evans*		100%
Andrew Moss <sup>6</sup>		50%
Russell Walls		100%
Scott Whewey <sup>4</sup>		100%

<sup>1</sup> This shows the percentage of meetings when the Committee member attended during the year whilst a member of the Committee. A number of Committee members could not attend meetings called at short notice or where they had a conflict of interest.

\* Attended all meetings, became chairman of the Committee on 1 July 2012.

<sup>3</sup> Lord Sharman retired from the Board and as chairman of the Committee on 30 June 2012.

<sup>4</sup> Appointed to the Committee on 1 July 2012.

<sup>5</sup> Resigned on 30 October 2012.

<sup>6</sup> Resigned on 8 May 2012. The Committee notes that the UK Corporate Governance Code does not preclude the group chief executive from membership of the Committee.

The Committee met on six occasions in 2012, of which three were scheduled meetings and three were additional meetings called at short notice. The group company secretary acts as the secretary to the Committee. Members of the Committee took no part in any discussions concerning their own circumstances. The chairman of the Committee reported to meetings of the Board on the Committee's work and the Board receives a copy of the agenda and the minutes of each meeting of the Committee.

### Committee activities during 2012

During 2012 the Committee was principally focused on two particular issues: identifying the successor for the group chief executive and the recruitment of new non-executive directors as part of the continual cycle to refresh the Board and maintain an appropriate balance of skills, knowledge and experience. These issues are discussed in detail below. The chart below shows how the Committee allocated its time during 2012.

#### Nomination committee - allocation of agenda time

£J r^vr\*--^-. ai>lvlt<-.VM,f »ilr-vsi



#### Group chief executive officer search

The Committee led the process for the recruitment of a new group chief executive following the departure of Andrew Moss in May 2012. The Committee approved the search brief and engaged Spencer Stuart to identify suitable candidates. The brief included finding candidates with strong insurance experience, a track record of running large global organisations, and the skills and leadership qualities to unite and motivate the Group's employees and to embed a high-performance culture.

A shortlist of candidates were interviewed by the chairman, the senior independent director and two non-executive directors. The preferred candidates met with all non-executive directors and the successful candidate met with the Financial Services Authority (FSA). The Remuneration Committee led on the development of an appropriate remuneration package for the role and approved the final package to be offered to the successful candidate. Both the Remuneration and Nomination Committees were mindful of shareholder views when considering the remuneration package for the role. Having considered all the skills, experience and personal attributes of the preferred candidates, the Committee recommended Mark Wilson be appointed to the role and to the Board. The Board appointed Mark Wilson as a director with effect from 1 December 2012 and as Group CEO from 1 January 2013. He has extensive experience in leading major international insurance companies across life insurance, general insurance and asset management. Spencer Stuart does not have any other connection with the Company.

#### Non-executive director search

As part of the continual cycle to refresh the Board, the Committee led the process to recruit two new non-executive directors to succeed Richard Goeltz and Russell Walls who will both retire from the Board, having completed nine years of service, on 8 May 2013. The Committee engaged The Zygos Partnership to identify suitable candidates. The Committee prepared comprehensive candidate search briefs with an emphasis on finding a candidate who could become the next senior independent director and a candidate with strong life assurance experience. Shortlisted candidates were interviewed by the chairman, the senior independent director and two non-executive directors and, additionally, executive and non-executive directors met with the preferred candidates. Following FSA approval, the Board accepted the Committee's recommendations and appointed Sir Adrian Montague and Bob Stein as non-executive directors on 14 and 28 January 2013 respectively.

The Committee further recommended to the Board that Sir Adrian Montague be appointed as senior independent

director prior to the 2013 AGM to succeed Richard Goeltz. The Committee believes that Sir Adrian has the requisite skills and experience to be an effective senior independent director. The Committee has also recommended that Glyn Barker be appointed as chairman of the Audit Committee to succeed Russell Walls prior to the 2013 AGM. Glyn Barker was formerly vice-president, UK of PwC and has a deep understanding of accounting and regulatory issues together with in-depth transactional and assurance experience. In his role at PwC he did not carry out external audit work for the Company and the Committee is satisfied that his former connection to PwC does not compromise the external auditor's independence.

The Zygos Partnership has no other connection with the Company.

**John McFarlane**  
Chairman, Nomination Committee

### Diversity

The Committee strongly believes that diversity throughout the Group and at Board and senior management level is a driver of business success. Diversity brings a broader, more rounded perspective to decision making and risk management, making the Board and senior management more effective. During the year, candidate searches were conducted and Board appointments were made, on merit, against the criteria identified by the Committee having regard to the benefits of diversity on the Board, including gender.

However, with the retirement of Euleen Goh and Mary Francis during the year to concentrate on other commitments the Board currently only has one female non-executive director, representing 10% of the Board. In its last report the Committee stated that it intends to maintain a minimum of 25% female representation on the Board by the end of 2013. The Company remains committed to having a diverse Board in terms of gender as well as diversity of experience, skills and knowledge, background and nationality. Recruitment of additional non-executive directors is ongoing and the Committee is taking diversity into account in the selection process. At the date of this Report, 29% (2011: 18%) of Group Executive members and 21% (2011: 20%) of senior executives in the Company were female. It is the Company's intention to increase this number as it is recognised that a higher number of women in senior management will create a stronger talent pipeline and is better for business.

### Other activities

During the year the Committee recommended Committee composition changes to the Board and has been involved in the ongoing process to recruit a new chief executive officer for Aviva Investors and a new group HR director. The Committee also reviewed the independence of each non-executive director, all directors' conflicts of interest and the balance of skills, knowledge, experience and diversity on the Board prior to recommending directors' re-election at the AGM. Following consideration of these issues the Committee recommended the election or re-election of each director standing for election or re-election at the 2013 AGM.

### Committee performance and effectiveness

The Board undertook an annual review of the Committee's performance and effectiveness and the results of the review will be incorporated into the Committee's processes and activities for 2013.

### Nomination Committee Report

This Nomination Committee Report was reviewed and approved by the Board on 6 March 2013.

# Audit Committee report

This Report provides details of the role of the Audit Committee and the work it has undertaken during the year.

## Committee role and responsibilities

The purpose of the Committee is to assist the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, assessing the effectiveness of the Group's system of internal controls and monitoring the effectiveness, independence and objectivity of the internal and external auditors. Whilst the Board as a whole has a duty to act in the best interests of the Company, the Committee has a particular role, acting independently of management, to ensure that the interests of shareholders are properly protected in relation to financial reporting and the effectiveness of the Group's systems of financial internal controls. The key responsibilities of the Committee are to:

- Review the significant issues and judgements of management, and the methodology and assumptions used in relation to the Group's financial statements and formal announcements on the Group's financial performance including the reserving position relating to the Group's life assurance and general insurance operations;
- Review the Group's going concern assumptions,
- Assess the effectiveness of the Group's system of internal controls, including financial reporting, financial controls and the Internal Audit function;
- Consider and review the performance of the chief audit officer, and agree with management his effectiveness and his remuneration;
- Consider and make recommendations to the Board on the appointment, reappointment, dismissal or resignation and remuneration of the external auditor; and
- Assess the independence and objectivity of the external auditor and approve and monitor the application of the external auditor business standard.

In preparation for the new Code requirement that will apply to Aviva during the 2013 reporting period, revised terms of reference for the Committee were adopted in January 2013.

The full terms of reference for the Committee can be found on the Company's website at [www.aviva.com/terms-of-reference](http://www.aviva.com/terms-of-reference) and are also available from the group company secretary.

## Committee membership and attendance

The Committee comprises independent non-executive directors only. The table below shows the Committee members during the year and their attendance at Committee meetings:

### Membership and attendance

Committee member	Number of meetings attended	Percentage attendance <sup>1</sup>
Russell Walls (Chairman) Glyn Barker <sup>1</sup>	1	100
Mary Francis <sup>1</sup> Richard Karl Goeltz	3	%
Euleen Goh <sup>1</sup> Michael Hawker		75
<sup>1</sup> This shows the percentage of meetings where the Committee member attended during the year where a member of the Committee	3	%
A number of the Committee members were unable to attend meetings called at short notice	9	90
	1	..

<sup>2</sup> Appointed to the Committee on 8 August 2012

<sup>3</sup> Resigned from the Board and the Committee on 30 October 2012

<sup>a</sup> Resigned from the Board and the Committee on 31 December 2012

The Committee met on thirteen occasions in 2012, of which two meetings were called at short notice. Two of the meetings were held jointly with the Risk Committee to focus on the business of Aviva France and the Group's capital and liquidity position, and five of the meetings were held in relation to the Group's financial results only. Training and information sessions were held during

the year on the Group tax and treasury functions and the integrated assurance framework. The group company secretary acts as the secretary to the Committee.

The chairman, Group CEO, chief financial officer, chief audit officer and the external auditor normally attended Committee meetings. Other members of senior management were also invited to attend as appropriate to present reports. The Committee regularly held private sessions to discuss issues to be raised with management in the main meeting, and met separately with senior management, with the chief audit officer without management present and with the external auditor without management present during the year. The Committee chairman held regular meetings with management and the chief audit officer, and with the external audit partner to ensure he was aware of issues that needed to be raised at the Committee. The Committee chairman reported to subsequent Board meetings on the Committee's work and the Board received copies of the agenda and minutes of each Committee meeting.

In performing its duties, the Committee had access to the services of the chief audit officer, the group company secretary, senior financial management and external professional advisers.

## Committee expertise

The Committee members have significant financial experience and expertise.

Russell Walls, a Fellow Chartered Certified Accountant, is former group finance director of BAA plc, Wellcome plc and Coats Viyella plc. Richard Goeltz is a former chief financial officer of American Express Company and NatWest Group plc and a former member of the Accounting Standards Board.

Glyn Barker is a chartered accountant and has held a number of senior positions at PwC where, most recently, he was UK vice chairman. Michael Hawker, a Senior Fellow of the Financial Services Institute of Australasia, is a former chief executive officer and managing director of Insurance Australia Group.

The Board is satisfied that each of the current Committee members has recent and relevant financial experience and also meets US requirements to be an audit committee financial expert.

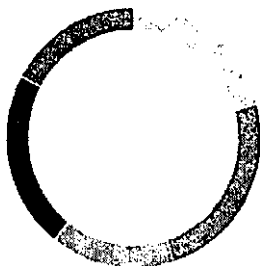
Glyn Barker will succeed Russell Walls as Committee chairman on 8 May 2013. As former vice-chairman of PwC, Glyn Barker has a recent connection with the Group's current auditor. However, he did not perform any audit work and had no responsibility for the audit business of PwC. PwC has concluded that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

## Committee activities during 2012

The work of the Committee followed an agreed annual work plan and principally fell under four main areas: financial statements and accounting policies, internal controls, the oversight of the internal audit function and the oversight of external audit. The Committee's work in each of these areas is described below. The group company secretary assisted the Committee chairman in planning the Committee's work, and ensured that the Committee received information and papers in a timely manner. The chart on the next page shows how the Committee allocated its time during 2012.

## Audit Committee report continued

### Audit committee - allocation of



### Financial statements and accounting policies

In conjunction with members of management and the internal and external auditors, the Committee reviewed the Group's financial announcements, including the Annual Report and Accounts and associated documentation, the half year results and the interim management statements, and the going concern statement in relation to the Annual Report and Accounts. The Committee placed particular emphasis on their fair presentation and the reasonableness of the judgement factors and appropriateness of significant accounting policies used in their preparation.

During the year, the Committee considered the treatment of various assets in the Group's accounts and the accounting assumptions applied to the results, including the reclassification of Delta Lloyd from an associate to an investment following a further disposal of the Group's holding in Delta Lloyd; the 'held for sale' classification of Aviva's US business; the impairment assumptions for the US business and the Group's Spanish bancassurance joint ventures; and the impact of unwinding the Irish joint venture arrangements with Allied Irish Bank. A number of new accounting standards were issued by the International Accounting Standards Board at the end of 2011 which become effective in 2013 and the Committee monitored the action taken by management to ensure compliance with the new standards. The Committee also considered the changes to the Code and associated guidance relating to audit committees and the Committee's Report in the 2013 Annual Report and Accounts will include disclosure of the significant issues it has considered in relation to the Group's financial statements. During the year the Committee also received reports on the adequacy of the Group's life assurance and general insurance reserves, reviewed the audit representation letters prior to signature on behalf of the Board to ensure that the information provided to the external auditor was complete and appropriate and monitored management's responsiveness to the external auditor's findings and recommendations.

### Internal control

During the year the Committee received quarterly updates on the effectiveness of the Group's financial reporting control framework and discussed rectification of any deficiencies in controls. In that respect, the Committee focused on the work by management to improve the internal control framework in Aviva Investors, where a new controls assurance team had been established, and enhancing controls around end-user computing policies and practices and monitoring US IT change management.

The Committee reported to the Board regarding the effectiveness of the Group's overall risk management and internal control systems including the risk management system in relation to the financial reporting process. The Committee worked closely with the Risk Committee in its overall review of the Company's systems of risk management and internal controls. The Committee encouraged continuous improvements in the effectiveness of internal controls where appropriate.

The system of internal controls extends to the Group's business units, each of which has an audit committee that provides an oversight role for its business. Membership of these

business unit audit committees is very largely comprised of nonexecutive directors. The chief audit officer attended business unit audit committee meetings throughout the year and reported back on their effectiveness to the Committee. During 2012 the members of the Committee attended several business unit audit committee meetings, including those in the US, Italy, Canada and Aviva Investors. Revised terms of reference for business unit audit committees were discussed and implemented within the business units together with a new induction pack for business unit audit and risk committee members.

The Committee's terms of reference require it to establish and monitor procedures for dealing with complaints from employees in relation to accounting issues. The Committee reviews the procedures annually and received regular updates from the chief audit officer on any significant complaints received. A description of the Company's systems of internal control is included in the Corporate Governance Report on pages 49 to 54.

### Internal audit

Internal Audit reports to the Board (primarily via the Audit and Risk Committees) and to management on the effectiveness of the Company's system of internal controls and the adequacy of this system to manage business risk and to safeguard the Group's assets and resources.

### Internal audit charter and business standard

The Committee approved a new Internal Audit charter and an Internal Audit business standard in early 2012. The charter sets out the purpose, functions, scope and responsibilities of the Internal Audit function and how it maintains independence from the first and second line management of the Group. The three main functions of Internal Audit are to:

- Assess and report on the effectiveness of the design and operation of the framework of controls which enable risk to be assessed and managed;
- Investigate and report on cases of suspected financial crime and employee fraud; and
- Undertake advisory projects for management provided that they do not threaten the function's actual or perceived independence from management.

The Internal Audit business standard sets out the business requirements of senior management across the Group in order to support Internal Audit in achieving its objectives and requires businesses to design and operate processes and controls to satisfy the mandatory requirements in the standard based on the size and complexity of the business and the nature of the risks and challenges it faces. The standard also includes controls around local legal and regulatory risks. Any breaches of the standard must be reported to the chief audit officer and others as appropriate.

### Annual plan and focus of reviews in 2012

Internal Audit's 2012 annual plan was reviewed and approved by the Committee. Planned reviews were prioritised following a risk-based assessment of the business and a review against the Group's risk policies. The reviews carried out covered an extensive sample of controls over all risk types, business units and regulated entities and covered 'business as usual' activities and an assessment of change programmes. The Committee received quarterly reports from the chief audit officer on audit reviews carried out, management's response to the findings and progress in addressing identified issues. During 2012, Internal Audit carried out assurance reviews over inherent risks throughout the Group. Reviews were focused on, but not limited to, areas such as major projects including Solvency II and the Aviva Ireland Transformation Programme, maintenance of controls during the management restructuring programme, IT availability, security and recoverability; financial reporting and disclosure; financial risk, central liquidity and capital management; and the internal control

environment at Aviva Investors. The chief audit officer increased management's focus throughout the year on management's progress on closing overdue audit issues where further improvement is still required

The Committee assessed the effectiveness of the Internal Audit function against criteria provided by the Institute of Chartered Accountants in England and Wales and by the Institute of Internal Auditors and concluded that the function was effective. An independent review is carried out every five years and the next independent review is due to be carried out in 2013.

#### **Chief audit officer**

The chief audit officer had direct access to the Board chairman, the Committee chairman and the Committee members. The Committee worked with the chief financial officer to determine the chief audit officer's objectives and evaluate his levels of achievement, and to approve the chief audit officer's remuneration. His annual performance related bonus was unconnected to the Group's financial performance. During the year the chief audit officer became a member of the Group Executive and his reporting line changed from the Group CEO to the chief financial officer. The chief audit officer's membership of the Group Executive assisted the relationship between Internal Audit and management. Notwithstanding his appointment to the Group Executive, his independence was maintained as the Group Executive, acting as a committee, has no decision making authority and assurances were received from management that adequate safeguards had been put in place to maintain the independence, authority and standing of the chief audit officer and the Internal Audit function. Following the senior management restructuring which took place during the year the Internal Audit function aligned itself to the new structure and the Committee remained satisfied that the Internal Audit function had sufficient resources to undertake its duties

#### **External auditor**

PwC was appointed by the Board as the Company's external auditor on 22 March 2012 for the 2012 reporting period and was re-appointed by shareholders at the 2012 AGM. The Committee led the tender and selection process through which PwC was appointed and has recommended to the Board that PwC be re-appointed by shareholders at the 2013 AGM. There are no contractual obligations that restrict the Committee's choice of external auditor

Given the resignation of Ernst & Young LLP as external auditor in early 2012 and that PwC has only just completed its first full year audit, no external auditor effectiveness review was carried out in 2012. A review will be conducted in 2013.

The Company has an external auditor business standard in place which is aimed at safeguarding and supporting the independence and objectivity of the external auditor. The standard is in full compliance with all UK, US and International Federation of Accountants (IFAC) rules and takes into account the Auditing Practices Board Ethical Standards for Auditors.

As discussed above, the Committee believes that Glyn Barker's connection with PwC does not compromise PwC's independence.

The standard regulates the appointment of former audit employees to senior finance positions in the Group and sets out the approach to be taken by the Group when using the non-audit services of the principal external auditor. It distinguishes between (i) those services where an independent view is required and those that should be performed by the external auditor (such as statutory and non-statutory audit and assurance work), (ii) prohibited services where the independence of the external auditor could be threatened and must not be used, and (iii) other non-audit services where the external auditor may be used. Non-audit services where the external auditor may be used include: non-recurring internal controls and risk management reviews (excluding outsourcing of internal audit work), advice on financial reporting and regulatory matters, due diligence on acquisitions and disposals, project assurance and advice, tax compliance services, and employee tax services. During the year the Committee received quarterly reports of compliance against the standard.

*The Group paid £13.5 million to PwC for audit services in 2012, relating to the statutory audit of the Group and Company financial statements, the audit of Group subsidiaries, and audit-related assurance services (2011: £17.3 million to Ernst & Young LLP).*

Prior to 2012, PwC was a significant provider of consulting services to the Group. The level of fees for non-audit services in 2012 below includes fees billed in the year relating to projects that commenced prior to PwC's appointment as external auditor. All of these services are in compliance with applicable UK, US and International Federation of Accountants independence rules. We do not expect PwC's non-audit fees to continue at this level in the future.

The fees for other services, which included MCEV supplementary reporting, assurance on the Group's 2012 Corporate Responsibility Report, advice on accounting, risk and regulatory matters, reporting on internal controls, reporting on the Group's Individual Capital Assessment and Economic Capital, work in relation to preparing the business for Solvency II implementation, and work on capital transactions, were £18.3 million to PwC (2011: £11.2 million to Ernst & Young LLP), giving a total fee to PwC of £31.8 million (2011: £28.5 million to Ernst & Young LLP). In addition the Group paid £1 million to Ernst & Young LLP in 2012 in relation to the 2011 audit.

The 2012 fees for other non-audit services for continuing operations of £7.7 million includes advice to our European businesses in relation to the risk management aspects of Solvency II (£1.9 million), £1.9 million relating to four regulatory advice engagements, £0.7 million relating to restructuring at Aviva Investors, £0.3 million for risk training, £0.3 million supporting an industry-wide competition review, £0.3 million for an additional claims reserves review and £2.3 million for other services. The 2012 fees for tax compliance services of £0.4 million includes fees for one engagement in Higher Growth markets of £0.3 million, and fees for corporate finance transactions of £0.3 million relates to an engagement for an Aviva Investors property fund. In line with the external auditor business standard, the Committee satisfied itself that for these engagements, robust controls (including appropriate levels of review) were in place to ensure that PwC's objectivity and independence was safeguarded, and concluded that it was in the interests of the Company to purchase these services from PwC due to their specific expertise. Further details are provided in note 9.

#### **Committee performance and effectiveness**

The Committee undertook an annual review of its performance and effectiveness which concluded that overall the Committee was effective in carrying out its duties. The Committee agreed that its priorities for 2013 should include continuing to monitor Group liquidity jointly with the Risk Committee, ensuring that appropriate controls remain in place during the continued restructuring of the Group, closely monitoring reserving and actuarial assumptions changes, and considering compliance with the relevant new requirements of the UK Corporate Governance Code.

#### **Audit Committee Report**

This Audit Committee Report was reviewed and approved by the Board on 6 March 2013.

Russell Walls  
Chairman, Audit Committee

# Risk Committee report

This Report provides details of the role of the Risk Committee and the work it has undertaken during the year.

## Committee role and responsibilities

The purpose of the Committee is to assist the Board in its oversight of risk within the Group through reviewing the Group's risk appetite and risk profile, the effectiveness of the Group's risk management framework and the methodology and assumptions used in determining the Group's capital requirements. The Committee also works with the Remuneration Committee to ensure that risk is properly considered in setting the Group's remuneration policy. The Committee oversees all aspects of risk management in the Group, including market, credit, liquidity, insurance and operational risk (including franchise risk), and their impact on both financial and non-financial goals.

The key responsibilities of the Committee are to:

- Review the Group's risk appetite and future risk strategy, particularly in relation to economic (i.e. risk-based) capital, liquidity, reputation and operational risk, and make recommendations on risk appetite to the Board;
- Review the Group's risk profile against its risk appetite and strategy and review the drivers of changes, if any, in the Group's risk profile;
- Review the design, completeness and effectiveness of the risk management framework relative to the Group's activities;
- Assess the adequacy and quality of the risk management function and the effectiveness of risk reporting within the Group;
- Review the methodology and assumptions used in the Group's models for determining its economic and regulatory capital requirements; and
- Work with the Remuneration Committee, to ensure that risk is considered in setting the overall remuneration policy for the Group.

Revised Committee terms of reference were adopted in January 2013 following an annual refresh. The full terms of reference for the Committee can be found on the Company's website at [www.aviva.com/terms-of-reference](http://www.aviva.com/terms-of-reference), and are also available from the group company secretary.

## Committee membership and attendance

The Committee comprises independent non-executive directors only. The table below shows the Committee members during the year and their attendance at Committee meetings

### Membership and attendance

Committee member	Number of meetings attended	Percentage attendance <sup>1</sup>
Michael Hawker (Chairman)	1	100%
Glyn Barker	1	%
Mary Francis	3	88%
Leslie Van de Walle	11	100%
Russell Walls		%

- 1 This shows the percentage of meetings which the Committee member attended during the year whilst a member of the Committee
- 2 Glyn Barker joined the Committee on 2 May 2012. He was unable to attend the Committee meeting held on 4 December 2012 due to prior commitments and this meeting being called at short notice
- 3 Mary Francis resigned from the Committee on 3 October 2012 and Leslie Van de Walle resigned from the Committee on 4 October 2012.

The Committee met on eleven occasions in 2012, of which nine were scheduled Committee meetings and two were additional Committee meetings called at short notice. Two of the meetings were held jointly with the Audit Committee to consider the

business of Aviva France and the Group's capital and liquidity position. The Committee followed a programme of attending meetings of business unit risk committees and, during the year, members of the Committee attended meetings in the US and Canada. The group company secretary acted as the secretary to the Committee.

In November, the Committee chairman hosted a two-day conference for the chairmen of the boards and risk committees of the Group's principal subsidiaries. The agenda included discussions on Solvency II; revisions to the timing of implementation of Solvency II and the impact on the Group's capital regime; the FSA's perspective of the roles and responsibilities of the Board, the Committee and the business unit boards and risk committees under Solvency II; calculation of economic capital and the internal model; and an in-depth analysis of the Group's key risk types.

The chairman of the Company, Group CEO, chief risk and capital officer, chief financial officer and the chief audit officer normally attended all Committee meetings. Other members of senior management were also invited to attend as appropriate to present reports. It was the Committee's practice to hold private sessions at the beginning of each meeting to discuss issues to be raised with management in the main meeting, and to meet with the Group CEO, chief finance officer and chief risk and capital officer without any other members of management being present.

The Committee chairman reported to the subsequent meeting of the Board on the Committee's work and the Board received a copy of the agenda and the minutes of each Committee meeting. Throughout the year, the Committee chairman sat on the Audit and Remuneration Committees to ensure that risk considerations were fully reflected in the decisions of those Committees.

In performing its duties, the Committee had access to the services of the chief risk and capital officer, chief audit officer, the group company secretary and external professional advisers.

## External environment

The external environment was once again one of much international economic uncertainty. Doubts about the strength and economic recovery rates in the OECD, political uncertainty in the world's two largest economies with leadership changes in China and presidential elections in the United States, and the increased regulatory and capital burden on the financial services industry, dampened the risk appetite of investors.

This resulted in the continued reduction in OECD interest rates, further quantitative easing from the US, Japanese, UK and European Governments, high levels of OECD unemployment, and times of excessive volatility in credit spreads.

Towards the end of the year, the emergence of early growth in the US, greater clarity surrounding the political changes in the US and China, and a continuation of low interest rates saw a rally in the equity markets and a tightening of credit spreads and lower volatility.

The question one asks, is whether these perceived improvements in the world's economic environment are sustainable or short lived?

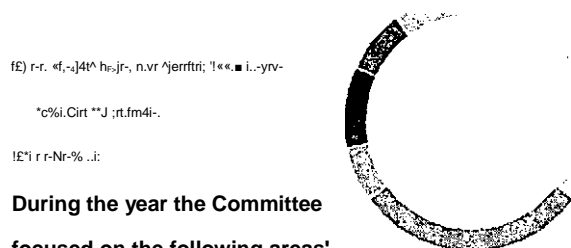
## Committee activities during 2012

The work of the Committee followed an agreed annual work plan, which evolved throughout the year in response to the changing macro-economic and regulatory environment and changes in the Company's strategy. The group company secretary and the group chief capital and risk officer assisted the Committee chairman in planning the Committee's work, and ensured that the Committee received information and papers in a timely manner.



The chart below shows how the Committee allocated its time during 2012.

**Risk committee - allocation of agenda time**



**During the year the Committee focused on the following areas'**

**Risk appetite monitoring**

Against a backdrop of significant market volatility during the year, the Committee received regular detailed reports on key risk exposures, emerging and potential risks, and the drivers of risk throughout the Group. It assessed and challenged the appropriateness of the Group's overall risk appetite and approved revised economic capital risk appetites by risk type. The Committee monitored the Group's exposure against these appetites, particularly in relation to European sovereign debt holdings and counterparty and credit exposure and, throughout the year, discussed and agreed the actions to be taken to reduce exposure and to address or mitigate risks that had become out of appetite. It also agreed a comprehensive, revised capital management framework by which capital issues would be escalated to the Committee and the Board Mindful of the potential economic, social and regulatory impact of a Eurozone default, the Committee monitored significant market and Group level contingency planning to produce tailored 'financial event response plans'.

**Capital and liquidity management**

Throughout the year, the Committee closely monitored the Group's economic capital and liquidity positions against risk appetite and targets, and considered in detail the results of stress and scenario testing at Group and local market level. Given the volatility in market conditions during the year, the Committee challenged the appropriateness of the Group's regulatory and economic capital surplus and liquidity targets and, after detailed consideration, recommended to the Board revised, strengthened targets. The Committee gave particular focus to considering and approving a programme of strategic, economic and operational actions to be undertaken to strengthen and provide greater resilience to the Group's capital and liquidity positions, and monitored the results and effectiveness of the programme.

**Methodology and assumptions**

In early 2012, the Committee considered and approved the methodology and assumptions used to calculate the economic capital for the 2012 Individual Capital Adequacy (ICA) submission.

**Preparing for Solvency II**

The Committee closely monitored the evolving position in relation to the implementation of the Solvency II Directive. Notwithstanding the eventual agreement in October 2012 to delay implementation until 2014, the Committee continued to have oversight of all aspects of the Group's programme to implement the Solvency II Directive. Throughout the year, the Committee received detailed progress reports on the development of the models used to calculate economic capital requirements and the techniques used to validate the results. The Committee also reviewed the detailed contingency plans in relation to the Group's internal model and had oversight of the

programme of board training and preparations for legal entity sign-off to the Group's Internal Model Approval Process (IMAP) submission. Following confirmation of the delay to implementation of the Solvency II Directive, the Committee reviewed the revised management programme to deliver enhancements to the economic capital model in the interim period.

**Risk management and governance**

The Committee had an ongoing programme of receiving reports from local risk committee chairmen or chief executive officers on the risk environment and issues arising in the Group's businesses and in respect of particular product lines. During the year, the Committee received reports on the businesses in Italy, Spain, France, the UK and the European region as a whole, and in respect of the Corporate and Speciality Risks business in the UK and business lines in France. The Committee also received updates on issues concerning IT and data security and on the Group's reinsurance programme. The Committee received regular reports from the chief risk and capital officer and monitored the effectiveness of the Company's Risk Management Framework which is described in more detail in the Corporate Governance Report on pages 49 to 54 and in note 53.

Throughout the year, the Committee had significant oversight of the development of a comprehensive Group-wide restructuring programme, designed to better align legal and management structures throughout the organisation and to optimise governance practices at Group and subsidiary level. In addition, as part of the annual refresh of the suite of risk policies and business standards which underpin the RMF, the Committee reviewed and approved the updated policies and approved a sign-off process in respect of the business standards.

At the end of the year, the Committee commenced an analysis of the Group's asset and investment portfolio and the framework by which business units set their investment strategies. Further analysis will continue in 2013.

**Regulatory oversight**

The Committee maintained oversight of the regulatory risks throughout the organisation and discussed the specific management actions identified to address or mitigate issues which arose during the year. The Committee also considered the impact of the changes in the UK and European regulatory landscape, particularly in light of the shift in UK regulatory focus ahead of the split of the FSA into the Prudential Regulation Authority and the Financial Conduct Authority in 2013, and of increasing policyholder protectionism by European regulators.

**Fraud and financial crime**

The Committee reviewed compliance with controls against financial malpractice including fraud, and of the arrangements for employees to report in confidence any concerns about lack of probity (whistleblowing). It received updates on, and approved enhancements to, the financial crime prevention programme, which was designed to further embed and ensure enforcement of the Group's anti-bribery and corruption policies and to provide on-going training for the Group's businesses and employees.

**Personnel and remuneration policy**

During the year, the Committee approved the appointment of the group chief risk and capital officer. In early 2013 it approved his objectives for the coming year and reviewed his performance against 2012 objectives. The Committee also assessed senior management's performance against the agreed common risk objective and considered the appropriateness of the risk metrics when setting senior management remuneration policy.

**Internal controls**

Working with the Audit Committee, the Committee monitored the adequacy of the RMF. Throughout the year, the Group's Internal Audit function continued to provide the Committee with independent and objective reports on the appropriateness, effectiveness and sustainability of the Company's system of internal controls. Key control issues reported by Internal Audit to management and to the Committee members were monitored on a quarterly basis until the related risk exposures had been properly mitigated.

More detail on the management of risk is contained in note 53.

**Committee performance and effectiveness**

The Committee undertook an annual review of its performance and effectiveness which concluded that overall the Committee was effective in carrying out its duties. In addition to undertaking its agreed annual programme of activities, the Committee agreed that its priorities for 2013 should be to continue to focus on capital and liquidity issues; to monitor the Group's preparedness for Solvency II; to review the quality and mix of the Group's asset portfolio, to monitor the Group's customer agenda and to oversee management actions to improve IT resilience.

**Risk Committee Report**

This Risk Committee Report was reviewed and approved by the Board on 6 March 2013

Michael Hawker  
Chairman, Risk Committee

# Corporate Responsibility Committee report

This Report provides details of the role of the Corporate Responsibility Committee and the work it has undertaken during the year.

## Committee role and responsibilities

The purpose of the Committee is to set guidance and direction and to oversee the policies and progress of the Group's corporate responsibility (CR) activities. The key responsibilities of the Committee are to:

- Assist the Board in the development of the Group's strategy on CR related issues and monitor external developments.
- Review the Group's CR, environment and climate change business standard to ensure it continues to meet the Group's CR strategy and objectives;
- Review and monitor the Group's CR risks and, working with the Risk Committee, ensure that the Group's CR risks are properly considered;
- Review and approve the CR Report in the Company's Annual Report and Accounts and provide for an appropriate form of assurance; and
- Review the overall CR content contained within the Group's financial reports

Revised terms of reference were adopted in January 2013. The responsibility of the Committee was expanded to include providing oversight for the Board in respect of the Group's conduct with customers and reviewing the overall corporate governance of the Group and business standards as they relate to the culture, values and reputational risks of the Group. The full terms of reference for the Committee can be found on the Company's website at [www.aviva.com/terms-of-reference](http://www.aviva.com/terms-of-reference) and are also available from the group company secretary.

## Committee membership and attendance

The Committee comprises independent non-executive directors only. The table below shows the Committee members during the year and their attendance at Committee meetings

### Membership and attendance

Committee member	Number of meetings attended	Percentage
Gav Huey (Chairman)	4	100%
Eileen Goh	4	100%
Andrew Moss	2	100%
Lord Sharman	2	100%
Scott Whewey		100%

1 Tr- shows the percentage of meetings with the Committee member attended during the year whilst a member of the Committee  
 2 Eileen Goh resigned from the Committee in December 2012  
 3 Andrew Moss resigned from the Committee in May 2012 and Lord Sharman retired from the Committee in June 2012

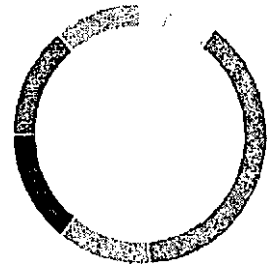
The Committee met on four occasions in 2012. The group company secretary or her nominee acts as the secretary to the Committee. The executive chairman attended all meetings of the Committee and the group CR director, the group HR director, the chief marketing and communications officer and other members of senior management also attended meetings by invitation. The chairman of the Committee reported to the subsequent meeting of the Board on the Committee's work and the Board received a copy of the agenda and the minutes of each meeting of the Committee.

## Committee activities during 2012

The following chart shows how the Committee allocated its time during 2012, with key activities set out in more detail below:

### Corporate responsibility committee - allocation of agenda

Corporate strategy and assessment	13%
CR strategy, reporting and assurance	27%
Human capital issues	12%
Stakeholder engagement and business ethics	18%
Street to school programme	14%
Customers and employees	11%



### CR Strategy Performance and Risk Management

During the year the Committee reviewed and approved the Group CR strategy and functional plan for 2012-2014 and monitored progress made by the Group's businesses against each of the CR key performance indicators. Updates were given on CR programme activities such as the Street to School programme; business ethics; health, safety and wellbeing; and stakeholder recognition. The Committee also focused on ensuring a strengthening of CR performance across the Group through enhanced employee engagement, influencing key stakeholders and by further encouraging diversity and inclusion throughout the Group. The Committee continued to monitor risks relating to the Group's CR activities together with associated risk mitigation initiatives.

### Assurance

In respect of the 2011 reporting year, independent assurance on the Group's CR and related activities and reporting was provided to the Committee by Ernst & Young LLP. For the 2012 reporting year, PwC was appointed to provide independent assurance. Members of the Committee were interviewed as part of the external assurance process and the subsequent report; and management's action plan; were reviewed by the Committee to assist in strengthening and setting the future direction of the CR programme. Internal Audit reported to the Committee on any relevant matters from its reviews and will provide support for the Committee going forward.

### Corporate Responsibility Report

During the year, the Committee approved the scope and content of the Company's 2012 CR Report, which provides a summary of the Group's CR performance in 2012. The Report can be found at [www.aviva.com/vreports](http://www.aviva.com/vreports). The Report will be put to an advisory vote of shareholders at the 2013 AGM and further details of the relevant resolution are set out in the Notice of AGM

### Committee performance and effectiveness

The Committee undertook an annual review of its performance and effectiveness which concluded that overall the Committee was effective in carrying out its duties. Committee members identified areas for greater focus in 2013 and the Committee's remit will be extended to provide an increased focus on corporate governance, oversight of the brand, values and reputation of the Group and the Group's conduct with customers

### Corporate Responsibility Committee Report

This Corporate Responsibility Committee Report was reviewed and approved by the Board on 6 March 2013

Gay Huey Evans  
 Chairman, Corporate Responsibility Committee

## Directors' remuneration report



Scott Wheway  
Chairman,  
Remuneration  
Committee

### Dear shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2012.

Our on-going commitment to shareholders Whilst we have traditionally had good shareholder support for our remuneration policies over many years, we believe in 2011 we clearly got it wrong. As a result, the Committee has worked over the last year to make changes that will give us a better framework for the decisions we take. Specifically, we agreed the following:

- We introduced 'underpin' metrics to 2012 bonuses to ensure that bonus payouts were more closely aligned to shareholder experience. We will consider these metrics annually until alternative arrangements are agreed;
- We will make any future buyouts on the hire of senior executives on a strict 'like for like' basis, and
- a We will continue a regular dialogue with shareholders and take account of their feedback.

We have met our major institutional shareholders and the main proxy agencies on many occasions over the last year. We have consulted them on these changes and will continue the open and honest discussions we have established.

### Putting the changes into practice

These changes have impacted our operational practices and our decisions in the 2013 reward round. Key agreed outcomes have been:

- Base pay - the Committee has frozen executive directors' base pay for 2013;
- Annual bonus - the Committee has not awarded bonuses to executive directors for 2012. Our annual bonus plan is based on key financial, employee and customer performance indicators. Solely taking into account performance against these measures at Group level (assuming 'on-plan' personal performance), the bonus outcome for 2012 would have been 52% of maximum. However, we have taken account of the underpin metrics to ensure bonus outcomes that are better aligned with the creation of shareholder value. Following careful consideration of those metrics the Committee decided that executive directors would not receive a bonus for 2012,
- Chairman fees - John McFarlane indicated he did not wish any increase in the fees paid to him when he undertook his executive role in the period from May 2012 to 31 December 2012, and
- ACAP/ACDT - the Aviva Capital Accumulation Plan (ACAP) and the Aviva Cash Deferral Trust (ACDT) will close from

31 March 2014. Payments in lieu of pension have been standardised at senior management levels and a small number of individual arrangements above the standard level have been closed from 31 March 2013.

Linking pay to the Group's strategic plan We believe our remuneration policy and practice is now more closely linked to the main strategic priorities of the Group:

- Improve financial performance -remuneration is heavily weighted towards pay that is dependent on the outcomes against the key performance indicators of our business, notably profit and Return on Equity (ROE);
- Build capital and financial strength -variable pay is strongly aligned to the measurement of the financial strength of our business. Furthermore, economic capital performance is carefully considered before bonus payments are made to ensure that the Group's financial strength continues to improve; and
- Focus on core businesses - through the measurement of a number of key financial, operational and longer term return measures, overall remuneration is closely aligned to the achievement of the Group's strategic objectives.

Appointment of Group chief executive officer The Board was delighted to announce, on 20 November 2012, the appointment of Mark Wilson as Group CEO. He joined the Board on 1 December 2012 and took up the role of Group CEO from 1 January 2013. Details of his remuneration arrangements were announced at the time of his appointment.

We are committed to maintaining an open, transparent dialogue with shareholders. I hope you will find this Report clear and informative

Scott Wheway  
Chairman, Remuneration Committee

This Report sets out the details of the remuneration policy and practices for the Company's directors, describes its implementation and discloses the amounts paid in respect of 2012. It also provides details of the role of the Remuneration Committee and the work it has undertaken during the year. In addition to meeting statutory requirements, particularly the regulations on directors' remuneration reports pursuant to the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008, the Committee has complied with best practice guidelines in producing this Report, including guidance issued by the Association of British Insurers and the National Association of Pension Funds.

In this Report, the sections headed 'Share awards', 'Share options', 'Directors' remuneration in 2012' and 'EDs' pension arrangements' along with their associated footnotes have been audited in accordance with the Companies Act 2006.

### Committee role and responsibilities

The Remuneration Committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of the Group and for reviewing compliance with the policy. The Committee is further responsible for monitoring the level and structure of remuneration for the senior management of the Group.

The key responsibilities of the Committee are to:

- Make recommendations to the Board regarding the Group's remuneration policy in respect of the Board chairman, executive directors (EDs), members of the Group Executive and members of senior management;
- Work with the Risk Committee to ensure that risk and risk appetite are properly considered in setting the remuneration policy for the Group;
- Review and determine the remuneration of the chairman of the Board and the terms of employment and remuneration of individual EDs and Group Executive members, including any specific recruitment or severance terms;
- Review and recommend to management the level and structure of senior management remuneration;
- Approve the Aviva Investors' reward strategy, including any changes to the strategy and agree the total bonus pool, receive remuneration details of Aviva Investors' 'material' employees, and approve any new share and incentive plans or any changes to existing share and incentive plans;
- Recommend to the Board the establishment of any employee share plans, exercise all the Board's powers in relation to the operation of all share and incentive plans and the Group's all employee share ownership plan; and
- Select, appoint and determine terms of reference for independent remuneration consultants to advise the Committee on remuneration policy and levels of remuneration

Revised Committee terms of reference were adopted in January 2013 following an annual refresh. The responsibilities of the Committee were clarified to include:

- Having regard to remuneration trends across the Group when setting remuneration policy for directors;
- Ensuring that remuneration arrangements for all employees are commensurate with promoting ethical behaviour;
- Ensuring the effectiveness of the process for assessing the senior management group for talent and succession planning purposes, ensuring appropriate reward for performance and a consistent approach to the development of talent throughout the Group;
- Extending the list of employees whose remuneration is reviewed by the Committee to include a wider senior management group, those in controlled functions and identified staff;
- Approving any exceptional remuneration activity that is outside the agreed reward policy;
- Annually approving the list of FSA Code Staff and any severance packages for Code Staff; and
- Approving the Group remuneration business standard

The full terms of reference for the Committee can be found on the Company's website at [www.aviva.com/terms-of-reference](http://www.aviva.com/terms-of-reference) and are also available from the group company secretary.

### Committee membership and attendance

The Committee comprises independent non-executive directors only. Table 1 below shows the Committee members during the year and their attendance at Committee meetings.

**Table 1: Committee membership and attendance**

Committee member				Number of meetings Percentage of total attendance <sup>1</sup>
Scott Wheway (Chairman)			12	100%
Michael Hawker			10	83%
Gay Huey Evans <sup>3</sup>			8	100%
Leslie Van de Walle <sup>2</sup>			4	100%

Ntix

<sup>1</sup> This shows the percentage of meetings which the Committee member attended during the year whilst a member of the Committee.

<sup>2</sup> Michael Hawker was unable to attend two meetings held in April 2012 due to prior commitments and the meetings being called at short notice.

<sup>3</sup> Gay Huey Evans attended all of the meetings held following her appointment to the Committee on 2 May 2012.

<sup>4</sup> Leslie Van de Walle resigned from the Committee on 2 May 2012.

The Committee met twelve times during 2012 of which eight were scheduled Committee meetings and four were additional Committee meetings called at short notice to deal with specific issues as they arose during 2012.

Lord Sharman and subsequently John McFarlane normally attended all meetings of the Committee. Gay Huey Evans attended two meetings by invitation prior to being appointed to the Committee. The group company secretary acted as secretary to the Committee. The chairman of the Committee reported to meetings of the Board on the Committee's work and the Board received a copy of the agenda and the minutes of each meeting of the Committee.

The persons listed in table 2 materially assisted the Committee in considering executive remuneration and attended meetings by invitation during the year.

Table 2: Attendees of the Committee during 2012

Lord Sharman	Chairman of the Company
John McFarlane	Chairman designate and then executive chairman
Andrew Moss	Group chief executive
Kirstine Cooper	Group general counsel and company secretary
John Ainley	Group HR director
Carole Jones	Acting group HR director
David Hope	HR director, centres of expertise
Tracey	Group reward and HR policy director
O'Rourke	Executive reward director
Andrew Pooley	Chief accounting officer
David Rogers	Chief strategy and planning officer
Jason Windsor	Chief marketing and communications officer
Amanda Mackenzie	Attended by invitation
	Attended by invitation
	Attended by invitation
	Attended as secretary to the Committee
	Attended as an executive responsible for advising on remuneration
	Attended as an executive responsible for advising on remuneration policy
	Attended as an executive responsible for advising on remuneration policy
	Attended as an executive responsible for advising on remuneration policy
	Attended as an executive responsible for advising on remuneration policy
	Attended to advise on matters relating to the performance measures and targets for the Group's share incentive plans
	Attended to advise on matters relating to the performance measures and targets for the Group's share incentive plans
	Attended to advise on matters relating to customer target setting

No person was present during any discussion relating to their own remuneration.

In addition to the attendees listed in the table above, Mark Wilson (Group CEO), Russell Walls (non-executive director), Glyn Barker (non-executive director), Patrick Regan (chief financial officer), Paul Boyle (chief audit officer), Rupert McNeill (HR director, centres of expertise) and Bob Orme (director of reward and performance) attended Committee meetings during the year, none of whom were present at meetings when their own remuneration was being discussed.

FIT Remuneration Consultants (FIT) acted as independent advisors to the Committee until May 2012 (having been appointed as advisor to the Committee in August 2011). FIT is a member of the Remuneration Consultants Group and adheres to its Code of Conduct. It provided no other services to the Company during the year.

During the year, the Committee received advice on executive remuneration matters from Deloitte LLP which is a member of the Remuneration Consultants Group and adheres to its Code of Conduct. Deloitte LLP was appointed as advisor to the Committee on 4 December 2012. In addition during the year, management received advice on remuneration matters and taxation from Deloitte LLP and on remuneration matters from Linklaters LLP.

### Committee activities during 2012

The Committee takes its responsibility to shareholders very seriously and following the 2012 annual general meeting (AGM) undertook an enhanced engagement programme with major institutional shareholders. The Committee considered the following matters during the year:

#### Routine remuneration matters:

Consideration of remuneration matters within the Committee's terms of reference, specifically including:

- Consideration and recommendation to the Board of the Group's policy and practices concerning base salaries and benefits-in-kind for EDs and senior management;

- Consideration and approval of the level of bonus awards in respect of the 2011 financial year and approval of the associated grant of share awards under the Annual Bonus Plan (ABP) for EDs and senior management;
- Performance testing of subsisting Long Term Incentive Plan (LTIP) grants which vested in the 2012 financial year; and subsisting One Aviva Twice the Value (OATTV) Plan grants which did not vest and which expired,
- Setting targets for the bonus awards for the 2012 financial year and approving the associated grant of awards under the ABP;
- Approval of 2012 LTIP grants to the EDs and senior management and the associated performance conditions for these grants;
- Reviewing the likely outcomes against the ABP 2012 targets and agreeing underpin measures;
- Approval of the grant of share awards under the Aviva Investors LTIP for the 2012 financial year,
- Approval of the award of Free Shares to UK employees in respect of 2011 under the Aviva All Employee Share Ownership Plan (AESOP); awards to Irish employees under the Aviva Group Employee Share Ownership Scheme, and the invitation to UK employees to participate in the Aviva Savings Related Share Option Scheme and to Irish employees to participate in the Aviva Ireland Save As You Earn Scheme,
- Initial consideration of targets for bonus awards for the 2013 financial year and of 2013 LTIP targets;
- Review of the shareholding requirements of EDs and Group Executive members;
- Review of share plan dilution limits;
- Review of the standard employment terms within employment contracts of EDs and senior management, and
- Review of senior management remuneration at Aviva Investors and of FSA Code Staff.

**Non-routine remuneration matters:**

- Approval of the departure terms of EDs and members of the Group Executive who left the Group during 2012;
- Consideration and approval of the remuneration arrangements for new members of the Group Executive following the restructuring of the Group and for other senior managers, and
- Review and, as appropriate, approval of any exceptional remuneration proposals for senior managers outside the agreed Group remuneration policy.

**Remuneration policy:**

- Approval of amendments to the rules of discretionary share plans regarding the reduction in categories of automatic 'good leavers' and the early vesting of awards;
- Review of the policy for buying out unvested awards when recruiting EDs and senior managers,
- Review of pension arrangements for senior management, including the approval of recommendations in relation to contributions into the ACAP, and
- Approval of the cessation of the free share element of the AESOP and the introduction of a matching shares element in 2013.

**Governance:**

- Approval of the 2011 Directors' Remuneration Report;
- Consideration of the structure of the 2012 Directors' Remuneration Report;
- Review of the Committee's 2012 and 2013 work plan;
- Annual approval of the Remuneration business standard;
- Review and consideration of regulatory developments, including the consultation by the Department for Business, Innovation and Skills on revised remuneration reporting regulations; and
- Consideration of, and agreement on, the appropriate overview of Aviva Investors' remuneration matters

**Shareholder feedback:**

- Consultation with major institutional shareholders in respect of their concerns regarding elements of the 2011 Directors' Remuneration Report.

**Remuneration Committee  
-Allocation of board agenda  
time**

Remuneration	5%
Regulatory developments	2%
Corporate governance	5%
Human resources	1%
Investment and financial performance	1%
Shareholder relations	1%
Other matters	5%
Board effectiveness	1%



**Governance**

**FSA's Remuneration Code: Aviva Investors**

The FSA's Remuneration Code applies to Aviva Investors and two small 'firms' (as defined by the FSA) within the UK & Ireland Life business. These businesses are subject to the requirement of the FSA's Remuneration Code Remuneration disclosures for Aviva

Investors can be found at [www.avivainvestors.com/about\\_us/our\\_approach\\_to\\_remuneration/index.htm](http://www.avivainvestors.com/about_us/our_approach_to_remuneration/index.htm) and for the UK & Ireland Life firms at [www.aviva.com/media/news/item/fsa-remuneration-code-disclosure-15575/](http://www.aviva.com/media/news/item/fsa-remuneration-code-disclosure-15575/).

Aviva's reward principles and arrangements are designed accurately and appropriately to incentivise and reward employees for achieving stated business goals in a manner that is consistent with the Company's approach to sound and effective risk management.

**Committee performance and effectiveness**

The Committee undertook an annual review of its performance and effectiveness which concluded that overall the Committee was effective in carrying out its duties. In addition to undertaking an annual programme of activities in 2013, the Committee identified a number of areas for increased focus in 2013.



## Remuneration policy in practice

Table 3 below sets out the purpose of key elements of our remuneration structure, how they relate to the Company's strategy and how they will operate, highlighting any changes from 2012.

Table 3: Remuneration policy for EDs

	Purpose and link to strategy	Operation for 2013	Changes and associated rationale
Base salary	To provide a core reward for undertaking the role, at a level needed to recruit and retain individuals	Taking into account both the Company's performance and the prevailing economic climate, no increases are being made to EDs' base salaries for 2013.	
Annual review, with changes taking effect from 1 April each year	This review is informed by: <ul style="list-style-type: none"> <li>■ Relevant pay data including market practice among the 25 FTSE listed companies either side of Aviva in terms of market capitalisation.</li> <li>■ Levels of increase for the broader UK employee population.</li> <li>■ Individual and business performance.</li> </ul>		
Benefits	To provide employees with market competitive benefits at a level needed to recruit and retain individuals	Benefits are provided on a market competitive basis and include a cash car allowance, Private Medical Insurance (PMI) and life insurance.	No changes proposed.
Pension	To provide a market competitive level of provision for post-retirement income.	Payments will no longer be made into the ACAP or the ACDT after 31 March 2014. These were discretionary savings vehicles into which payments in lieu of pension were made and held for at least five years.	
All EDs are eligible to participate in a defined contribution plan up to the annual limit. Any amounts above the annual or lifetime limits are paid in cash			
AB	To incentivise executives to achieve the annual business plan. Deferral provides alignment with shareholders and aids retention of key personnel	Maximum opportunity of 150% of base salary with 75% of base salary payable for plan performance. Performance is assessed against a range of key financial, employee and customer performance indicators and personal objectives. Two-thirds of any bonus awarded is deferred into shares which vest after three years. Additional shares are awarded at vesting in lieu of dividends paid on the deferred shares. Unvested awards are subject to clawback in the event of misconduct or materially adverse misstatement of accounts.	Bonus payments will take account of achievements in relation to Economic Value Added, Economic Capital, and absolute and relative Total Shareholder Return (TSR) to ensure payouts are closely aligned with the shareholder experience.
LT1	To motivate executives to achieve the Company's longer-term objectives, to align executive interests with those of shareholders and to aid the retention of key personnel	The plan rules allow for awards to be made up to a maximum of 350% of base salary (and up to 450% of base salary for US employees in exceptional circumstances). In 2013, an award of 300% of base salary will be made to the Group CEO and 225% of base salary to Patrick Regan. No grant will be made to Trevor Matthews who will cease to be an ED prior to the 2013 AGM. Awards will vest subject to the achievement of the following performance targets over a three year performance period: <ul style="list-style-type: none"> <li>■ 50% of awards vest based on absolute ROE<sup>1</sup> performance, and</li> <li>■ 50% based on relative TSR<sup>2</sup> against a comparator group.</li> <li>■ Additional shares are awarded at vesting in lieu of dividends on any shares which vest</li> </ul> Unvested awards are subject to clawback in the event of misconduct or materially adverse misstatement of accounts	The definition of ROE has been refined. The TSR comparator group was reviewed and refocused on the insurance sector. Further details on both of these changes are set out on pages 71 and 72
Shareholding requirements	To strengthen alignment between executives and shareholders.	Shareholding of 150% of base salary for EDs, and 200% for the Group CEO. EDs are required to retain 50% of the net shares released from executive share plans until the requirements are met.	No change.
Recruitment awards	To secure the required talent in order for Aviva to deliver its strategic plans whilst ensuring any recruitment award represents good value for shareholders	A revised buyout policy was approved by the Remuneration Committee in 2012	

Any buyout awards will not be more generous than the awards being forfeited and will be made on an equivalent basis, including phased delivery and the application of performance conditions where appropriate.

### Notes

- 1 ROE is used as an absolute measure of performance, and is commonly used amongst our peers. Targets are set annually within the context of the Company's three-year business plan. Vesting depends upon performance over the three-year period against a target return.
- 2 Relative TSR is a commonly used method of determining performance against a set of suitable peers providing a view of relative performance against those peers. TSR is calculated by measuring total capital gains (or losses) accruing in the period if shares are held continuously and dividends paid are immediately reinvested in new shares. The impact of short-term increases (or decreases) in share price on TSRs is reduced by averaging share price across the three months prior to the start and end of the performance period.

.1 ROE performance is the same metric described as ROCE performance in the 2011 Directors Remuneration Report. This is a change in nomenclature only; the definition of the metric has not changed from 2011 to 2012. The definition of ROE in respect of the 2013 has been revised and is described on page 72.

**Directors' remuneration report continued**

**Consideration of wider employee pay**

When setting the policy for EDs' remuneration, the Committee has regard to the pay and employment conditions elsewhere within the Group. In particular, the Committee has sight of:

- Salary increases for the general employee population;
- Group-wide benefit offerings (including pensions);
- Overall spend on annual bonus; and
- Participation levels in the annual bonus and LTIP.

The Company does not directly consult with employees when formulating ED pay policy. However it does take into account information provided by the HR function and feedback from employee opinion surveys.

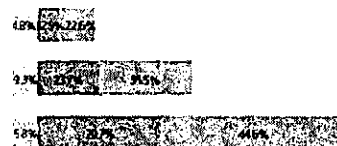
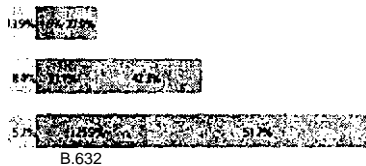
**Remuneration scenarios**

The charts below illustrate how much the current EDs could earn under different performance scenarios (assuming a constant share price):

- Threshold - Threshold bonus of 25% of base salary and 20% vesting under the LTIP.
- Plan - Plan bonus of 75% of base salary and 50% vesting under the LTIP.
- Stretch - Stretch bonus of 150% of base salary and maximum vesting under the LTIP.

**Mark Wilson**  
Remuneration scenarios - Mark Wilson

**Patrick Regan and Trevor Matthews<sup>1</sup>**  
Remuneration scenarios - Patrick Regan and Trevor Matthews



<sup>1</sup> Scenarios for Patrick Regan and Trevor Matthews are the same as their base salaries until Trevor Matthews will step down from the Board prior to the 2013 AGM. The above scenarios therefore applied to him for 2012, but will not apply for 2013.

**Total remuneration earned in respect of 2012**

The Committee recognises the need for transparency on the link between remuneration decisions and performance. We have therefore set out below detail of pay earned by the current EDs in respect of performance to December 2012 and how payments under both the ABP and LTIP have been determined.

**Table 4 below sets out the total remuneration earned by each current ED who served during 2012. Table 4: Total ED remuneration in respect of 2012**

	Patrick Regan	Trevor Matthews
Base salary	£698,700	
Annual bonus (cash and deferred elements) LTIP vesting (2010 award) <sup>1</sup>	50,000	
Pension contributions <sup>2</sup> Benefits	£607,302	
<b>Total remuneration earned in respect to 2012</b>	<b>£1,933,100</b>	
	£34,114	
	£1,533,269	
	£720,000	
	£212,304	
	£85,370	
	£1,017,674	

1. Pauline V. Regan's 2010 LTIP award relates to the three-year performance period ending on 31 December 2012. 69.83% of the award is due to vest in March 2013. An assumed Aviva ordinary share price of 373.00 pence has been used to determine the value of the award.
2. Pension contributions consist of employer contributions into the defined contribution (senior) of the Aviva Staff Pension Scheme, excluding salary exchange contributions made by the employees, plus payments in lieu of pension above the lifetime or annual allowance caps.
3. Martin Wilson joined the board as an ED on 1 December 2012, and became Group CEO on 1 January 2013. He received no emoluments in respect of 2012.

Further explanatory notes, and information on former EDs who served during 2012, are set out on page 70.

## Annual bonus

Table 5 below sets out the Group's performance against its financial, employee and customer KPIs in 2012 and how these would have translated into bonus payments.

Table 5: Group performance in 2012 against its KPIs

Business measures (70%)	measures	Total	Capital	Weighting (% of total bonus opportunity)*		
				Plan (%)	Stretch (%)	Actual (%)
				1	18.7	18.7
		Adjusted Profit	Operating		18.7	4.4
		Economic Gain				
		Internal Rate of Return (IRR)		2.		
		Volume savings	- Total long-term	1.2	1.2	1.2
		Volume premium	- Net written	1.2	1.2	0.9
		Customer			1	6.4
		Employee			1	
Personal measures (30%) (shown at 'on - plan')		Personal	- individual	12.	2	12.
		Personal	- Common Risk	2.		2.
		<b>Tota</b>		<b>5</b>	<b>10</b>	<b>51.83</b>

\*PwC figures do not necessarily add up due to rounding

Solely taking into account Group business and 'on-plan' personal measures would have resulted in a bonus of 78% of salary for EDs in respect of 2012 performance, although business unit performance would also be taken into account reflecting the remit of each ED.

The Committee has taken into account the 'underpin' measures, namely Economic Value Added, Economic Capital, absolute and relative TSR, as described below, to ensure that any bonus payments are more closely aligned to shareholders' experience. Following careful consideration of these metrics by the Committee, it agreed that no ED would receive a bonus in respect of 2012.

## LTIP

The award made to Patrick Regan in 2010 was subject to performance conditions set out in table 6 below.

Table 6: LTIP performance conditions

	(30% vests)	Irrahoid Maximum (100% vests)
ROE performance over three years	31.5%	37.5%
Relative TSR performance	Median	Upper qumtile and above

ROE over the three year performance period was 36.9% leading to 46.5% of the maximum 50% vesting. Relative TSR performance resulted in a ranking of 7 out of 15, leading to 23.33% of the maximum 50% vesting Correspondingly 69.83% of the award is due to vest in March 2013.

## Former directors

## Igal Mayer

Igal Mayer resigned from the Board on 19 April 2012 and left the Company on 31 May 2012. He is receiving base salary for 12 months in lieu of notice (less gross base salary paid between 19 April 2012 and 31 May 2012), amounting to CAD \$899,732. This is being paid in instalments and is subject to mitigation. He also received payment for ten days' accrued but untaken holiday entitlement.

The deferred elements of Mr Mayer's bonuses earned for 2009, 2010 and 2011 were released to him on the first dealing day following his departure date Mr Mayer received no bonus in respect of the financial year 2012 All unvested LTIP and OATTV plan awards lapsed, with no shares being released from these awards.

Legal fees of £25,000 were paid to Mr Mayer's solicitor in respect of advising on his departure. He will also be eligible to claim for tax compliance services fees until April 2013, up to a maximum of £65,000.

## Andrew Moss

Andrew Moss resigned from the Board on 8 May 2012 and left the Company on 31 May 2012. He is receiving base salary in lieu of 12 months' notice (less gross base salary paid between 8 May 2012 and 31 May 2012), amounting to £898,462 in accordance with his contractual entitlements. This is being paid in instalments and is subject to mitigation. In addition, he received £300,000 in full and final settlement of all claims that he might have to a bonus under his contract Mr Moss will retain the benefit of £209,000 (being 5/12<sup>ths</sup> of the annual payment made in April 2012) under the ACAP (i.e. the equivalent of a money purchase pension plan). He also received payment for half a day accrued but untaken holiday entitlement.

The 2010 and 2011 bonuses that were deferred into shares lapsed in accordance with the rules of the ABP, as did outstanding awards under the LTIP and the OATTV plans. 75% of the element of the 2009 bonus that was deferred into shares will vest in accordance with the rules of the relevant plan and 25% lapsed upon Mr Moss leaving the Group.

Legal fees of £25,000 were paid to Mr Moss's solicitor in respect of advising on his departure. He also claimed for outplacement services of £20,000.

**Directors' remuneration report continued**

**Remuneration for 2013**

Shareholder context

The result of the shareholder vote at the Company's 2012 AGM in respect of the 2011 Directors' Remuneration Report is set out in table 7 below

**Table 7: Result of the vote on Directors' Remuneration Report at 2012 AGM**

	For	Against
2012 vote	45.59%	54.41%

Aviva recognises that pay was not sufficiently linked to performance in 2011. As set out in the Remuneration Committee chairman's letter, following consultation with our major institutional shareholders, a number of changes have been made: we introduced 'underpin' metrics in respect of bonuses for 2012 and have committed to consider these 'underpin' metrics for future years (until any alternative arrangements are agreed following consultation) to ensure annual bonus pay-outs are more closely aligned to the shareholder experience. Taking into account performance against these measures, the Remuneration Committee will use its discretion to revise bonus outcomes where appropriate. Such discretion, if applied, would only be used to reduce the outcome;

- Future buyouts will be made on a 'like-for-like' basis in line with best market practice; and
- We have also reviewed and changed senior management contracts and the 'good leaver' definition in our share plan rules. Appointment of Group

CEO

Mark Wilson joined the Board on 1 December 2012 and took up the role of Group CEO on 1 January 2013. As announced at the time of his appointment, his remuneration details are as follows:

- Base salary - £980,000 per annum, subject to review in 2014,
- Annual bonus - 75% of base salary for plan performance and 150% of base salary for stretch performance;
- LTIP - he is eligible for an LTIP grant of up to 350% of base salary subject to meeting specific performance conditions over a three year performance period. His 2013 grant will be at 300% of base salary;
- Relocation expenses - he is eligible to claim reasonable and appropriate relocation expenses of up to £200,000 (inclusive of any benefit-in-kind liability which may arise) in respect of relocation from Hong Kong to the UK. If any additional reasonable expenses above this limit are incurred in the course of Mr Wilson's relocation the Remuneration Committee has agreed to consider reimbursement of such additional expenses up to a further limit to be agreed, and
- Benefits - a cash car allowance and PMI.

Base salaries

As highlighted in the Remuneration Committee chairman's letter, EDs' base salaries will not be increased in 2013.

**Table 8: EDs' base salaries**

	1 April 2012 salary	1 April 2013 salary	Change from 2012
Patrick Regan	£720,000	£720,000	0%
Trevor Matthews	£720,000	£720,000	0%

Annual bonus

As summarised in table 3, the maximum bonus opportunity for all EDs will remain unchanged for the 2013 financial year at 150% of base salary, with two-thirds of any bonus earned subject to compulsory deferral for three years. Unvested awards are subject to clawback and risk of forfeiture during this period.

Annual performance is measured against a range of key financial, employee and customer performance indicators, which account for 70% of the maximum, and against personal objectives, which account for 30% of the maximum.

To align with the business priorities for 2013, the financial measures at Group level will be: net capital returns' profit before tax; MCEV value of new business (for the Life business), combined operating ratio (for the General Insurance business), and total expenses. Personal objectives will include common objectives for effective leadership and risk management.

As highlighted previously, bonus outcomes will also be subject to consideration of our performance against our underpin metrics (Economic Value Added, Economic Capital and TSR).

LTIP

As summarised in table 6, the LTIP vests subject to the degree of achievement of two equally weighted performance measures, absolute ROE and relative TSR performance, which have been chosen to reflect shareholders' long-term interests. For 2013, a grant of 225% of base salary will be made to Patrick Regan and 300% of base salary to Mark Wilson. No grant will be made to Trevor Matthews who will cease to be a director prior to the 2013 AGM.

ROE targets

ROE targets determine the vesting of 50% of any LTIP award and are set annually within the context of the Company's three-year business plan. Vesting depends upon performance over the three-year period against a target return. The 2012 LTIP award ROE targets are set out in table 9.

**Table 9: 2012 LTIP ROE Targets**

Achievement of ROE targets over the three-year performance period	Percentage of shares in award that vest based on achievement of ROE targets
Less than 30% (2011 less than 33%)	0%

30% (2011: 33%)  
Between 30% and 37.5% (2011: Between 33% and 40.5%)  
37.5% and above (2011: 40.5% and above)

10%  
Pro rata between 10% and 50% on a straight line basis  
50%

Notes

1 The percentage of shares in award that vest based on achievement of ROF targets is the same in 2011 and 2012

72

Aviva plc  
Annual report on Form 20-F 2012

Directors' remuneration report continued

The definition of ROE was refined in early 2013. ROE will now be calculated as IFRS profit after tax and non-controlling interest, excluding the impact of investment variances and economic assumption changes, over average IFRS equity (excluding pension scheme net surplus/deficit) attributable to ordinary shareholders of the Company.

TSR targets

Relative TSR determines the vesting of the other 50% of any LTIP award. To ensure that Aviva's performance is measured against appropriate comparators with similar business operations and geographic footprints, some minor changes were made to the TSR comparator group for 2013. Companies focused on banking were excluded and some more relevant comparators within the insurance sector were added to ensure a robust group.

For the 2013 LTIP grant, performance will therefore be assessed against the following companies: Aegon, Allianz, AXA, CNP Assurances, Direct Line Group, Generali, Legal & General, MetLife, Old Mutual, Prudential, Resolution Limited, Royal & Sun Alliance, Standard Life and Zurich.

TSR vesting operates as set out in table 10 below.

Table 10: TSR vesting schedule for the 2012 LTIP award

1SR position over the three-year performance period	Percentage of shares in award that vests based on achievement of TSR targets
Below median	0%
Median	10%
Between median and upper quintile	Pro rata between 10% and 50% on a straight line basis
Upper quintile and above	50%

For the 2010, 2011 and 2012 LTIP grants, relative TSR is assessed against the following companies: Aegon, Ageas (formerly known as Fortis until January 2011), Allianz, AXA, Generali, ING, Legal & General, Lloyds Banking Group, Prudential, Resolution Limited, Royal Bank of Scotland, Royal & Sun Alliance, Standard Life and Zurich

All employee share plans

EDs are eligible to participate in a number of HMRC-approved all employee share plans on the same basis as other eligible employees.

These plans included a free share element under the AESOP. Under this element of the AESOP, eligible employees can receive up to a maximum of £3,000 per annum in shares based upon the profits of the Company's UK businesses. The shares are free of tax subject to a retention period. Free shares were awarded in 2012. However, this element of the AESOP has since been discontinued and no awards will be made in 2013. The partnership share element of the AESOP, which the Company also operates, allows participants to invest up to £125 per month out of their gross salary in the Company's shares. There is currently no matching element to this investment by the Company. However a matching element is due to be introduced in April 2013 through which the Company will match every purchased share with two matching shares for the first £40 of a participant's monthly contribution. For as long as the employee remains employed by the Company, matching shares will be subject to forfeiture if purchased shares are withdrawn from the AESOP within three years of purchase. From May 2013 participants will also be eligible to receive Dividend Shares through the AESOP. Shares awarded to, or investments made by, EDs through the AESOP are included in table 20 of this Report.

The Aviva Savings Related Share Option Scheme and Aviva Savings Related Share Option Scheme 2007 allow eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. In order to exercise these options, participants must have saved through a three, five, or seven year HMRC-approved savings contract, subject to a maximum savings limit of £250 per month. In 2012, only three and five year contracts were offered. Details of options granted to EDs under these schemes are included in table 19.

Share ownership requirements

The Company has an internal shareholding requirement such that the Group CEO is required to build a shareholding in the Company equivalent to 200% of base salary and each ED is required to build a shareholding in the Company equivalent to 150% of base salary.

The EDs, including the Group CEO, are required to retain 50% of the net shares released from deferred annual bonuses and LTIPs until the shareholding requirement is met. There is no target date for meeting the share ownership requirement.

Unvested share awards including shares held in connection with compulsory bonus deferrals are not taken into account in applying this test. Table 11 below shows the position at 31 December 2012, based on that day's closing middle market price of an ordinary share of the Company of 373.00 pence.

Table 11: EDs' share ownership requirements as at 31 December 2012<sup>1</sup>

	Basic salary requirement	Shareholding excluding restricted shares	Value of shareholding based on a share price of 373.00 pence <sup>2</sup>	Percentage of basic salary	Shareholding
Patrick Regan	£720,000		191,279	£713,470.67	99% (2011: 47%) 150%
Trevor Matthews	£720,000	104,595	£390,139.35		54% (2011: 0%) 150%

Notes

1 Mark Wilson joined the Board as an ED on 1 December 2012 and became Group CEO on 1 January 2013. He is entitled to receive a base salary of £980,000 per annum with effect from 1 January 2013 and did not receive a salary in 2012. As Group CEO, he will be required to build a shareholding in the Company equivalent to 200% of his base salary. He did not hold any Aviva shares as at 31 December 2012.

2 Based on the closing middle market price of an ordinary share of the Company on 31 December 2012.

Pension

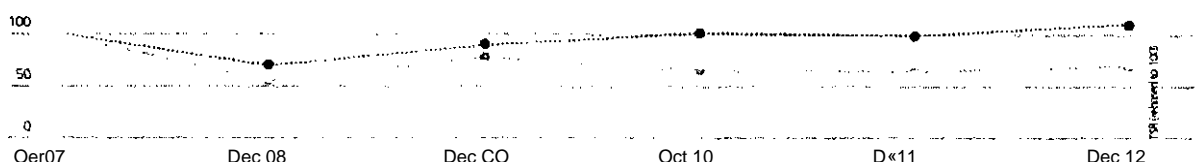
EDs participate in a defined contribution plan under which they can elect to receive 31 % of base salary from the Company minus a contribution of 8% of base salary up to the Scheme Specific Earnings cap (£138,000 in 2012/2013). Above the annual or life-time allowance, a cash alternative in lieu of pension is offered subject to a limit of 31 % of base salary minus the 8% contribution.

### Performance graph

Table 12 below compares the TSR performance of the Company over the past five years with the TSR of the FTSE 100 Return Index. This index has been chosen because it is a recognised equity market index of which Aviva is a member. The companies which comprise the current LTIP comparator group for TSR purposes are listed in the 'TSR targets' section above. The TSR graph for the comparator group has been plotted using the 15 companies (including Aviva) in the comparator group for the 2007 grant, the 16 companies (including Aviva) in the comparator group for the 2008 grant, the 15 companies (including Aviva) in the comparator group for the 2009 and 2010 grants, and the 14 companies (excluding Aviva) in the comparator group for the 2011 and 2012 grants.

**Table 12: Aviva pic five-year TSR performance against the FTSE 100 Return Index and the median of the comparator group**

Airwi\_FTSt1G0\_Ccyif?arattrrjoipmTjrJsm 200



### EDs' employment contracts

The key employment terms and conditions of each of the current EDs, as stipulated in their employment contracts, are set out in table 13 below.

**Table 13: EDs' key terms and conditions of employment**

	Policy												
Notice period By the director By the Company	6 months 12 months, rolling No notice or payment in lieu to be paid where the Company terminates for cause.												
Termination payment	Pay in lieu of notice up to a maximum of 12 months' base salary. This may be increased by a discretionary redundancy payment (where appropriate) but any such further termination payment is capped at 12 months' base salary Any amount is subject to phased payment and mitigation requirements												
Remuneration and benefits	As described in this Report the operation of the ABP and LTIP is at the Company's discretion and, in the case of the ACAP and ACDT, at the trustees' discretion												
Expense	Reimbursement of expenses reasonably incurred in accordance with their duties												
Car allowance	Car allowance is received in accordance with the terms of the relevant scheme in operation for the Company as varied from time to time												
Holiday entitlement	30 working days plus public holidays												
Other benefits	Other benefits include PMI and participation in the Company's staff pension scheme.												
Private medical insurance	Private medical insurance is provided for the ED and the ED'S family or the ED can choose to opt out of this benefit or take a lower level of cover and receive 75% of the difference in the cash value of this benefit which will be paid through salary on a monthly basis.												
Sickness	In line with senior management terms, i.e 100% of base salary for 52 weeks, and 75% thereafter.												
Non-compete	During employment and for six months after leaving												
Contract dates	<table border="0"> <tr> <td>Director. Mark Wilson Patrick</td> <td>Date current contract commenced.</td> </tr> <tr> <td>Regan Trevor</td> <td>1 January 2013<sup>22</sup></td> </tr> <tr> <td>Matthews Igal</td> <td>February 2010</td> </tr> <tr> <td>Mayer Andrew</td> <td>2 December 2011<sup>3</sup></td> </tr> <tr> <td>Moss</td> <td>19 January 2011<sup>1</sup></td> </tr> <tr> <td></td> <td>1 January 2007<sup>2</sup></td> </tr> </table>	Director. Mark Wilson Patrick	Date current contract commenced.	Regan Trevor	1 January 2013 <sup>22</sup>	Matthews Igal	February 2010	Mayer Andrew	2 December 2011 <sup>3</sup>	Moss	19 January 2011 <sup>1</sup>		1 January 2007 <sup>2</sup>
Director. Mark Wilson Patrick	Date current contract commenced.												
Regan Trevor	1 January 2013 <sup>22</sup>												
Matthews Igal	February 2010												
Mayer Andrew	2 December 2011 <sup>3</sup>												
Moss	19 January 2011 <sup>1</sup>												
	1 January 2007 <sup>2</sup>												

Notes

- 1 Igal Mayer resigned from the Board on 19 April 2012 and left the Company on 31 May 2012
- 2 Andrew Moss resigned from the Board on 8 May 2012 and left the Company on 31 May 2012
- 3 Trevor Matthews will resign from the Board prior to the 2013 AGM

### External board appointments

The Company recognises that its EDs can benefit from serving in a personal capacity as a non-executive director of non-Aviva Group companies. At the same time, it is conscious of the corporate governance recommendations that EDs should take account of the time commitment required by a non-executive director (NED) position and ensure that any such role does not impact their ability to carry out fully their executive duties. The Company therefore has a policy of normally allowing senior executives to serve as a NED of one external company, subject to approval by the Board, and for the individual to retain any board fees. None of the EDs held external NED appointments during 2012. Following the disposal of the Group's interests in Delta Lloyd N.V. in January 2013, Patrick Regan, who was until that time a Company-nominated member on the supervisory board of Delta Lloyd N.V., continued to be a member of the supervisory board in a personal capacity From that point he has therefore held an external NED appointment. During the time he was a Company-nominated member on the supervisory board of Delta Lloyd N.V. he did not receive a board fee



## Directors' remuneration repxMt continued

## Non-executive directors

The NEDs, including the chairman of the Company, have letters of appointment which set out their duties and responsibilities. The key terms of the appointments are set out in table 14 below.

Table 14: NED key terms of appointment

Period	In line with the requirement of the UK Corporate Governance Code, all NEDs are subject to annual re-election by shareholders at each AGM.		
Termination	By the director or the Company at their discretion without compensation upon giving one month's written notice for NEDs and three months' written notice for the chairman of the Company.		
Fee	As set out in table 15.		
Expense	Reimbursement of travel and other expenses reasonably incurred in the performance of their duties		
Time commitment	Each director must be able to devote sufficient time to the role in order to discharge his or her responsibilities effectively and spend a minimum of 25 days a year on Company business. NEDs spend an average of 41 days a year on Company business, with the chairmen of the Audit, Remuneration and Risk Committees spending substantially more.		
Appointment dates		Date of last appointment on letter of appointment	Appointment end date on letter of appointment
	Glyn Barker	3 May 2012	
	Mary Francis <sup>1</sup>	3 May 2012	
	Richard Francis <sup>1</sup>	3 May 2012	
	Karl Goeltz <sup>2</sup>	3 May 2012	
	Euleen Goh <sup>3</sup>	3 May 2012	
	Michael Goh <sup>3</sup>	3 May 2012	
	Huey Gay Hawker	3 May 2012	
	John Evans	3 May 2012	
	Lord McFarlane	3 May 2012	
	Leslie Sharman <sup>4</sup>	3 May 2012	
	Van de Walle <sup>5</sup>	2012	
	Scott Walls <sup>6</sup>	4 May 2011	
	Wheway	3 May 2012	
		3 May 2012	
		AGM 2013	
		AGM 2013	
		AGM 2013	
		AGM 2013	
		AGM 2013	
		AGM 2013	
		AGM 2013	
		AGM 2013	
		AGM 2012	
		AGM 2013	
		AGM 2013	

1 Mary Francis resigned from the Board on 30 October 2012

2 Karl Goeltz resigned from the Board on 2 May 2012

3 Euleen Goh restarted from the Board on 31 December 2012

4 Lad Sharman retired from the Board on 30 June 2012

5 Van de Walle resigned from the Board on 2 May 2012

6 Russell Walls will retire from the Board prior to the 2013 AGM

It is the Company's policy to set the fees paid to the chairman of the Company and NEDs taking account of the median market payments in international companies of similar size and complexity. NEDs receive a basic annual fee in respect of their Board duties. A further fee is paid to NEDs in respect of membership and, where appropriate, chairmanship of Board committees.

Fees are reviewed annually and are set by the Board to attract individuals with the required range of skills and experience. In determining the level of fees paid to the NEDs, the Board receives recommendations from the EDs, who consider the NEDs' duties and responsibilities, together with the time commitment required in preparing for and attending meetings, and the amounts paid by competitors and similar-sized companies.

The Chairman of the Company and NEDs do not participate in any incentive or performance plans or pension arrangements and they also do not receive an expense allowance.

The Company's articles of association provide that the total aggregate remuneration paid to the Chairman of the Company and NEDs will be determined by the Board within the limits set by shareholders. The current aggregate limit of £2 million was approved by shareholders at the Company's 2012 AGM. EDs are remunerated under their employment contracts and receive no additional fee for serving as Board directors.

Following a review of the fees for holding the position of the senior independent director or a committee chairman or in respect of committee membership, the Board agreed to the fee changes shown in table 15 below. These increases were effective from 1 April 2012. The Board does not intend to increase the fees in 2013. The total amount paid to NEDs in 2012 was £1.5 million.

Table 15: NEDs' fees from 1 April 2012

	Fee from 1 April 2011	Fee from 1 April 2012
Chairman of the Company <sup>1</sup>	£550,000	£550,000
Chairman designate	N/A	£275,000
Board membership fee	£65,000	£65,000
Additional fees are paid as follows:		
Senior independent director	£25,000	£35,000
Committee chairman (inclusive of committee membership fee)	- Audit	- Nomination
- Audit	- Corporate Responsibility	- Remuneration
- Corporate Responsibility	- Risk	- Risk
- Remuneration		
- Risk		
Committee membership		

neration -Risk

£35,000  
£10,000  
£30,000  
£35,000

£10,000  
£7,500  
£7,500  
£10,000  
£10,000

£45,000  
£20,000  
£35,000  
£45,000

£15,000  
£10,000  
£7,500  
£12,500  
£15,000

Notes

1 Inclusive Of Board membership fee and any committee membership fees

2 The fee for the chairman designate was effective from the commencement of the role on 1 January 2012 until 30 June 2012



Former executive directors"										
Igal Mayer <sup>7</sup>	19	601	1,693							
Andrew Moss <sup>8</sup>	3	570	2,685	216	480					
	33									
	8									
	60									
	6									
	95									
	1									
	632									
	1,156									
	408									
	1									
	6									
	455									
	98									
Former non-executive directors"										
Mary Francis Euleen	76	77	113							
Goh Lord Sharman	92	92	83							
Leslie Van de Walle	275	295	569							
	30	30	85							
	113									
	83									
	536									
	85									
	1									
		33								
	20									
Total emoluments of directors'	3,505	3,518	—	2,598	557	480	713	680	4,775	7,276

Notes

- As disclosed elsewhere in this Report, (following careful consideration the Committee decided that EDs would not receive a bonus for 2012
- The benefits disclosure reduces the cost, where appropriate, of PM, life insurance, air/jet travel and car benefits. All the numbers disclosed include the tax charged on the benefits, where applicable. No directors received an expense allowance during the year.
- The chairman received travel related benefits, and relevant insurance during his period of office. In accordance with the 2011 Directors' Remuneration Report, the chairman's reimbursement for such costs reasonably incurred in connection with his relocation to the UK during the 12 month period from the date of his appointment up to a maximum of £125,000 plus reimbursement of the costs incurred in respect of advice sought on the legal and tax implications of his appointment together with any VAT or equivalent tax payable thereon.
- Trevor Matthews received contributions in lieu of pension above the normal annual allowance limit. The figure shown represents the amount paid or payable for 2012. Cash payments were made for the period January to March 2012. A payment into the ACCT was made in April 2012, covering the period April 2012 to March 2013. The portion of the payment relating to 2012 is shown here.
- Patrick Regan received contributions in lieu of pension above the pension annual allowance limit, paid as cash. The figure shown represents the amount paid or payable for 2012.
- NEDs are reimbursed for expenses, and any tax arising on those expenses is settled directly by Aviva.
- Figures shown for Igal Mayer have been converted from Canadian dollars to pounds sterling at the average exchange rate for 2012 of CAD \$1.00 = £0.65. As disclosed in the 2011 Directors' Remuneration Report, Mr Mayer was entitled to first class return flights between Toronto and London, and a travel allowance of up to £40,000 per annum for his spouse and dependent children for travel to and from Toronto and London. Aviva also met the cost of rental accommodation in Toronto and London, as well as assistance in preparing tax returns in Canada. Aviva met the cost of any taxes due on these benefits. Mr Mayer is entitled to receive a further £594,451 in termination payments. This was made up of a payment in lieu of notice (paid in instalments) and legal fees as set out on page 70.
- Andrew Moss received no bonus for 2012, although details of a £300,000 payment in full and final settlement of all claims that he might have a bonus are set out elsewhere in this Report. Mr Moss received a contribution in lieu of pension of £503,000 in the ACAP in April 2012, although only £209,000 of this payment was accrued in the year as part of his departure letter. The remaining £294,000 lapsed. He also received a cash supplement in lieu of pension of £6,769. Mr Moss is entitled to receive a further £923,462 in termination payments. This is made up of a payment in lieu of notice (paid in instalments) and legal fees as set out on page 70.
- For the purposes of the disclosure required by Schedule 5 to the Large and Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008, the total aggregate emoluments of the directors in respect of 2012 was £6,377 million. The 2012 figure includes the emoluments (or all the directors set out in table 16 and the amounts payable to Mr Moss and Mr Mayer as set out in Notes 7 and 8 above. The total aggregate emoluments for 2011 included in table 16 excludes those directors that resigned from office prior to 1 January 2012. Those directors are Mark Hodges (2011 emoluments £278,722), Andrea Fontana (2011 emoluments £76,116) and Carole Prznica (2011 emoluments £85,000). The total aggregate emoluments for 2011 including those directors was £7,700 million.
- Mark Wilson joined the Board as an EO on 1 December 2012, and became Group CEO on 1 January 2013. He received remuneration in respect of 2012 and so is not included in this table.
- The remuneration figures shown in the table are for or relate to the period during which the director was a director of the Company.

## EDs' pension arrangements (audited information)

The position of the EDs with respect to accumulated pension benefits under the defined benefits section of the Aviva Staff Pension Scheme (ASPS) is set out in table 17 below.

Table 17: EDs' pension benefits<sup>5-1</sup>

	Igal Mayer'	Andrew Ivstoss [000]	Trevor MatthevA £000	Patrick Regan £000 £000
Age at 31 December 2012 (years)				
Benefit type	Defined benefit	Defined benefit	Defined contribution	Defined contribution
Accrued annual pension at 31 December 2011 <sup>1</sup>	431.9	221	—	—
Accrued annual pension at 31 December 2012 <sup>7</sup>	447.3	23.6	—	—
Gross increase in accrued pension over the year		15.4	1.1	—
Increase (decrease) in accrued pension net of inflation over the year		8.5	—	—
Employee contribution during the year				
Defined contribution/defined benefit employer contributions during the year <sup>2</sup>	96.3	—	323	50.0
Transfer value of accrued pension at 31 December 2011 <sup>4</sup>	7,677.5	529.5	—	—
Transfer value of accrued pension at 31 December 2012 <sup>4</sup>	8,730.9	545.3	—	—
Change in transfer value during the period less employee contributions <sup>3</sup>	1,053.4	15.8	—	—
Transfer value of net increase (decrease) in accrued pension less employee contributions <sup>6</sup>	166.8	51	54	60.46

### Notes

- Accrued pensions shown are the amounts that would be payable annually on retirement based on service to the end of the year (or date of leaving if earlier)
- The defined contribution employer contributions during the year for Patrick Regan and Trevor Matthews include salary exchange contributions of £9,534 and £8,280 respectively
- The change in transfer value allows for fluctuations in the transfer value due to factors beyond the control of the Company and directors, such as changes in market conditions
- The transfer values have been calculated in line with the relevant legislation and using actuarial assumptions agreed by the trustee. The transfer value at 31 December 2011 previously provided for Igal Mayer excluded the value of the early retirement subsidies or which Mr Mayer did not qualify following his resignation during 2012
- No former directors received any increase in retirement benefits in excess of the amount to which they were entitled, on the later of the date when the benefits first became payable, or 31 March 1997
- The transfer value of net increase (decrease) in accrued pension shows the value of the increase (decrease) in accrued pension net of the inflation, over the year, net of contributions. This is zero for UK based employees as there is no further accrual of benefits and accrued benefits, are increased up to retirement in line with inflation
- Igal Mayer is a member of the Aviva Canada Pension Plan, and the figures shown for him have been converted from Canadian dollars to British pounds at the average exchange rate for 2012 of CAD \$1.58 £1.00. Igal Mayer received contributions into the defined contribution section of the Aviva Canada pension plan. The value of the defined benefit pension plan, which is no longer subject to future service accrual, remained subject to revaluation by reference to salary during 2012
- Benefits consisting from additional voluntary contributions (AVCs) paid by directors are excluded from the amounts below

## Developments in 2013

On 7 February 2013, Aviva announced that Trevor Matthews, executive director and chairman, Developed Markets, will step down from the Board prior to the 2013 AGM. Mr Matthews' departure terms are not yet agreed, and will be reported in the 2013 Directors' Remuneration Report

On 14 January 2013, Aviva announced that Sir Adrian Montague had joined the Board as a non-executive director with effect from the same date.

On 28 January 2013, Aviva announced that Bob Stein had joined the Board as a non-executive director with effect from the same date

On 6 March 2013, Aviva announced that Richard Karl Goeltz, senior independent director, and Russell Walls, non-executive director, will step down from the Board prior to the 2013 AGM.

## Directors' remuneration report continued

## Share awards (audited information)

Table 18 below sets out the current position (or the position as at the date of resignation of the director from the Board) of those share-based awards made to the EDs who served during 2012 under current remuneration arrangements.

Table 18: LTIP, ABP, OATTV Plan, CFO Recruitment Share Awards Plan and Conditional Share Award

	At 1 January 2012 Number	At 31 December 2012 Number	Market value at date awarded	Market value at date of vesting	Normal Vesting	
	Awards granted during year <sup>14</sup> Number					
	Awards resigning during year Number					
	Awards lapsing during year Number					
<b>Patrick Regan</b>						
Aviva Long Term Incentive Plan 2010 <sup>2</sup> 2011 <sup>2</sup> 2012 <sup>3</sup>	233,160	311,059	425,22			
	233,160					
	60					
	311,059					
	59					
	425,223					
	387					
	70					
	435.60					
	60					
	331					
	50					
	Mar-13					
	Mar-14					
	Mar-15					
<i>Aviva Annual Bonus Plan</i>						
2011	102,741		151,700		102,741	
2012					151,700	
					0	
					435.60	
					331.50	
					0	
					Mar-14	
					Mar-15	
<i>CFO Recruitment Share Awards Plan'</i>						
2010 (RRSA) <sup>5</sup>	170,393	13,414 <sup>6</sup>	98,610		85,197	356.80
2010(BRDSA) <sup>5</sup>	43,231				43,231	
2010(OATTV)	55,051				55,051	
					394.20	
					387.70	
					387.70	
					0	
					Feb-12,13	
					Mar-13	
					Mar-13	
<b>Trevor Matthews</b>					<b>Aviva Long</b>	<b>Term Incentive</b>
	373,271 <sup>1</sup>		482,142			<b>Plan 2011<sup>2</sup></b>

2012<sup>3</sup> \_\_\_\_\_

				<u>373,271</u> <sup>o</sup>				
				<u>482,142</u>				
				300.80				
				331.50				
				Mar-1				
				4				
				Mar-1				
				5				
Aviva Annual Plan 2012	Bonus		8,928	8,928	331.50			Mar-15
Conditional Award*	Share							Mar-12, 13,14
2011		653,721	— 217,907	— 435,814	320.80	356.80		

## Directors' remuneration report continued

Table 18: LTIP, ABP, OATTV Plan, CFO Recruitment Share Awards Plan and Conditional Share Award (continued)

	Awards lapsing during year Number	A131 December 2012* Number	Market price at date awards granted <sup>1</sup> Pence	Market price at date awards vested Pence	Normal Vesting Date
<b>Andrew Moss<sup>12</sup></b>					
<i>Aviva Long Term Incentive Plan</i>					
2009 <sup>3</sup>	115,905		245.00	344.80	Mar-12
2010 <sup>2</sup>		419,365	387.70		Mar-13
2011 <sup>2</sup>		586,117	435.60		Mar-14
2012 <sup>3</sup>		785,714	331.50		Mar-15
<i>Aviva Annual Bonus Plan</i>	245.00	387,704	435.60	344.80	
2009	331.50				Mar-12
2010		104,702			Mar-13
2011		158,393			Mar-14
2012		229,342			Mar-15
<i>One Aviva, Twice The Value bonus plan</i>	195,876				Mar-12
2009 <sup>3</sup>	245.00	177,770			Mar-13
2010 <sup>2</sup>	387.70				
At 1 January 2012	Number	Awards granted during year <sup>14</sup> Number	Awards vesting during year <sup>15</sup> Number		
632,324	419,365	586,117	516,419		
	785,714				
115,365	58,446 <sup>6</sup>	173,811			
5	229,342				
104,702					
2	1				
95,876					
177,770					
<b>Igal Mayer<sup>13</sup></b>					
<i>Aviva Long Term Incentive Plan</i>					
2009 <sup>3</sup>	192,871		157,517	35,354	344.80
2010 <sup>2</sup>	433,296 <sup>10</sup>				
2011 <sup>2</sup>	362,056				
2012 <sup>3</sup>		472,873			
	433,296 <sup>10</sup>				
	362,056				
	6				
	472,873				
	3				
	245.00				
	387.70				
	435.60				
	331.50				
					Mar-12
					Mar-13
					Mar-14
					Mar-15
<i>Aviva Annual Bonus Plan</i>					
2010					Mar-14
2011					Mar-15
2012		125,989			
	51,155				
	96,722				
	51,155				
	96,722				
	125,989				
	9				
	387.70				
	435.60				
	331.50				
					Dec-12



One Aviva, Twice The Value bonus plan

2009 <sup>3</sup> 64,486	64,486		245.00
2010 <sup>2</sup> 38,366		38,366	387.70

Mar-1  
2  
Mar-1  
3

Notes

- The actual price used to calculate the ABP award for 2009 was 245.00 pence. The three day average closing middle market price of an ordinary share of the Company used to grant the 2009 OATTV Plan awards were 2009 256 pence and 2010 386 pence. The free day average closing middle market price of an ordinary share of the Company used to grant the Repayment Restricted Share Award (RRSA) in 2010 was 380.22 pence. The three day average closing middle market price of an ordinary share of the Company used to grant the Bonus Replacement Deferred Share Award (BRDSA) in 2010 was 386 pence. The three day average closing middle market price of an ordinary share of the Company used to grant the Conditional Share Award in 2011 was 309 pence.
- The performance periods for these awards begin at the commencement of the financial year in which the award is granted.
- The performance conditions for awards which were granted or which vested during 2012 are explained elsewhere in this Report. The performance periods for these awards begin at the commencement of the financial year in which the award is granted.
- The award date for the awards granted in 2009 which vested in 2012 was 26 March 2009, the award date for the award granted in 2010 which vested in 2012 was 11 March 2010 and the award date for the award granted in 2011 which vested in 2012 was 2 February 2011. The awards which vested in 2012 were released with the net amount being settled in cash and used to pay the resulting tax liability. The monetary value of awards will be calculated by multiplying the relevant number of shares by the closing middle market price of an ordinary share of the Company at the date of vesting.
- The savings-related share awards are restricted shares which are beneficially owned by Patrick Regan and held in trust on his behalf under the terms of a restricted share award agreement. As outlined in the 2010 Directors' Report, income tax and National Insurance Contributions liabilities were paid on the BRDSA on 11 March 2010 and on the BRDSA on 30 March 2010.
- These figures relate to shares issued in lieu of dividends accrued during the deferral period.
- The awards under the CFO Recruitment Share Awards Plan were granted to Patrick Regan following his recruitment in 2010. As disclosed in the 2010 Directors' Remuneration Report, the RRSA will vest in tranches subject to Mr Regan meeting his personal performance targets, the OATTV is subject to the same performance conditions as the OATTV Plan awards granted to other EDs in 2010 and the BRDSA is not subject to performance conditions and will vest on the third anniversary of the date of grant subject to Mr Regan remaining in employment with the Company.
- The performance target attached to the second tranche of the RRSA was met and this tranche vested on 8 March 2012 being the first dealing day following the normal vesting date where no dealing restrictions were in place.
- The Conditional Share Award was granted to Trevor Matthews following his recruitment in 2011. As disclosed in the 2011 Directors' Remuneration Report, this award is not subject to performance conditions and will vest in tranches subject to Trevor Matthews remaining in employment with the Company. Trevor Matthews will cease to be a director of the Company prior to the 2013 AGM. The treatment of his awards will be determined on his ceasing to be an employee of the Company.
- These shares were awarded as Phantom Units which will be cash settled on vesting and no shares will be transferred or allotted.
- The information shown in this column for Andrew Moss is as at his resignation from the Board on 8 May 2012 and for Igal Mayer is as at his resignation from the Board on 19 April 2012.
- 25% of Andrew Moss' 2010 ABP award and 100% of his 2011 and 2012 ABP awards, 2010, 2011 and 2012 LTP awards and 2010 OATTV award lapsed on his leaving the Company on 31 May 2012. The remaining 75% of his 2010 ABP award will vest on the normal vesting date.
- Igal Mayer's ABP awards vested on 1 June 2012, the first business day after leaving the Company on 31 May 2012. His 2010, 2011 and 2012 LTP awards and 2010 OATTV award lapsed on his leaving the Company on 31 May 2012.
- The aggregate net value of share awards granted to the directors in the period was £8.9 million (2011 £12.1 million). The net value has been calculated by reference to the closing middle market price of an ordinary share of the Company at the date of grant. This excludes shares issued in lieu of dividends.

Share options (audited information)

Details of the EDs who were in office for any part of the 2012 financial year and hold or held options over ordinary shares of the Company pursuant to the Company's share based incentive plans are set out in table 19 below.

Savings-related share options refer to options granted under the HMRC-approved Aviva Savings Related Share Option Scheme 2007. Options are normally exercisable during the six-month period following the end of the relevant (three, five and seven year) savings contract.

Executive share options (approved) refer to options granted under the HMRC-approved schedule to the Aviva Executive Share Option Plan 2005. Options will be exercisable on 30 March 2013 to the extent that the LTIP awards granted in 2010 have vested. Any gain made on exercise of these options will be used to reduce the number of shares vesting under the LTIP. Therefore, the vesting of the options will not increase the overall number of shares received by the EDs from their LTIP awards.

Table 19: EDs' options over Aviva pic shares

	At 1 January 2012 Number	Options granted during year Number	Options exercised during year Number	Options lapsing during year Number	At 31 December 2012 Member Number	Exercise Price Pence	Period
<b>Patrick Regan</b>							
Savings-related options 2010	2,903				2,903	310.0	Dec 13-May
Executive share options (approved) 2010	7,772				14		
<b>Andrew Moss<sup>1</sup></b>							
Executive share options (approved) 2010	7,772	—	—	—	7,772	386.0	Mar 13
<b>Igal Mayer<sup>2</sup></b>							
Savings-related options 2011	5,923	—	—	—	5,923	268.0	Dec 18-May 19

Notes

- The information shown for Andrew Moss is as at the date of his resignation from the Board on 8 May 2012. Mr Moss' executive share options lapsed on leaving the Company on 31 May 2012.
- The information shown for Igal Mayer is as at his resignation from the Board on 19 April 2012. Mr Mayer's savings-related options lapsed on leaving the Company on 31 May 2012.
- Any unexercised options will lapse at the end of the exercise period.

The closing middle market price of an ordinary share of the Company on 31 December 2012 was 373.00 pence, and the closing middle market price of an ordinary share of the Company during the year ranged from 255.30 pence to 384.00 pence. During the year, no share options were exercised by directors (2011: nil).

EDs did not pay for the award of any share options. The savings related options are granted under an all-employee share scheme and are not subject to performance conditions. The executive share options are linked to awards under the LTIP which are subject to performance conditions (ROE and relative TSR). Additional information can be found in the sections titled 'LTIP', 'ROE targets' and 'TSR targets' on pages 71 and 72.

#### Dilution

Awards granted under the Aviva employee share plans are met by the funding of two employee trusts administered by external trustees that acquire shares in the market. The current practice is that new issue shares will generally only be issued where it is not practicable or permissible to use the trust. However, the funding policy is kept under review by the Committee and the Board. Details of the shares currently held in the employee trusts are set out in note 28.

During 2012, loans totalling £21.3 million were made to RBC Trustees (CI) Ltd and loans totalling £11.6 million were made to EES Trustees International Ltd to ensure sufficient shares were available to meet the Company's on-going liabilities.

The Company monitors the number of shares issued under the Aviva employee share plans and their impact on dilution limits. The Company's usage of shares compared to the relevant dilution limits set by the Association of British Insurers (ABI) in respect of all share plans (10% in any rolling ten-year period) and executive share plans (5% in any rolling ten-year period) was 3.53% and 2.06% respectively on 31 December 2012.

#### Directors' interests in Aviva shares

The interests held by each person who was a director during the 2012 financial year and their connected persons in the ordinary shares of the Company are shown in table 20 below. All the disclosed interests are beneficial. The table also summarises the interests in shares held through the Company's various share incentive plans.

## Directors' remuneration report continued

Table 20: Directors' interests in Aviva shares<sup>9</sup>

	1 January 2012	31 December 2012	1 January 2012	31 December 2012	1 January 2012	31 December 2012	1 January 2012	31 December 2012	Options <sup>1</sup>	1 January 2012	31 December 2012
Glyn Barker <sup>1</sup> Mary											
Francis Richard Karl	4,700	4,700									
Goeltz <sup>6</sup> Euleen Goh Michael	17,50	17,50									
Hawker Gay Huey Evans											
Trevor Matthews Igal Mayer <sup>11</sup>	5,000	5,000									
John McFarlane Andrew											
Moss <sup>18</sup> Patrick Regan	226,150	312,575	653,721 <sup>10</sup>	444,742 <sup>9</sup>	373,271 <sup>11</sup>	855,413 <sup>12</sup>					
Lord Sharman Leslie Van	10,000	10,000	147,877	273,866	988,223 <sup>15</sup>	1,268,225 <sup>5</sup>	102,852	38,366	5,92	5,92	
de Walle Russell Walls	572,216	603,815	378,460	492,43	1,637,806	1,791,196	373,646	177,770	3	3	
Scott Wheway Mark	312,335	319,707	316,365	7	544,219	969,442	55,051 <sup>13</sup>	55,051 <sup>13</sup>	7,772	7,772	
Wilson Other PDMMs (not included above) <sup>11</sup>	38,426 <sup>11</sup>	40,176 <sup>11</sup>									
	17,485 <sup>6</sup>	17,485 <sup>6</sup>									
	8,000	8,000									
Moss	13,579	13,579									

- Notes
- 1 'Shares' are the directors' beneficial partnership element of the AESOP and any shares granted under the free share element of the AESOP. In respect of Patrick Regan, it also includes the remaining restricted shares held in trust from his RRSA and BRDSA awarded under the rules of the CFO Recruitment Share Awards Plan. In respect of Andrew Moss, it also includes the restricted shares held in trust from his RRSA and BRDSA awarded under the rules of the CFO Recruitment Share Awards Plan and awarded shares in respect of Trevor Matthews. 653,721 shares held as at 1 January 2012 and 435,814 shares held as at 31 December 2012 represent the unvested shares awarded under the terms of the Conditional Share Award
- 2 ABP relates to entitlements to shares arising through the Aviva Annual Bonus Plan 2005 and the Aviva Annual Bonus Plan 2011. Under these plans, some of the earned bonuses are paid in the form of conditional shares and deferred for three years. For Andrew Moss, this includes the restricted shares referred to in note 1 above. The transfer of the shares to the directors at the end of the period is not subject to the attainment of performance conditions but the shares can be forfeited if the ED leaves service before the end of the period. In respect of Patrick Regan, 213,624 shares held at 1 January 2012 and 128,428 shares held at 31 December 2012 represent the restricted shares from the RRSA and BRDSA awarded under the rules of the CFO Recruitment Share Awards Plan and are assumed shares in respect of Trevor Matthews. 653,721 shares held as at 1 January 2012 and 435,814 shares held as at 31 December 2012 represent the unvested shares awarded under the terms of the Conditional Share Award
- 3 Awards granted under the LTIP which vest only if the performance conditions are achieved
- 4 OATTV Plan awards were granted as a match to the bonus plan awards under the ABP and vest only if the performance conditions are achieved
- 5 'Options' are options over shares granted under the SAYE and the Aviva Executive Share Option Plan 2005
- 6 In addition to the shares held in respect of the directors, the table also includes shares held in respect of the directors' family members as at 1 January 2012 and 31 December 2012
- 7 The information given in this column is as at 1 January 2012 or the date of appointment of the director (Glyn Barker 27 February 2012, Mark Wilson 1 December 2012). On appointment neither of the directors held any shares, awards or options.
- 8 The information given in this column is as at 31 December 2012 or the date on which a director ceased to be a director of the Company (3 October 2012, Igal Mayer 19 April 2012, Andrew Moss 8 May 2012, Lord Sharman 30 June 2012 and Leslie Vance Walle 2 May 2012)
- 9 The interests of connected persons of the directors are included in the directors' interests given in the table
- 10 These shares include the balance of the Conditional Share Award
- 11 These shares were awarded as phantom units in 2011 which will be cash settled on vesting and no shares will be transferred or allotted
- 12 These shares represent the shares awarded under the LTIP and the LTIP award granted in 2012
- 13 These shares represent the OATTV awarded under the rules of the CFO Recruitment Share Awards Plan
- 14 These shares include 100 American Depositary Shares (the equivalent of 200 Aviva ordinary shares). The opening balance figure for Lord Sharman differs from the closing balance figure at 31 December 2011 due to scrip dividend shares issued in November 2011 not being included in the closing balance figure at 31 December 2011
- 15 These ITF awards include 433,296 phantom units which will be cash settled on vesting and for which no shares will be transferred or allotted
- 16 The opening balance figure for Leslie Van de Walle differs from the closing balance figure at 31 December 2011 due to scrip dividend shares issued in November 2011. In respect of his spouse through a nominee account, not being included in the closing balance figure at 31 December 2011. In addition to his ordinary shareholding, Leslie van de Walle held 897,000 5.9021% ISOM Direct Capital Instrument (DCI) on 1 January 2012 and 2 May 2012. The DCIs were held by his spouse through a nominee account
- 17 Igal Mayer's ABP awards vested on 1 June 2012, the first business day after his leaving the Company on 31 May 2012. Mr Mayer's 2010, 2011 and 2012 LTP awards and 2010 OATTV award lapsed on his leaving the Company on 31 May 2012
- 18 25% of Andrew Moss' 2010 ABP award, and 100% of his 2011 and 2012 ABP awards and 2010 OATTV award lapsed on his leaving the Company on 31 May 2012. The remaining 75% of his 2010 ABP award will vest on the normal vesting date
- 19 In prior years, all members of the Group Executive were Persons Liable for Financial Responsibility (FLFRs). However during 2012, the FLFRs were discontinued and were no longer applicable to Aviva Group Executive. The table shows the aggregate holding of Aviva shares, options and awards for those who were regarded as FLFRs at 31 December 2012, and from the date they became PDMMs during 2012 if they were not a PDMM on 1 January 2012

In the period from 1 January 2013 to 20 March 2013, the interests of the current directors in Aviva shares increased as follows: Gay Huey Evans acquired 5,000 ordinary shares, Sir Adrian Montague acquired 15,500 ordinary shares, Mark Wilson acquired 150,000 ordinary shares, Bob Stern acquired 7,000 ordinary shares and Michael Hawker's shareholding increased by 15,500 ordinary shares, all through market purchases. The share interests of Patrick Regan and Trevor Matthews increased by 95,732 and 113,646 ordinary shares respectively following releases of awards under the CFO Recruitment Share Plan and the Conditional Share Plan respectively. The holdings of ordinary shares by "Other PDMMs" increased by an aggregate of 138 ordinary shares as a result of monthly purchases under the AESOP.

## Approval by the Board

This Directors' Remuneration Report was reviewed and approved by the Board on 6 March 2013.

Scott Wheway  
Chairman, Remuneration Committee

# Shareholder information

In this section

Company address	82
Share capital	82
Related party disclosures	84
Dividend data	84
Guarantees, securitised assets and off-balance sheet arrangements	85
Liquidity and capital resources	85
Regulation	89
Risks relating to our business	95

## Shareholder information

### Company address

The Company's registered office is St Helens, 1 Undershaft, London, EC3P 3DQ.  
The Company's telephone number is +44 (0)20 7283 2000.

### Share capital

The Company has four classes of shares:

- Ordinary Shares of £0.25 each which constitute equity security and hold voting rights;
- Cumulative Irredeemable Preference Shares of £1 each, which entitle holders to attend and vote at general meetings only when dividends on such shares are in arrears. Cumulative irredeemable preference shareholders may also attend general meetings and vote on particular proposals when such proposals relate to an alteration of the rights attaching to such shares, a reduction of capital (other than through a redemption or repurchase of shares) or a winding up of business. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares;
- Sterling New Preference Shares of £1 each, which have such rights and terms (including terms related to the redemption of shares, ranking and entitlement to dividend and capital) as the Board determines; and
- Euro New Preference Shares of €1 each, which have such rights and terms (including, terms related to the redemption of such shares, ranking and entitlement to dividend and capital) as the Board determines.

#### Issued share capital

The Company had an aggregate issued and outstanding ordinary share capital of £736 million as of 31 December 2012. The following table sets out information about the issued and outstanding classes of equity as of 31 December 2012

	Shares issued and outstanding	Shares covered by outstanding option
	2012	
	Million	
Ordinary Shares, nominal value 25p 8.375% Cumulative Irredeemable Preference Shares, nominal value £1 8.75% Cumulative Irredeemable Preference Shares, nominal value £1	2,94	
	6	
	10	
	0	
	10	
	0	
	2011	
	rvsllol	
	2.90	
	5	
	10	
	0	
	10	
	0	
	2010	
	Million	
	"2782	
	0	
	10	
	0	
	10	
	0	
	2012	
	Million	
	25	
	2011	
	Million	
	30	
	2010	
	Million	
	n	
	27	

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 28 April 2010 reflect this. Directors are still limited as to the number of shares they can allot,

as the allotment authority continues to be required under the Act, save in respect of employee share schemes. Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

The Company is not permitted under English law to hold its own ordinary shares. Whilst the Company is presently authorised to repurchase up to 290 million ordinary shares, any shares that are repurchased must be cancelled. Details of the Company's dividends are set out below under 'Dividend data'. The Company's preference shares rank, as to the payment of dividends and capital, as set out in note 29.

#### Share options and awards

The Company maintains a number of active stock option and share award schemes. Details of these schemes are set out in 'Financial statements IFRS - Note 27 - Group's share plans'.

#### Share Investment Plan

The Company's UK resident employees of participating companies can buy ordinary shares in the Company by making monthly contributions from their gross salary. Contributions can be a minimum of £5 and a maximum of £125 per month (or, if less, 10% of gross salary). Contributions are held in a trust by an independent trustee and shares are allocated within 30 days of the employee's monthly contribution date. Employees can withdraw their shares from the trust at any time on payment of income tax and National Insurance Contributions (NIC). However, after five years shares can be withdrawn from the trust free of income tax and NIC.

There is currently no matching element to this investment by the Company. However a matching element is due to be introduced in April 2013 through which the Company will match every purchased share with two matching shares for the first £40 of a participant's monthly contribution. Matching shares will be subject to forfeiture if purchased shares are withdrawn from the Aviva All Employee Share Ownership Plan (AESOP) within three years of purchase, as long as the employee remains employed by the Company. From May 2013 participants will also be eligible to receive Dividend Shares through the AESOP.

#### Shares to satisfy options and awards

Since July 2008, it has been the Company's practice to satisfy all awards and options using shares purchased in the market and held by employee trusts except where local regulations make it necessary to issue new shares.

At 31 December 2012, 10,053,515 shares were held by the employee share trusts as compared to 13,284,476 at 31 December 2011, in both instances following the share purchases and distributions to individual employees throughout the year. These shares have an aggregate nominal value of £2,513,379 and market value £37,499,611 as of 31 December 2012, compared to £3,321,119 and £39,959,704 at 31 December 2011, respectively. Shares held by separate employee share trusts on behalf of specific individuals have not been included in these amounts. Further details are given in 'Financial statements IFRS - Note 28 - Shares held by employee trusts.'

8  
3

#### History of share capital

The following table sets out information about the history of the Company's ordinary shares over the last three full calendar years.

	Number of shares
<b>At 1 January 2010</b>	<b>2,766,611,374</b>
Shares issued under the Group's Employee and Executive Share Option Schemes <sup>1</sup>	722,968
Shares issued in lieu of dividends <sup>2</sup>	52,814,300
<b>At 31 December 2010</b>	<b>2,820,148,642</b>
Shares issued under the Group's Employee and Executive Share Option Schemes <sup>1</sup>	1,574,706
Shares issued in lieu of dividends <sup>2</sup>	83,989,590
<b>At 31 December 2011</b>	<b>2,905,712,938</b>
Shares issued under the Group's Employee and Executive Share Option Schemes <sup>1</sup>	3,335,566
Shares issued in lieu of dividends <sup>2</sup>	36,923,757
<b>At 31 December 2012</b>	<b>2,945,972,261</b>

<sup>1</sup> For more information on our various option schemes, see note 27 in the financial statements.

<sup>2</sup> The issue of shares in lieu of cash dividends is considered a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

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 28 April 2010 reflect this. Directors are still limited as to the number of shares they can at any time, allot as the allotment authority continues to be required in the Act save in respect of employee share schemes.

There were no changes to the voting rights of any class of shares during 2010, 2011 or 2012, other than issuances in connection with our various employee option schemes and under the Company's scrip dividend scheme. The Company did not issue shares for consideration other than cash during 2010, 2011 or 2012. In addition, at the Company's general meetings in 2010, 2011 and 2012, shareholders authorised the limited dis-application of Section 561 of the Companies Act 2006 to permit the Company to issue new equity securities for cash without applying shareholders' statutory pre-emptive rights.

## Related party disclosures

### Related party transactions

For more information relating to related party transactions, including more information about the transactions described below, please see 'Financial Statements IFRS - Note 56 - Related party transactions'

### Subsidiaries

Transactions between the Company and its subsidiaries are eliminated on consolidation.

### Key management compensation

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

	2012		2011	
	£m		£m	
Salary and other short-term benefits	4.7	6.7	8.1	
Post-employment benefits	1.9	1.7	1.6	
Equity compensation plans	4.8	5.9	6.4	
Termination benefits	1.5	0.7	—	
Total	13.3	17.8	18.6	

Various directors and key management of Aviva may from time to time purchase insurance, asset management or annuity products, from Aviva Group companies in the ordinary course of business on substantially the same terms, including interest rates and security requirements, as those prevailing at the time for comparable transactions with other persons.

Apart from the disclosed transactions discussed above and in the 'Governance' section of this report, no director had an interest in shares, transactions or arrangements that requires disclosure under applicable rules and regulations.

### Other related parties

The Group received income from and paid expenses to other related parties from transactions made in the normal course of business. Loans to other related parties are made on normal arm's length commercial terms

### Services provided to other related parties

	2012				2011		2010	
	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end	Income earned in year	Receivable at year end
	£m	£m	£m	£m	£m	£m	£m	£m
Associates	—	—	—	—	47	—	—	—
Joint ventures	23	103	23	125	18	375	—	—
Employee pension schemes	12	6	13	9	10	—	—	—
	2	—	—	—	—	—	—	—
	35	109	36	134	75	377	—	—

In addition to the amounts disclosed for associates and joint ventures above, at 31 December 2012 amounts payable at year-end were £nil, and expenses incurred during the period were £5 million

Transactions with joint ventures in the UK relate to the property management undertakings, the most material of which are listed in note 15(b). Our interest in these joint ventures comprises a mix of equity and loans, together with the provision of administration services and financial management to many of them. Our UK life insurance companies earn interest on loans advanced to these entities, movements in which may be found in note 15(a)

Our fund management companies also charge fees to these joint ventures for administration services and for arranging external finance.

Our UK fund management companies manage most of the assets held by the Group's main UK staff pension scheme, for

Other long term benefits 0.4 2.8 2.5

which they charge fees based on the level of funds under management. The main UK scheme holds investments in Group-managed funds and insurance policies with other Group companies, as explained in note 44(e)(iii).

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties provided on behalf of related parties are given in note 48(g).

### Loans to joint ventures

We make loans to our property management joint ventures to fund property developments which we undertake with our joint venture partners. Movements in these loans may be found in 'Financial Statements IFRS - Note 15 - Interests in, and loans to, joint ventures'. Total loans at 31 December 2012 and at the end of each of the last three financial years are shown in the table below:

	2012		2011		2010	
	£m		£m		£m	
Loans to joint ventures	92	100	375	—	—	—

### Dividend data

The Company has a policy to pay a progressive dividend with reference to growth in cash flows and earnings. Under UK company law, we may only pay dividends if the company has 'distributable profits' available. 'Distributable profits' are accumulated, realised profits not previously distributed or capitalised, less accumulated, unrealised losses not previously written off based on IFRS. Even if distributable profits are available, we pay dividends only if the amount of our net assets is not less than the aggregate of our called-up share capital and undistributable reserves and the payment of the dividend does not reduce the amount of our net assets to less than that aggregate.

As a holding company, the Company is dependent upon dividends and interest from our subsidiaries to pay cash dividends. Many of the Company's subsidiaries are subject to insurance regulations that restrict the amount of dividends that they can pay to us.

Historically, the Company has declared an interim and a final dividend for each year (with the final dividend being paid in the year following the year to which it relates). Subject to the restrictions set out above, the payment of interim dividends on ordinary shares is made at the discretion of our Board, whilst payment of any final dividend requires the approval of the Company's shareholders at a general meeting. Preference shares are irredeemable and dividends on preference shares are made at the discretion of our Board.

The Company pays cash dividends in pounds sterling, although the articles of association permit payment of dividends on ordinary shares in other currencies and in forms other than cash, such as ordinary shares. If dividends on ordinary shares held by the American Depositary Shares (ADS) depository are paid in pounds sterling, the ADS depository will convert the pounds sterling that it receives on behalf of the ADS holders into US dollars according to the prevailing market rate on the date that the ADS depository actually receives the dividends.

For the 2007 final dividend and previous final and interim dividends, shareholders on record were provided with the opportunity to elect to receive dividends in the form of newly issued ordinary shares through the Aviva Scrip Dividend Scheme. For the 2008 interim dividend, the Aviva Scrip Dividend Scheme was replaced by a dividend reinvestment plan (DRIP). For those shareholders participating in the DRIP, the Company paid a cash dividend, which was then used to buy existing shares on the open market. For the 2008 final dividend, Aviva withdrew the DRIP and reintroduced the Aviva Scrip Dividend Scheme. For the 2012 final

## Shareholder information continued

dividend, the Aviva Scrip Dividend Scheme has been withdrawn. For the 2012 final dividend, the Aviva Scrip Dividend Scheme has been withdrawn.

An interim dividend is generally paid in November of each year. A final dividend is proposed by the Company's Board after the end of the relevant year and generally paid in May. The following table shows certain information regarding the dividends that we paid on ordinary shares for the periods indicated in pounds sterling and converted into US dollars at the noon buying rate in effect on each payment date.

Year	Interim dividend per share (pence)	Interim dividend per share (cents)	Final dividend (pence)	Final dividend (cents)
2007	-	24.37	21.10	41.19
2008	13.09	19.69	19.91	30.31
2009	9.00	14.75	15.00	23.55
2010	9.50	15.20	16.00	25.80
2011	10.00	15.70	16.00	25.27
2012	10.00	15.85	9.00	na

### Guarantees, securitised assets and off-balance sheet arrangements

As a normal part of our operating activities, various Group companies have given financial guarantees and options, including interest rate guarantees, in respect of certain long-term assurance and fund management products, as set out in Note 38. These are accounted for on-balance sheet as either part of the host insurance contract or as financial instruments under IFRS.

Information on operating lease commitments can be found in Note 49(b).

It is standard business practice for our Group companies to give guarantees, indemnities and warranties in connection with disposals of subsidiaries and associates to third parties. As of 31 December 2012, we believe no material loss will arise in respect of these guarantees, indemnities and warranties. Principal warranties include the accuracy and completeness of the statement of financial position at an agreed specified date, details of outstanding litigation, regulatory matters, material contractual commitments, the position on tax filings and other customary matters together with any specific items identified during due diligence. In addition, specific clauses cover such items as regulatory approvals and licences, the basis of calculation regarding actuarial insurance liabilities, reinsurance contracts and the status of employee pension plans. Their exact terms are tailored to each disposal and are set out in the respective sale and purchase agreement. Similarly, the open warranty periods, within which the purchaser could claim, and limits on the maximum amount potentially recoverable will vary for each item covered in each disposal.

There are a number of outstanding claims on recent disposals, none of which are material. There are also open claim periods on other recent disposals on which we have neither received, nor expect to receive, any such claims. We believe that there is no material exposure in this respect.

We have loans receivable, secured by mortgages, which have then been securitised through non-recourse borrowings by special purpose entities in our UK Life business, as set out in Note 21. These special purpose entities have been consolidated and included in the statement of financial position, as we retain the residual interest in them.

Limited liability partnerships classified as joint ventures. As part of their investment strategy, the UK and certain European long-term business policyholder funds have invested in a number of property limited partnerships (PLP), either directly or via property unit trusts (PUT), through a mix of capital and loans. The PLPs are managed by general partners (GP), in which the long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary.

Accounting for the PUTs and PLPs as subsidiaries, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms of each partnership agreement. If a partnership is managed by a contractual agreement where the parties have joint control but no individual party exerts overall control, notwithstanding that the Group's partnership share or economic interest in the PLP (including its indirect stake via the relevant PUT and GP) may be greater than 50%, such PUTs and PLPs have been classified as joint ventures. Of the PLPs accounted for as joint ventures at 31 December 2012, the Group's economic interest exceeded 50% in respect of one partnership. The Mall Limited Partnership, in which the Group had a 50.52% economic interest.

Note 15 provides a list of the principal PLPs accounted for as joint ventures, as well as summarised information on the income, expenses, assets and liabilities of the Group's interests in its joint ventures in aggregate. In respect of these PLPs, there are no significant contingent liabilities to which we are exposed, nor do we have any significant contingent liabilities in relation to our interests in them. External debt raised by the PLPs is secured on their respective property portfolios, and the lenders are only entitled to obtain payment of both interest and principal to the extent there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder and shareholders' funds of any companies in the Aviva Group. At 31 December 2012, we had £157 million capital commitments to these PLP joint ventures.

### Liquidity and capital resources

#### Treasury function

The treasury function of our business is managed by our centralised treasury team, headed by the Group treasurer. The Group treasurer acts as owner of Group business standards for liquidity and foreign exchange risk management within the Group risk governance and oversight framework. Changes in policy require the agreement of the chief risk and capital officer. These policies are independently implemented and monitored by each of our businesses. Our central treasury team is split into distinct functions: a Group team, which develops our overall treasury strategy and our treasury team at Aviva Investors, which manages and monitors our treasury and cash flow positions for our holding companies. Each business unit is responsible for monitoring its own cash and liquidity positions, as well as its ongoing funding requirements. It is our policy to make the majority of our financing arrangements at the parent company level for our business units, primarily through external borrowings and equity offerings. This enables us to achieve the efficiencies afforded by our collective size. A number of our business units also raise debt on their own behalf.

Our principal objective in managing our liquidity and capital resources is to maximise the return on capital to shareholders, while enabling us to pay dividends, service our debt and our holding companies' cash flows. In the context of a financial services company where our working capital is largely representative of our liquidity, we believe that our working capital is sufficient for our present operational requirements. For additional information, see 'Note 53 - Risk management - liquidity risk'.

#### Extraordinary market conditions

Starting in mid-September 2008, the global financial markets experienced unprecedented disruption, adversely affecting the business environment in general, as well as financial services companies in particular. Markets have improved but continue to be fragile, particularly given the Eurozone sovereign debt crisis. A return to adverse financial market conditions could significantly affect our ability to meet liquidity needs and obtain capital, although management believes that we have liquidity and capital resources to meet business requirements under current market conditions.



At 31 December 2012, total consolidated cash and cash equivalents net of bank overdrafts amounted to £23,248 million, an increase of £847 million over £22,401 million in 2011.

Processes for monitoring and managing liquidity risk, including liquidity stress models, have been enhanced to take into account the extraordinary market conditions, including the impact on policyholder and counterparty behaviour, the ability to sell various investment assets and the ability to raise incremental funding from various sources. Management has taken steps to strengthen liquidity in light of its assessment of the impact of market conditions, such as issuing \$650 million Fixed Rate Tier 1 notes in May 2012, and intends to continue to monitor liquidity closely

#### Management of capital resources

We seek to maintain an efficient capital structure using a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings. This structure is consistent with our risk profile and the regulatory and market requirements of our business.

In managing our capital, we seek to:

- Match the profile of our assets and liabilities, taking into account the risks inherent in each business;
- maintain financial strength to support new business growth whilst still satisfying the requirements of policyholders, regulators and rating agencies;
- retain financial flexibility by maintaining strong liquidity, access to a range of capital markets and significant unutilised committed credit lines;
- allocate capital efficiently to support growth and repatriate excess capital where appropriate; and
- manage exposures to movements in exchange rates by aligning the deployment of capital by currency with our capital requirements by currency.

We are subject to a number of regulatory capital tests and employ realistic scenario tests to allocate capital and manage risk. The impact of these regulatory capital tests on our ability to transfer capital around the Group through dividends and capital injections is discussed later in this section under the headings 'Sources of liquidity' and 'Capital injections'.

At 31 December 2012, the Group had £16.5 billion (31 December 2011: £20.6 billion) of total capital employed on an IFRS basis in our trading operations which is financed by a combination of equity shareholders' funds, preference capital, direct capital instruments, subordinated debt and internal and external borrowings

In 2012, the total capital employed decreased by £4.1 billion. The decrease is primarily driven by the Group's loss after tax, actuarial losses on staff pension schemes and the payment of the dividend.

In addition to external funding sources, we have a number of internal debt arrangements in place. These have allowed the assets supporting technical liabilities to be invested into the pool of central assets for use across the Group. They have also enabled us to deploy cash from some parts of the business to others in order to fund growth. Although intra-Group loans in nature, they are counted as part of the capital base for the purpose of capital management. All internal loans satisfy arm's length criteria and all interest payments have been made when due.

#### Management of debt

Aviva pic is the principal financing vehicle in our centralised funding strategy. Our senior debt obligations are supported by guarantees from our principal UK non-life trading subsidiaries. We also manage our external debt in line with rating agency limits applicable for entities with a rating in the AA range. We aim to maintain a balance of fixed and floating rate debt, and manage the maturity of our borrowings and our undrawn

committed facilities to avoid bunching of maturities. We aim to maintain

access to a range of funding sources, including the banking market, the commercial paper market and the long-term debt capital markets. We issue debt in a variety of currencies, predominantly sterling, euros and US dollars, based on investor demand at the time of issuance and management of the Group's foreign exchange translation exposures in the statement of financial position.

In May 2012, we issued \$650 million of Fixed Rate Tier 1 notes callable in 2017. In June 2012, we repaid a \$300 million subordinated debt instrument at its first call date.

At 31 December 2012, our total external borrowings, including subordinated debt and securitised mortgage loans, amounted to £8.3 billion (2011: £8.5 billion). Of the total borrowings, £5.1 billion (2011: £5.3 billion) are considered to be core borrowings and are included within the Group's capital employed. The balance of £3.2 billion (2011: £3.2 billion) represents operational debt issued by operating subsidiaries. We also have substantial committed credit facilities available for our use. At 31 December 2012, we had undrawn committed credit facilities expiring within one year of £0.4 billion (2011: £1.0 billion) and £1.7 billion in credit facilities expiring after more than one year (2011: £1.1 billion). Of these facilities, £750 million was allocated in 2012 (2011: £750 million) to support our commercial paper programme.

Further information on the maturity profile, currency and interest rate structure of our borrowings is presented in 'Financial statements IFRS - Note 45 - Borrowings'. Commercial paper is issued for terms up to 12 months and is generally reissued at maturity. The earliest repayment date for other debt instruments is a €650 million subordinated debt instrument with a first call date of 2 October 2013 at the option of the company. At this time Aviva will have the option of repaying the debt or accepting a step-up in the coupon and deferring repayment until future coupon dates or 2023 at the latest.

The table below presents our debt position for the periods indicated

	2012 £m	2011 £m
Core structural borrowings		
Subordinated debt	4,337	4,550
Debenture loans	199	199
Commercial paper	603	506
	<b>5,139</b>	<b>5,255</b>
Operating borrowings		
Operational borrowings at amortised cost	1,868	1,889
Operational borrowings at fair value	1,332	1,306
	<b>3,200</b>	<b>3,195</b>
	<b>8,339</b>	<b>8,450</b>
Less Amounts classified as held for sale	(145)	—
<b>Total</b>	<b>8,194</b>	<b>8,450</b>

In the UK, we have raised non-recourse funding secured against books of mortgages. This funding has been raised through the use of special-purpose entities. The beneficial interest in the books of mortgages has been passed to these special-purpose entities. These entities, which are owned by independent trustees, have funded this transfer through the issue of loan notes.

The value of the secured assets and the corresponding nonrecourse funding was £1,332 million (2011: £1,306 million). We continue to receive fees from these special purpose entities in respect of loan administration services.

These special purpose entities have been consolidated as we retain the residual interest in them. The transactions and reasons for consolidation are discussed further within 'Financial statements IFRS - Note 21 - Securitised mortgages and related assets'.

## Undrawn borrowings

At 31 December 2012, we had £2.1 billion (2011: £2.1 billion) undrawn committed central borrowing facilities available to us, provided by a range of leading international banks, all of which have investment grade credit ratings. We have allocated £750 million to support the credit rating of Aviva's commercial paper programme. Undrawn borrowings are analysed below:

	2012 £m	
Expiring within one year	420	955
Expiring beyond one year	1,725	1,160
<b>Total</b>	<b>2,145</b>	<b>2,115</b>

Our committed central borrowing facilities have two financial covenants:

- Borrowings (excluding non-recourse indebtedness) may not exceed total shareholders' funds. At 31 December 2012, borrowings were 62% of total shareholders funds.
- Total shareholders' funds to exceed 32% of non-life net written premiums for the previous 12 months. At 31 December 2012, total shareholders funds were 140% of non-life net written premiums

Total shareholders' funds are defined as the aggregate of nominal share capital of Aviva and the IFRS retained profits and reserves, plus the value of in-force long-term business, on a consolidated basis.

## Sources of liquidity

In managing our cash flow position, we have a number of sources of liquidity, including'

- dividends from operating subsidiaries;
- external debt issuance;
- internal debt and central assets; and
- funds generated by the sale of businesses.

One of our principal sources of liquidity is dividends from our subsidiaries. The level of dividends is based on two primary factors: the financial performance and the local solvency and capital requirements of our individual business units.

The table below shows liquid resources provided to Group Centre from operating companies, subsidiaries, associates and joint ventures in 2012:

	2012 Amounts received £m
UK life insurance	150
UK general insurance	150
Canada	136
France	217
Spain	68
Poland	70
Other operations	153
<b>Total</b>	<b>944</b>

Subsequent to the year end, the Group has taken action to improve its access to dividends from the Group's insurance and asset management businesses by undertaking a corporate restructuring whereby Aviva Group Holdings ("AGH") has purchased from Aviva Insurance Limited ("AIL") its interest in the majority of its overseas businesses.

Under UK company law, dividends can only be paid if a company has distributable reserves sufficient to cover the dividend. At 31 December 2012, Aviva pic itself had distributable reserves of £3,037 million, which would have covered three years of historic dividend payments to our shareholders. In UK Life, our largest operating subsidiary, distributable reserves, which could be paid to Aviva pic via its intermediate holding company, are created mainly by the statutory long-term

business profit transfer to shareholders. While the UK insurance regulatory laws

applicable to UK Life and our other UK subsidiaries impose no statutory restrictions on an insurer's ability to declare a dividend, the rules require maintenance of each insurance company's solvency margin, which might impact their ability to pay dividends to the parent company. Our other life and general insurance, and fund management subsidiaries' ability to pay dividends and make loans to the parent company is similarly restricted by local corporate or insurance laws and regulations. In all jurisdictions, when paying dividends, the relevant subsidiary must take into account its capital position and must set the level of dividend to maintain sufficient capital to meet minimum solvency requirements and any additional target capital expected by local regulators. These minimum solvency requirements, which are consolidated under the European Insurance Group Directive, are discussed later in this section under the heading 'Regulatory capital position'. We do not believe that the legal and regulatory restrictions constitute a material limitation on the ability of our businesses to meet their obligations or to pay dividends to the parent company, Aviva pic.

The Group has received and expects to receive proceeds on completion of the disposals as disclosed in 'Financial statements IFRS - Note 3 - Subsidiaries'.

Aviva pic has established two main programmes for the issuance of external debt by Aviva pic. For short-term senior debt issuance we have a £2 billion commercial paper programme which allows debt to be issued in a range of currencies. At 31 December 2012, the outstanding debt issued under this programme was £603 million (2011: £506 million excludes commercial paper issued by Delta Lloyd). More details of movements in debt can be found on page 86 in the 'Management of debt section'.

*For longer term debt we have established a Euro Medium Term Note (EMTN) programme. This programme has documentation readily available to allow quick issuance of long-term debt with a variety of terms and conditions. Debt issued under this programme may be senior debt or regulatory qualifying debt and may have a fixed or floating interest rate. At 31 December 2012, the outstanding debt issued under this programme was £2,076 million (2011: £1,894 million).*

## Application of funds

We use funds to pay dividends to our shareholders, to service our debt and to pay our central Group cash flows.

In 2012, total cash paid by the Company as ordinary and preference dividends and coupon payments on direct capital instruments and Fixed Rate Tier 1 notes amounted to £720 million, compared with £506 million in 2011.

In 2012, our total interest costs on central borrowings were £317 million. This compared with £324 million of interest paid on central borrowings in 2011. Total corporate centre expenses in 2012 were £136 million compared with £138 million in 2011.

An additional application of our funds is the acquisition of businesses. In 2012, cash paid for the acquisition of subsidiaries, joint ventures and associates from continuing operations net of cash acquired amounted to £129 million, compared with cash paid of £114 million in 2011.

## Capital injections

We make capital injections into our businesses where necessary to ensure that they meet their local solvency requirements and also to support development of their operations. Capital is provided either by equity or, where a local holding company is in place, may be via loans with the holding company subsequently injecting equity capital in the regulated operating company. Each capital injection is subject to central review and approval by the Board of the relevant holding company and needs to meet our required internal rates of return. To the extent that capital injections are provided or funded by regulated entities, then we have to consider the impact on regulatory capital of the capital injection.

Otherwise our ability to make capital injections into our businesses is not materially limited by applicable legal and regulatory restrictions. Total capital injections into the business units were £169 million and £296 million in 2012 and 2011 respectively.

#### Consolidated cash flows

The cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the balance sheet.

#### Year ended 31 December 2012

##### Net cash from operating activities

Total net cash from operating activities increased by £2,636 million to a £2,294 million inflow in 2012 (2011: £342 million outflow) The increase is primarily due to an increase in flows from the net purchase/sale of operating assets.

##### Net cash from investing activities

Net cash from investing activities decreased by £93 million to £15 million outflow (2011: £78 million inflow). The decrease is mainly a result of a decrease in cash inflows from disposal of subsidiaries, joint ventures and associates, partly offset by lower cash used in discontinued operations.

##### Net cash out flow on financing activities

Net cash used in financing activities decreased by £654 million to an outflow of £1,119 million (2011: £1,773 million outflow). The decrease is due to proceeds from the issuance of a Fixed Rate Tier 1 notes, and lower cash used in discontinued operations partly offset by higher dividend payments.

##### Net cash and cash equivalents

At 31 December 2012, total consolidated net cash and cash equivalents, net of bank overdrafts, amounted to £23,248 million, a increase of £847 million over £22,401 million in 2011.

#### Currency

Our exposures to movements in exchange rates and the management of these exposures is detailed in 'Performance review - Financial and operating performance - Exchange rate fluctuations'.

#### Year ended 31 December 2011

##### Net cash from operating activities

Total net cash from operating activities decreased by £2,149 million to £342 million outflow in 2011 (2010: £1,807 million inflow) The decrease is primarily due to higher claims in the long-term business.

##### Net cash used in investing activities

Net cash from investing activities decreased by £271 million to £78 million utilised (2010: £349 million utilised). The decrease is a result of cash used in discontinued operations

##### Net cash out flow on financing activities

Net cash used in financing activities was £420 million higher at £1,773 million (2010: £1,353 million). The increase is due to a higher repayment of borrowings during the year

##### Net cash and cash equivalents

At 31 December 2011, total consolidated net cash and cash equivalents amounted to £22,401 million, an decrease of £2,294 million over £24,695 million in 2010

#### Currency

Our exposures to movements in exchange rates and the management of these exposures is detailed in 'Performance review - Financial and operating performance - Exchange rate fluctuations'.

#### Regulatory capital position

Individual regulated subsidiaries measure and report solvency based on applicable local regulations, including in the UK the regulations established by the FSA. These measures are also consolidated under the European Insurance Groups Directive (IGD) to calculate regulatory capital adequacy at an aggregate group level, where we have a regulatory obligation to have a positive position at all times

This measure represents the excess of the aggregate value of regulatory capital employed in our business over the aggregate minimum solvency requirements imposed by local regulators, excluding the surplus held in the UK and Ireland with-profit life funds. The minimum solvency requirement for our European businesses is based on the Solvency 1 Directive In broad terms, for EU operations, this is set at 4% and 1 % of non-linked and unit-linked life reserves respectively and for our general insurance portfolio of business is the higher of 18% of gross premiums or 26% of gross claims, in both cases adjusted to reflect the level of reinsurance recoveries. For our major non-European businesses (the US and Canada) a risk charge on assets and liabilities approach is used.

#### European Insurance Groups Directive

	UK Life	funds	fbn	business	Other	2012	2011
						fbn	fbn
Insurance Groups Directive (IGD) capital resource 5.2				9.2	14.4	14.1	
Less <sup>1</sup> capital resources requirement (CRR)	(5.2)		(5.4)	(10.6)	(11.9)		
Insurance Groups Directive (IGD) excess solvency	—	3.8		3.8	2.2		
Cover of EU minimum (calculated excluding UK Life funds)			1.7 times		1.3 times		

The EU IGD regulatory capital solvency surplus has increased by £1.6 billion since 31 December 2011 to £3.8 billion. The key movements over the period are set out in the following table:

	fbn
IGD solvency surplus at 31 December 2011	2.2
Adjusted operating profits net of other income and expenses	0.9
Dividend and appropriations, net of shares issued in lieu of dividends	(0.7)
Market movements including foreign exchange <sup>1</sup>	1.3
Pension scheme funding	(0.2)
Movement in hybrid debt	0.2
UK reinsurance transactions	0.1
Increase in Capital Resources Requirement	(0.1)
Other regulatory adjustments	0.1

Estimated IGD solvency surplus at 31 December 2012 3.8

<sup>1</sup> Market movements include the impact of equity, credit spread, interest rate and currency exchange movements net of the effect of hedging instruments

#### Capital commitments

Contractual commitments for acquisitions or capital expenditures of investment property, property and equipment and intangible assets, which have not been recognised in our consolidated financial statements, are as follows

	2012	2011	2010
	f m	f m	f m
Investment property	6	23	63
Property and equipment	36	36	160
Total	42	59	223

Contractual obligations for future repairs and maintenance on investment properties are £nil (2011: £nil, 2010: £1 million). We have capital commitments to our joint ventures of £157 million

## Regulation

### Compliance

In both our insurance and fund management businesses, matters may arise as a result of industry-wide issues, inspection visits or other regulatory activity, requiring discussion and resolution with industry regulators. The Group needs to ensure that procedures are in place to address any regulatory concerns, and that such procedures are properly planned, managed and resourced. Corrective action is undertaken, when necessary, with progress reported to relevant regulatory bodies in a timely manner.

### Overview of regulation as it affects our business

Our principal insurance and fund management operations are in the UK, Europe, North America and the Asia Pacific region. We are therefore subject to financial services regulation and local regulatory supervision in all these areas, as individually covered below.

As the Group's parent company is based in the UK, both EU legislation and the rules of the FSA can impact Aviva's business practices worldwide. Regulators supervising the Group co-ordinate on a cross-border basis through a 'college'.

### The European Union

In addition to its UK businesses, Aviva is active in other EU member states through wholly owned subsidiary and joint venture companies. These companies are subject to the laws and regulations of the EU member state in which they are based, but are also affected by higher level EU legislation, which will continue to have a significant influence on the legislative environment in the UK and other EU markets

The EU operates by promulgating directives that must be implemented into local national legislation within each EU member country. These directives set minimum standards for national legislatures to meet, with each legislature able to decide how they should be implemented. National governments may not pass laws which fail to meet the minimum standards set out in a directive, but are generally free to impose legal requirements which go beyond those required. Directives are written at a fairly high level, with more detail being provided at national level through legislation developed in accordance with the local legal system. Even greater detail may be imposed through the rules and regulations of national regulators and, for financial services businesses these rules can be extensive.

The EU may also impose requirements directly on countries through regulation. EU financial services regulation is based on the principle of 'home country control', which makes the home country regulator responsible for monitoring compliance with all applicable regulation

Key directives of particular relevance to the financial services industry, and so to Aviva's businesses in the EU include:

#### **Third Life and Non-Life Directives**

These directives implemented the home country control principle for life and non-life insurance business in the mid-1990s and placed the responsibility for such issues as solvency, actuarial reserves, investment of assets, and certain governance issues on the home country regulator. Most companies licensed to conduct insurance business in one member state may rely on their home country regulation to 'passport' into all other member states to conduct business without having to be separately licensed in each. The general exception is selling activity which continues to be regulated by the state in which the sale takes place.

#### **Insurance Groups Directive (IGD)**

The IGD requires member states to introduce the following measures to strengthen supervision of insurance companies which are part of a group.

- An adjustment margin to the solvency calculation in relation to participating interests in other insurance undertakings in order to eliminate 'double-gearing' (the use of the same regulatory capital in more than one entity of a group).
- An additional parent undertaking solvency margin calculation analogous to the adjusted margin test referred to above, to be applied at the level of the parent undertaking.
- The introduction of new solo supervision requirements, including rules as to internal control within the insurance undertaking regarding the production of information relevant to supplementary supervision, the exchange of information within the group and the supervision of intra-group transactions.
- Further provisions aimed at ensuring co-operation between competent regulatory authorities of member states

Since 31 December 2006, the group capital resources requirement (the parent undertaking solvency calculation mentioned above) has been a 'hard' test (i.e. it constitutes a requirement to maintain the group capital resources, rather than simply to make the calculation) for UK-based companies operating under FSA rules.

#### **Reinsurance Directive**

Adopted on 16 November 2005, this directive requires that all reinsurance undertakings be authorised in their home member state. To obtain that authorisation, they need to meet strict requirements, but are then free to operate anywhere in the EU through the single market passport process.

#### **Distance Marketing Directive**

Under the Distance Marketing Directive, EU member states are required to implement a framework of rules and guidance in order to protect consumers by:

- setting minimum standards for information that must be provided to consumers before entering into a financial services contract by 'distance means'; and
- for certain products and services, giving a cooling-off period in which a consumer may cancel a contract without penalty.

#### **Insurance Mediation Directive**

This requires EU member states to establish a framework to:

- ensure that insurance and reinsurance intermediaries have been registered on the basis of a minimum set of professional and financial requirements;
- ensure that registered intermediaries will be able to operate in other member states by availing themselves of the freedom to provide services or by establishing a branch; and
- impose requirements on insurance intermediaries to provide specified minimum information to potential customers.

#### **Markets in Financial Instruments Directive (MiFID)**

MiFID, which superseded the earlier Investment Services Directive, builds on the home country control principle, extending the range of 'core' investment services and activities that may be passported from one member state to another, clarifying the allocation of responsibilities between home and host country jurisdictions, and introducing greater harmonisation governing the organisation and conduct of business of investment firms

#### **Solvency II**

The agreed Solvency II Level 1 Directive was published in November 2009. Solvency II represents a fundamental change in European regulation and will result in a more sophisticated economic risk-based capital approach. Its objectives are to establish a solvency system that is better aligned to the true risks of insurers, and aims to enable supervisors to protect policyholder

amendments to the Solvency II Directive (Omnibus II Directive) following the creation of the new European Supervisory Authorities (ESAs) in September 2010. It is still not clear when these developments, including the implementation requirements will become legislation.

The European Insurance and Occupational Pensions Authority (EIOPA), replaced CEIOPS on 1 January 2011. A proposed amending directive was published in January 2011 ('Omnibus II Directive') to update Solvency II. Omnibus II set out powers for EIOPA to issue binding guidance/standards, changes to specific aspects of Solvency II and delays to the implementation of Solvency II. The details of Omnibus II are still being negotiated and it is not clear when Omnibus II will become legislation. Solvency II is currently set to apply to insurers from 1 January 2014. This date is expected to be changed in 2013.

EIOPA proposes to issue guidelines for supervisors in 2013 as interim measures to address the uncertainty caused by the ongoing delays to Solvency II and encourage harmonisation of supervisory approach across jurisdictions while Solvency I remains in force. These guidelines are expected to cover systems of governance, ORSA, internal model application procedures and reporting to supervisors. The FSA has proposed changes to its ICAS regime following the continuing delay. These changes will allow companies to use the work done in preparation for Solvency II for ICA.

This highlights the need for continued and engaged industry participation. Aviva continues to actively participate, through the key European industry working groups, who provide the voice of the industry, in ongoing discussions in Brussels.

#### *Future EU developments*

During 2013 the European Commission will be undertaking a review of the European System of Financial Supervision (ESFS). The ESFS includes the three sector specific European Supervisory Authorities (ESAs) that have powers to make binding rules and drive supervisory consistency and convergence through a single rule book.

There are a number of European dossiers that are expected to progress during 2013, including Packaged Retail Investment Products (PRIIPs) that will introduce common product disclosure standards and sales conduct rules, the review of the Insurance Mediation Directive (IMD) and the MiFID, the European Market Infrastructure Regulation (EMIR) that will introduce central clearing for standard Over the Counter (OTC) derivatives, the Directive for Institutions of Occupational Retirement Provisions (IORP) that sets rules for occupational pension schemes, and the Alternative Investment Fund Managers Directive (AIFMD) that will introduce a regime governing the marketing of alternative investments to EU investors.

## **United Kingdom**

### **The Financial Services Authority**

In the UK, the FSA is currently the single regulator for those individuals and firms conducting defined regulated activities in the financial services sector. The FSA has the authority to make rules and issue guidance, taking into account relevant EU directives, in relation to a wide sphere of activity encompassing the governance of the conduct of business by, and the prudential supervision of, individuals and firms authorised by the FSA to conduct such business ('Authorised Persons' or 'Authorised Firms').

Under the Financial Services and Markets Act 2000 (FSMA) no person may carry on, or purport to carry on, a regulated activity by way of business in the UK unless he is an Authorised Person or an exempt person. A firm granted permission by the FSA to carry on regulated activities becomes an Authorised Person for the

purposes of FSMA. 'Regulated activities' are prescribed in the FSMA (Regulated Activities) Order 2001 and include banking, insurance and investment business, stakeholder pension schemes, insurance mediation and certain mortgage mediation and lending activities.

Authorised Firms must at all times meet specified threshold conditions, including possession of adequate resources for the carrying on of their business, and being fit and proper to conduct that business, having regard to all the circumstances. Authorised Firms must also operate in accordance with the FSA's Principles for Business. These are 11 high level principles for conducting financial services business in the UK, including maintenance of adequate systems and controls, treating customers fairly, and communicating with customers in a manner that is clear, fair and not misleading.

The FSA regime is based on the principle that firms should have effective systems and controls, including robust risk management, which are appropriate to the size, complexity and diversity of their business.

It should be noted that during 2013 the FSA will be replaced by two separate regulatory bodies, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

### ***The FSA's regulation of the Group***

A number of the Group's UK subsidiaries are directly authorised and regulated by the FSA, including our insurance companies (e.g. the UK Life and UK General Insurance companies), asset managers (Aviva Investors) and intermediaries (UK Healthcare). Aviva pic, although not directly authorised by the FSA, does itself come within the scope of some regulation as the ultimate insurance holding company in the Group.

As Aviva is a UK-based group, the FSA has the responsibility of acting as lead regulator (i.e. the cross-sector supervisory co-ordinator) for the Group within the EU.

Approved persons and controllers The FSA places great emphasis on the principle of senior management responsibility. The directors of, and senior managers carrying out FSA defined controlled function roles in, any of the Group's regulated entities are individually registered with the FSA under the 'Approved Person' regime, and can be held directly accountable to the FSA for control failings in those entities. A number of senior managers at Group level have also been registered as Approved Persons for the regulated subsidiaries, even though they are neither directors nor senior managers of these firms. This recognises that these managers exert significant influence over the regulated subsidiaries, because they are responsible for key parts of the Group's control framework on which the regulated subsidiaries place reliance.

The FSA regulates from a legal entity perspective, even though Aviva tends to operate by business unit. However, the FSA also expects that Aviva's regulated subsidiaries operate within an overall framework of Group governance and controls. Its rules expressly provide that any systems and controls which operate on a Group basis will be taken into account in determining the adequacy of a regulated subsidiary's systems and controls. The robustness of these Group controls is therefore subject to scrutiny and challenge by the FSA.

The FSA regulates the acquisition and increase of control over Authorised Firms Under FSMA, any person proposing to acquire control of, or increase control over certain thresholds of, an Authorised Firm must first obtain the consent of the FSA. The Authorised Firm must also inform the FSA of any such proposed acquisition or increase. In considering whether to grant or withhold its approval of the acquisition or increase of control, the FSA must be satisfied both that the acquirer is a fit and proper person and that the interests of consumers would not be threatened by this acquisition or increase of control. Control over a UK Authorised Firm is acquired if the acquirer:

- holds 10% (or 20% if the Authorised Firm is an insurance intermediary) or more of the shares, or voting power, in that firm, or a parent undertaking of the firm; or
- is able to exercise significant influence over the management of the firm by virtue of the acquirer's shares or voting power in that company or a parent undertaking of the firm

Increases in control require the consent of the FSA when they reach thresholds of 20%, 30% and 50% of the shares or voting power of the firm (or its parent)

In order to determine whether a person or a group of persons is a 'controller' for the purposes of FSMA, the holdings (shares or voting rights) of the person and any other person 'acting in concert', if any, are aggregated.

#### **FSA conduct of business rules**

The FSA's Conduct of Business (COB) and Insurance: Conduct of Business (ICOB) Rules apply to every Authorised Firm carrying on relevant regulated activities, and regulate the day-to-day conduct of business standards to be observed by all Authorised Persons in carrying out regulated activities

The COB and ICOB Rules are principle based, and the scope and range of obligations imposed on an Authorised Firm will vary according to the scope of its business and range of the Authorised Firm's clients. Generally speaking, however, the obligations imposed on an Authorised Firm by the COB and ICOB Rules will include the need to classify its clients according to their level of sophistication, provide them with information about the Authorised Firm, meet certain standards of product disclosures (including fee and remuneration arrangements), ensure that promotional material which it produces is clear, fair and not misleading, assess suitability when advising on certain products, control the range and scope of advice given, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets.

#### **Capital and solvency rules for insurers**

The FSA rules require that a UK insurer (including those within the Group) must hold capital resources equal to at least the Minimum Capital Requirement (MCR). Insurers with with-profits liabilities of more than £500 million (which is the case with Aviva's with-profits fund) must hold capital equal to the higher of MCR and the Enhanced Capital Requirement (ECR). The ECR is intended to provide a more risk responsive and 'realistic' measure of a with-profits insurer's capital requirements, whereas the MCR is broadly equivalent to the previous required minimum margin, and satisfies the minimum EU standards.

Determination of the ECR involves the comparison of two separate measurements of the Authorised Firm's financial resources requirements, which the FSA refers to as the 'twin peaks' approach. The two separate peaks are:

- the requirement comprised by the mathematical reserves plus the 'long term insurance capital requirement' (the LTICR), together known as the 'regulatory peak', and
- a calculation of the 'realistic' present value of the insurer's expected future contractual liabilities together with projected 'fair' discretionary bonuses to policyholders, plus a risk capital margin, together known as the 'realistic peak'

All insurers must also carry out an Individual Capital Assessment (ICA) to calculate the amount of capital needed to back their business. If the FSA decides that the final ICA amount is insufficient, it may draw up its own Individual Capital Guidance (ICG) for the firm, which can be imposed as a requirement on the scope of the Authorised Firm's permission

#### **Day-to-day supervision**

The FSA takes a risk-based approach to its regulatory activity, concentrating its resources on those firms and activities which it assesses pose the greatest potential threats to its four statutory objectives of:

- maintaining confidence in the UK financial system;

- contributing to the protection and enhancement of stability of the UK financial system;
- securing the appropriate degree of protection for consumers; and
- reducing the extent to which it is possible for a regulated business to be used for a purpose connected with financial crime.

Given our size and our share of the UK retail market, a major issue within our business which causes concern for the FSA may have a significant impact on these objectives.

The FSA therefore maintains a 'close and continuous' relationship with us, with day-to-day supervision of Aviva conducted by a dedicated team within its Prudential and Conduct Business Units. In practice, this means that a wide range of Group, regional and UK business unit senior managers have regular scheduled meetings with the FSA, and other meetings and discussions on specific issues take place as the need occurs. This adds up to weekly or even daily FSA interaction at UK region, business unit and Group level, and the sharing of detailed information about the Group

The FSA has also, periodically, conducted formal Advanced Risk-Responsive Operating framework (ARROW) reviews of Aviva to assess the level of risk posed by the Group to each of the FSA's objectives. The last full risk assessment was conducted in 2011/2012

Areas of potential risk or weakness where the FSA particularly requires Aviva to focus attention are formally set out in a Risk Mitigation Plan (RMP), with both risk assessment and RMP issues up-dated on an ongoing basis between each ARROW review.

The majority of RMP actions set by the FSA after the 2011/2012 ARROW review have been actioned by Aviva, and the remainder are being progressed in accordance with timescales agreed with the FSA.

The FSA has highlighted in its Business Plan 2012/2013 that its key focus areas for 2012/2013 would be:

- delivering the regulatory reform programme;
- continuing to influence the international and European policy agenda;
- s delivering financial stability by maintaining ongoing supervision of firms in a period of continued fragility in markets including business model analysis, capital/liquidity assessments, recovery and resolution planning and the Significant Influence Function regime;
- B delivering market confidence and credible deterrence; and
- delivering on the principal FSA initiatives to improve consumer protection - early product intervention, the Retail Distribution Review (RDR) and Mortgage Market Review (MMR).

Outside of the UK, each Aviva business is regulated by its own national regulators. However, overseas operations are also within the remit of the FSA to the extent that they have an interest in the systems and controls by which the Group manages its overseas businesses to mitigate the risk of financial shocks arising overseas flowing through to the UK

The FSA monitors the strategy and performance of the Group's international businesses through its programme of regular meetings and thematic reviews.

The FSA aims to play a leading role in the development of both EU and international regulation. It is, in particular, in the vanguard of the movement towards risk-based insurance regulation.

The FSA continues to place weight on the 'Treating Customers Fairly' principle.

#### **Intervention and enforcement**

The FSA has extensive powers to investigate and intervene in the affairs of Authorised Firms and is obliged to monitor compliance with the requirements imposed by, and to enforce

the provisions of, FSMA related to secondary legislation and the rules made thereunder.

The FSA's enforcement powers, which may be exercised against both Authorised Firms and Approved Persons, include

public censure, imposition of unlimited fines and, in serious cases, the variation or revocation of permission to carry on regulated activities or of an Approved Person's status. The FSA may also vary or revoke an Authorised Firm's permissions to protect the interests of consumers or potential consumers if the Authorised Firm has not engaged in regulated activity for 12 months, or if it is failing to meet the threshold conditions for authorisation. The FSA has further powers to obtain injunctions against Authorised Persons and to impose or seek restitution orders where consumers have suffered loss.

In addition to applying sanctions for market abuse, the FSA has the power to prosecute criminal offences arising under FSMA and insider dealing under Part V of the Criminal Justice Act 1993, and breaches of money laundering regulations. The FSA's stated policy is to pursue criminal prosecution in all appropriate cases.

The Financial Services Compensation Scheme (FSCS) The FSCS is intended to compensate individuals and small businesses for claims against an Authorised Firm where the Authorised Firm is unable or unlikely to be able to meet those claims (generally, when it is insolvent or has gone out of business).

The FSCS funding system, for the purposes of meeting FSCS compensation costs, has been reviewed to take into account the replacement of the FSA by the PRA and the FCA in 2013. Following this review the FSCS levy is to split into eight broad classes:

- the deposits class;
- the life and pensions provision class;
- the general insurance provision class;
- the investment provision class;
- the life and pensions intermediation class;
- the home finance intermediation class;
- the investment intermediation class; and
- the general insurance intermediation class.

The permissions held by each firm determine into which class, or classes, it falls.

#### *Restrictions on business*

FSA rules restrict an insurance company from carrying on any commercial business other than insurance business and activities directly arising from that business. Therefore, the FSA authorised insurance companies in the Group are bound by this restriction.

#### *Long-term assets and liabilities*

Where a UK insurer carries on life insurance business, its long-term business assets and liabilities - i.e. those assets and liabilities relating to life and health insurance policies - must be segregated from the assets and liabilities attributable to non-life insurance business or to shareholders. Separate accounting and other records must be maintained and a separate fund established to hold all receipts of long-term business

The extent to which long-term fund assets may be used for purposes other than long-term business is restricted by the FSA rules. Only the 'established surplus', which is the excess of assets over liabilities in the long-term fund as determined by actuarial investigation, may be transferred so as to be available for other purposes. Restrictions also apply to the payment of dividends by the insurance company, as described below FSA rules also require insurers to maintain sufficient assets in the separate long-term insurance fund to cover the actuarially determined value of the insurance liabilities

Distribution of profits and with-profits business For UK authorised life insurers carrying on with-profits business, such as Aviva Life and Pensions UK Ltd ('AVLAP'), the FSA's rules require that where a firm decides to make a distribution of surplus from the with-profits fund it must distribute at least the required percentage (as defined in the FSA Handbook) of the total amount distributed to policyholders, with the balance of the total amount to be distributed being payable to the shareholders.

In addition, at least once a year the AVLAP Board must consider whether a distribution is required to be made from the Old WPSF inherited estate Such a distribution will ordinarily be required if the level of the inherited estate of the OWPSF exceeds the Required Distribution Threshold as described in the Reattribution Scheme of Transfer effective from 1 October 2009 ('The Scheme') on any such annual investigation from the third such investigation after 1 October 2009. Annual investigation may also be carried out to determine if a Release to shareholders can be made from the RIEESA. Releases can only be made.

- if the Reattributed Inherited Estate exceeds the Permitted Release Threshold as defined in the Scheme;
- the AVLAP Board (based on appropriate actuarial advice including that of the With-Profits Actuary) are of the opinion that the Release will not give rise to a significant risk that the New WPSF (including the RIEESA) would be unable to meet its obligations to policyholders and its capital requirements or the Old WPSF would be unable to meet its obligations to policyholders; and
- following the sixth annual investigation after 1 October 2009 or later investigation and provided that investigation and investigations made in the previous 2 years determined that the Reattributed Inherited Estate exceeded the Permitted Release Threshold.

#### *Reporting requirements*

FSA rules require insurance companies to file their audited annual accounts, statements of financial position and life insurers' annual reports from the actuary performing the actuarial function with the regulator. There is also a requirement to report the annual solvency position of the insurance company's ultimate parent.

The FSA uses the annual return to monitor the solvency (i.e. the ability to meet current and future obligations such as claims payments to policyholders) of the insurance company. For general insurance business, the return is also used to assess retrospectively the adequacy of the company's claims provisions The directors of an insurance company are required to sign a certificate, which includes a statement as to whether the company has maintained the required minimum margin of solvency throughout the year The directors must also certify that the company has completed its return to the FSA properly in accordance with the FSA's instructions, and that the directors are satisfied that the company has complied in all material respects with the requirements set out in the FSA rules.

#### *UK winding up rules*

The general insolvency laws and regulations applicable to UK companies are modified in certain respects in relation to UK insurance companies where direct insurance claims will have priority over the claims of other unsecured creditors (with the exception of preferred creditors), including reinsurance creditors, on a winding up by the court or a creditors' voluntary winding up of the insurance company. Furthermore, instead of making a winding-up order when an insurance company has been proved unable to pay its debts, a UK court may reduce the amount of one or more of the insurance company's contracts on terms and subject to conditions (if any) which the court considers fit Where an insurance company is in financial difficulties but not in

liquidation, the FSCS may take measures to secure the transfer of all or part of the business to another insurance company

FSMA provides further protection to policyholders of insurance companies effecting or carrying out contracts of long-term insurance Unless the court orders otherwise, a liquidator and/or administrator must carry on the insurer's business so far as it consists of carrying out the insurer's contracts of long-term insurance with a view to it being transferred as a going concern to a person who may lawfully carry out those contracts. In carrying on the business, the liquidator/administrator may agree to the variation of any contracts of insurance in existence when the winding-up order is made, but must not effect any new contracts of insurance

#### United States

During 2012 we wrote life and annuity business in the United States through Aviva USA Corporation (Aviva USA), a wholly owned subsidiary formed by the merger of Aviva Life Insurance Company of America with AmerUS which it acquired in July 2006 Aviva USA is domiciled in Iowa and is the holding company for Aviva Life and Annuity Company which is licensed to conduct business in all states except New York and Washington D C In New York it operates a wholly owned subsidiary, Aviva Life Insurance Company of New York. Aviva pic reached agreement, in December 2012, to sell Aviva USA and, subject to regulatory approval, the sale is expected to close during 2013

The US insurance industry is regulated primarily on a state-by-state basis. Individual states have authority to pass statutes, adopt regulation or issue directives to regulate insurance activities within their jurisdiction

Consequently, life insurance companies are subject to regulation both in their domicile state as well as in each state in which they operate State regulation can vary from state to state. All have laws and regulations covering the financial aspects of the insurance business, including standards of solvency, reserves, reinsurance and capital adequacy In addition, most states have specific regulation governing licensing and the conduct of selling agents as well as the approval of products and associated product forms and literature.

#### Federal initiatives

While the National Association of Insurance Commissioners ('NAIC') has no statutory powers, its members are the insurance commissioners in each state and it acts as a forum to develop and propose model laws and regulations. Each state then decides whether to adopt the NAIC model laws or regulations and each state may make changes to the model laws during the adoption process However, the models are generally widely adopted; an example being the 'Suitability in Annuity Transactions Model Regulation'.

NAIC has a commitment to modernising the state-based system of insurance regulation and is pushing forward an action plan aimed at achieving consistency of approach between states on a number of issues including risk management and the solvency regulatory framework . The American Council of Life Insurers ('ACLI') has, in the past, proposed an optional federal charter ('OFC') under which life insurers could choose to be federally regulated instead of state regulated. However, the OFC has not been adopted.

In 2010, Congress passed a law adopting significant federal regulatory reforms for the financial services industry in the US. The new law will impose stricter prudential standards on systemically significant financial companies, higher risk financial activities and introduce new mechanisms for resolving failures of significant financial companies. The law requires additional stress testing and reporting on a regular basis. In addition, a Federal Insurance Office ('FIO') has been established within the Treasury Department to monitor the insurance industry, co-ordinate federal policy and, along with the US Trade Representative, enter into international agreements on prudential insurance matters.

While the FIO will have no direct regulatory authority over the business of insurance, such international agreements could preempt inconsistent state insurance laws. The FIO is also required, among other things, to conduct a study of how to improve and modernise insurance regulation and to report to Congress. The new law does not currently have any immediate and significant impact on the Company and the FIO is still in the process of drafting its required report. We will continue to monitor the FIO and its activities.

Additionally, there is active discussion within the NAIC of moving to a principles-based valuation system for the setting of reserves and capital for life insurance companies This could change our statutory reserve and capital requirements significantly and it is not possible to estimate the impact on our financial condition and results of operation at this time.

#### Risk-based capital

The NAIC has developed risk-based capital standards for life insurance companies as well as a model act for state legislatures to enact. The model act requires that life insurance companies report on a formula-based, risk-based capital standard that they calculate by applying factors to various asset, premium and reserve items. The formula takes into account the risk characteristics of a company, including asset risk, insurance risk, interest rate risk and business risk. The NAIC designed the formula as an early-warning tool to identify potentially inadequately capitalised companies for the purposes of initiating regulatory action The model act imposes broad confidentiality requirements on those engaged in the insurance business (including insurers, agents, brokers and others) and on state insurance departments as to the use and publication of risk-based capital data.

Any state adopting the model act gives the state insurance commissioner explicit regulatory authority to require various actions by, or take various actions against, insurance companies whose adjusted capital does not meet minimum risk-based capital standards. The Iowa Insurance Commissioner takes into account the NAIC's risk-based capital standards to determine adequate compliance with Iowa insurance law.

Effective 31 December 2005, the NAIC implemented new requirements, referred to as C-3 Phase II, for calculating risk-based capital in connection with variable annuity products with death and living benefit guarantees. These changes did not have a material effect on our US operations, and at 31 December 2012, the Company's total adjusted capital under the NAIC's definition substantially exceeded Iowa standards.

#### Canada

We write property and casualty business in Canada via a number of wholly owned companies.

Insurance business in Canada is regulated federally by the Office of the Superintendent of Financial Institutions (OSFI) for prudential supervision (i.e. capital adequacy, solvency, etc). OSFI derives its powers from the federal Insurance Companies Act (Canada) which governs the structure and operation of federally incorporated insurance companies.

The capital adequacy of insurance companies is monitored under the Minimum Capital Test ('MCT'), a risk-based framework allowing for capital to be assessed on the basis of an individual company's risk profile taking account of the investments held and insurance business being written. Companies have their own internal MCT target that is communicated to OSFI, which is set to ensure that they maintain capital in excess of 150% of the OSFI minimum requirement

There are also ten individual provincial regulators each regulating predominantly conduct of business issues such as policy terms and conditions, and rates and underwriting of companies they have licensed to write business in the province



## Asia

We operate in Asia through a network of subsidiary companies either wholly owned or established as a joint venture with a local partner. Our business is predominantly long-term and savings business, with small general insurance and health operations.

There are wholly owned businesses in Singapore and Hong Kong. During 2012 Aviva also operated businesses in China, India, Malaysia, Sri Lanka, Taiwan, Korea, Indonesia and Vietnam which, depending on the nature and extent of the control exerted by Aviva, were accounted for as subsidiaries, joint ventures or associates. Aviva reached agreement in 2012 to sell its business in Sri Lanka, and in January 2013 also reached agreement to sell its business in Malaysia, subject to regulatory approval.

The Asia area is made up of a number of widely differing and independent markets. The markets tend to be at different stages in their development but each has its own regulatory structures and Aviva complies with the local regulation in each of the countries in which it operates.

Industry regulation typically focuses on financial stability, i.e. minimum capital and the basis for calculating solvency, reserves and policyholder liability. In many of the markets regulators have the power to revoke operating licences, regulate shareholder structures and the participation in and the payment of dividends. Asia markets are moving quickly to modernise insurance regulation with an increasing focus on governance and conduct of business.

### **Intellectual property**

Our primary brands (the Aviva name and Logo) are registered trademarks in the UK and are registered or pending in all other countries where Aviva has operations.

Aviva has an active programme of review of marks and watching for infringements. There are no material infringements in the UK known to us as at the date of this report, either by the Group or third parties.

### **Code of ethics**

The Company has adopted a code of ethics for its senior management, including the Board, the Group Executive Committee and the group chief accounting officer as required by the provisions of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules issued by the SEC. There have been no amendments to, or waivers from, the code of ethics relating to any of those officers. The code of ethics was filed on 7 October 2009 as an exhibit to our Form 20-F registration document.

## Risks relating to our business

You should carefully review the following risk factors together with other information contained in this Annual Report before making an investment decision relating to our ordinary shares or ADSs. Our business, financial position, results of our operations and cash flow could be materially affected by any of these risks, the trading price of our ordinary shares or ADSs could decline due to any of these risks and investors may lose part or all of their investment.

### **Ongoing difficult conditions in the global financial markets and the economy generally may adversely affect our business and results of operations, and these conditions may continue.**

Our results of operations are materially affected by uncertainty in the worldwide financial markets and macro-economic conditions generally. A wide variety of factors, including concerns over slowing growth, high sovereign debt within, and to a lesser degree outside, the Eurozone, the stability and solvency of financial institutions, longer-term low interest rates in developed markets, inflationary threats as well as geopolitical issues in the Middle East and North Africa, have contributed to increased volatility in the financial markets and diminished expectations for the global economy going forward. Global fixed income markets continue to experience periods of both volatility and limited market liquidity, which have affected a broad range of asset classes and sectors.

Factors relating to general economic conditions, such as consumer spending, business investment, government spending, the volatility and strength of both debt and equity markets, and inflation, all affect the profitability of our business. In a sustained economic phase of low growth and high public debt, characterised by higher unemployment, lower household income, lower corporate earnings, lower business investment and lower consumer spending, the demand for our financial and insurance products could be adversely affected. In addition, we may experience an elevated incidence of claims or surrenders of policies. Any potential material adverse effect will also be dependent upon customer behaviour and confidence.

### **As a global business, we are exposed to various local political, regulatory and economic conditions, business risks and challenges which may affect the demand for our products and services, the value of our investment portfolios and the credit quality of local counterparties.**

We offer our products and services in Europe (including the UK), North America and the Asia Pacific region through wholly owned and majority-owned subsidiaries, joint ventures, companies in which we hold non-controlling equity stakes, agents and independent contractors. Our international operations expose us to different local political, regulatory, business and financial risks and challenges which may affect the demand for our products and services, the value of our investment portfolio, the required levels of capital and surplus, and the credit quality of local counterparties. These risks include, for example, political, social or economic instability in countries in which we operate, discriminatory regulation, credit risks of our counterparties, lack of local business experience in certain markets, risks associated with exposure to insurance industry insolvencies through policyholder guarantee funds or similar mechanisms set up in markets in which we are present and, in certain cases, risks associated with the potential incompatibility with foreign partners, especially in

countries in which we are conducting business through entities we do not control. Some of our international insurance operations are, and are likely to continue to be, in emerging markets where these risks are heightened. Our overall success as a global business depends, in part, upon our ability to succeed in different economic, social, regulatory and political conditions.

### **Credit risks relating to Aviva's business Market developments and government actions regarding the sovereign debt crisis in Europe, particularly in Greece, Ireland, Italy, Portugal and Spain, could have a material adverse effect on our results of operations, financial condition and liquidity.**

The continued uncertainty over the outcome of various EU and international financial support programs and the possibility that other EU member states may experience similar financial pressures could further disrupt global markets. In particular, this crisis has disrupted and could further disrupt equity and fixed income markets and result in volatile bond yields on the sovereign debt of EU members.

The issues arising out of the current sovereign debt crisis may transcend Europe, cause investors to lose confidence in the safety and soundness of European financial institutions and the stability of European member economies, and likewise affect UK and US-based financial institutions, the stability of the global financial markets and any economic recovery. The Group holds investments in UK and non-UK securities. See 'Performance Review - Analysis of Investments' for more information.

If an EU member state were to default on its obligations or seek to leave the Eurozone, or if the Eurozone were broken up entirely, the impact on the financial and currency markets would be significant and could impact materially all financial institutions, including the Group. Such events could adversely affect our business and results of operations, financial condition and liquidity.

### **Credit spread volatility may adversely affect the net unrealised value of the investment portfolio and our results of operations.**

Our exposure to credit spreads primarily relates to market price variability associated with changes in credit spreads in our investment portfolio, which is largely held to maturity. Credit spread moves may be caused by changes in the perception of the credit worthiness of the issuer, or from market factors such as the markets risk appetite and liquidity. A widening of credit spreads will generally reduce the value of fixed income securities we hold. Conversely, credit spread tightening will generally increase the value of fixed income securities we hold. It can be difficult to value certain of our securities if trading becomes less liquid. Accordingly, valuations of investments may include assumptions or estimates that may have significant period to period changes that could have a material adverse effect on our consolidated results of operations or financial condition. Downturns in the net unrealised value of our investment portfolio may also have a material adverse effect on our regulatory capital surplus based on the EU Insurance Groups Directive. Although our financial statements reflect the market value of assets, our priority remains the management of assets and liabilities over the longer term.

### **Losses due to defaults by counterparties, including potential sovereign debt defaults or restructurings, could adversely affect the value of our investments and reduce our profitability and shareholders' equity.**

We choose to take and manage credit risk through our investment assets partly to increase returns to policy holders whose policies the assets back, and partly to optimise the return for shareholders.

We have a significant exposure to third parties that owe us money, securities or other assets who may not perform under their payment obligations. These parties include private sector and government (or government-backed) issuers whose debt securities we hold in our investment portfolios (including mortgage-backed, asset-backed, government bonds and other types of securities), borrowers under residential and commercial mortgages and other loans, re-insurers to which we have ceded insurance risks, customers, trading counterparties, and counterparties under swap and other derivative contracts. We also execute transactions with other counterparties in the financial services industry, including brokers and dealers, commercial and investment banks, hedge funds and other investment funds, insurance groups and institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty.

In addition, with respect to secured transactions, our credit risk may be increased when the collateral held by us cannot be realised or is liquidated at prices insufficient to recover the full amount of the loan or other value due. Losses or impairments to the carrying value of these assets could materially and adversely affect our financial condition and results of operations.

We use reinsurance and hedging programs to hedge various risks, including certain guaranteed minimum benefits contained in many of our long-term insurance and fund management products. These programs cannot eliminate all of the risks and no assurance can be given as to the extent to which such programs will be effective in reducing such risks. Our obligations under our fund management and insurance products are not changed by our hedging activities and we are liable for our obligations even if our derivative counterparties do not pay us. Defaults by such counterparties could have a material adverse effect on our financial condition and results of operations.

We are also susceptible to an adverse financial outcome from a change in third-party credit standing. As well as having a potential impact on spreads, rating movements can trigger solvency and accounting impacts.

For additional information about our investments, see 'Performance review - Analysis of investments'.

Market risks relating to Aviva's business

**Changes in interest rates may cause policyholders to surrender**

**their contracts, reduce the value of our investment portfolio and impact our asset and liability matching, which could adversely affect our results of operation and financial condition.**

Our exposure to interest rate risk relates primarily to the market price and cash flow variability of assets and liabilities associated with changes in interest rates.

Some of our products, principally traditional participating products, universal life insurance and annuities, including fixed and equity indexed annuities, expose us to the risk that changes in interest rates will reduce our 'spread', or the difference between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on investments intended to support obligations under the contracts. Our spread is a key component of our net income.

As interest rates decrease or remain at low levels, we may be forced to reinvest proceeds from investments that have matured or have been prepaid or sold at lower yields, reducing our investment return. Moreover, borrowers may prepay or redeem the fixed-income securities, commercial mortgages and mortgage-backed securities in our investment portfolio with greater frequency in order to borrow at lower market rates, which increases this risk. Lowering interest crediting or policyholder bonus rates can help offset decreases in

investment margins on some products. However, our ability to lower these rates could be limited by competition or contractually guaranteed minimum rates and may not match the timing or magnitude of changes in asset yields. As a result, our spread could decrease or potentially become negative. Our expectation for future spreads is an important component in the amortisation of policy acquisition costs and significantly lower spreads may cause us to accelerate amortisation, thereby reducing net income in the affected reporting period. In addition, during periods of declining interest rates, the guarantees within existing life insurance and annuity products may be more attractive to consumers, resulting in increased premium payments on products with flexible premium features, and a higher percentage of insurance policies remaining in force from year to year, during a period when our new investments carry lower returns. Accordingly, during periods of declining interest rates, our profitability may suffer as the result of a decrease in the spread between interest rates credited to policyholders and returns on our investment portfolio.

Increases in market interest rates could also negatively affect our profitability. Surrenders of life insurance policies and fixed annuity contracts may increase as policyholders seek higher returns and higher guaranteed minimum returns. Obtaining cash to satisfy these surrenders may require us to liquidate fixed maturity investments at a time when market prices for those assets are depressed which may result in realised investment losses. Regardless of whether we realise an investment loss, these cash payments would result in a decrease in total invested assets, and may decrease our net income. Premature withdrawals may also cause us to accelerate amortisation of policy acquisition costs, which would also reduce our net income.

Our mitigation efforts with respect to interest rate risk are primarily focused on maintaining an investment portfolio with diversified maturities that has a weighted average duration approximately equal to the duration of our estimated liability cash flow profile. However, it may not be possible to hold assets that will provide cash flows to exactly match those relating to policyholder liabilities, in particular in jurisdictions with less developed bond markets and in certain markets where regulated surrender value or maturity values are set with reference to the interest rate environment prevailing at the time of policy issue. This is due to the duration and uncertainty of the liability cash flows and the lack of sufficient assets of suitable duration. This results in a residual asset/liability mismatch risk that can be managed but not eliminated. In addition, our estimate of the liability cash flow profile may be inaccurate for other reasons, such as varying mortality or general insurance claims, and we may be forced to liquidate investments prior to maturity at a loss in order to cover the liability. Such a loss could have a material adverse effect on our results of operations and financial condition. See 'Financial statements IFRS - Note 53 - Risk management'.

Changes in short or long term inflation may cause policyholders to surrender their contracts, increase the size of our claims payments and expenses and reduce the value of our investments, which could adversely affect our results of operations and financial condition. We are subject to inflation risk through our holdings of fixed interest and other investments and as a result of the potential for the cost of claims and expenses to rise faster than anticipated in our pricing or reserving. Changes in inflation could also affect the value perceived to be offered by our policies and so adversely affect persistency levels.

**Falls in equity or property prices could have an adverse impact on our investment portfolio and impact our results of operations and shareholders' equity.**

We are subject to equity and property price risk due to holdings of equities and investment properties in a variety of locations worldwide. Downturns in equity markets will depress equity prices and have a negative impact on our capital position in that unrealised losses in our net investment portfolio will increase, and our defined benefit pension scheme surplus/deficit will reduce/increase as the market value of scheme assets invested in equities decreases

Downturns and volatility in equity markets can have a material adverse effect on the revenues and returns from our unit-linked, participating and fund management business. The unit-linked and fund management business depends on fees related primarily to the value of assets under management and would therefore be reduced by declines in equity and property markets. Profits could also be reduced as a result of current investors withdrawing funds or reducing their rates of ongoing investment with our fund management companies, or switching to lower risk funds generating lower income, or as a result of our fund management companies failing to attract funds from new investors. Similarly, bonuses credited to participating policyholders will reduce, following declines in equity and property markets and this will generally also lead to reductions in transfers to shareholders.

Downturns in equity markets may also have a material adverse effect on our regulatory capital surplus as measured under the EU Insurance Groups Directive. We provide certain guarantees within some of our products that protect policyholders against significant downturns in the equity markets. In volatile or declining equity market conditions, we may need to increase liabilities for future policy benefits and policyholder account balances, negatively affecting net income. For a discussion of guarantees we have given for our insurance and investment products, see 'Financial statements IFRS - Note 38 - Financial guarantees and options'.

In our US business in particular, market downturns and volatility may discourage purchases of accumulation products, such as equity-indexed annuities and equity-indexed life insurance, that have returns linked to the performance of the equity markets and may cause some of our existing customers to withdraw cash values or reduce investments in those products. A sustained weakness in the markets will decrease revenues and earnings in these types of products

For property investment, we are subject to counterparty, valuation and liquidity risks. These investments may be adversely affected by weakness in property markets and increased mortgage delinquencies. We are also subject to property risk indirectly in our investments in residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS). There is the risk that the underlying collateral may fall in value causing the investment in securities to fall in value. The markets for these property investments and instruments can become illiquid, and issues relating to counterparty credit ratings and other factors may increase pricing and valuation uncertainties.

**Fluctuations in currency exchange rates may adversely affect our results of operations and financial condition.**

We operate internationally and are exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. For the year ended 31 December 2012, over half of our premium income arises in currencies other than sterling, and our net assets are denominated in a variety of currencies, of which the largest are the euro, sterling and US dollar. In managing our foreign currency exposures, we do not hedge revenues as these are substantially retained locally to support the growth of the business and meet local regulatory and market requirements. Nevertheless, the effect of exchange rate fluctuations on local operating results could lead to

significant fluctuations in our consolidated financial statements upon

translation of the results into sterling. Although we take certain actions to address this risk, foreign currency exchange rate fluctuation could materially adversely affect our reported results due to unhedged positions or the failure of hedges to effectively offset the impact of the foreign currency exchange rate fluctuation. Any adverse foreign currency exchange fluctuation may also have a material adverse effect on our regulatory capital surplus based on the EU Insurance Groups Directive.

For a discussion of the impact of changes in foreign exchange rates on our results of operations, see 'Financial statements IFRS - Note 53 - Risk management'.

**Market fluctuations may cause the value of options and guarantees embedded in some of our life insurance products to exceed the value of the assets backing their reserves, which could adversely affect our results of operations or financial condition.**

As a normal part of their operating activities, various Group companies have given guarantees and options, including interest rate and investment return guarantees, in respect of certain long-term insurance and fund management products. In providing these guarantees and options, our capital position is sensitive to fluctuations in financial variables, including foreign currency exchange rates, interest rates, property values and equity prices.

Interest rate guaranteed returns, such as those available on guaranteed annuity options (GAOs), are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

Periods of significant and sustained downturns in equity markets, increased equity or interest rate volatility or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction to net income. We use reinsurance in combination with derivative instruments to mitigate some of the liability exposure and the volatility of net income associated with these liabilities, and while we believe that these and other actions mitigate the risks related to these benefits, we remain liable for the guaranteed benefits in the event that reinsurers or derivative counterparties are unable or unwilling to pay, although this may be partially mitigated by the posting of collateral by our counterparties.

We are also subject to the risk that the cost of hedging these guaranteed minimum benefits increases, resulting in a reduction to net income. In addition, we are subject to the risk that unanticipated policyholder behaviour or mortality, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed. These, individually or collectively, may have a material adverse effect on our results of operations, financial condition or liquidity.

The determination of the amount of allowances and impairments taken on our investments is highly subjective. If our business does not perform well, we may be required to recognise an impairment of our goodwill or intangibles with indefinite and finite useful lives, which could adversely affect our results of operations or financial condition. The determination of the amount of allowances and impairments vary by investment type and is based upon our periodic evaluation and assessment of known risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available and additional impairments may need to be taken or allowances provided for in the future. If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. There can be no assurance that management has

## Shareholder information continued

accurately assessed the level of impairments taken and allowances reflected in our financial statements.

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill and intangible assets with indefinite useful lives at least annually for impairment or when circumstances or events indicate there may be uncertainty over this value. We test intangibles with finite lives when circumstances or events indicate there may be uncertainty over this value. For impairment testing, goodwill and intangibles have been allocated to cash-generating units by geographical reporting unit and business segment.

The fair value of the reporting unit is impacted by the performance of the business. Goodwill, negative unallocated divisible surplus and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying value. Such write downs could have a material adverse effect on our results of operations or financial condition.

**Liquidity risks relating to Aviva's business  
Adverse capital and credit market conditions may affect our ability to meet liquidity needs and to access capital which could adversely affect our results of operations or financial condition.**

At a Group level, we need our subsidiaries to remit dividends to the Group to meet operating expenses, taxes, interest on our debt, dividends on our capital stock and repay maturing debt. Dividends from subsidiaries can become constrained by adverse business experience, regulatory actions etc which could have a material adverse effect on our business. At an operational level we also need liquidity to meet our liabilities. Without sufficient liquidity, we could be forced to curtail our operations and our business would suffer. The principal sources of our liquidity are insurance premiums, annuity considerations, deposit funds and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets also include a variety of short and long-term instruments, including repurchase agreements, commercial paper, medium and long-term debt, junior subordinated debt, securities, capital securities and stockholders' equity.

We hold certain investments that may lack liquidity such as privately placed fixed-maturity securities, and unlisted equities, and other investments where the inputs used for their valuation are not directly observable in the market. These asset classes represented approximately 5.3% of the total assets held at fair value as of 31 December 2012 (6.3% excluding assets held for sale). As has been the case across the industry, even some of our higher-quality assets have been more illiquid as a result of the recent challenging market conditions.

The reported value of our relatively illiquid types of investments, our investments in the asset classes described in the paragraph above and, at times, our higher-quality, generally liquid asset classes, do not necessarily reflect the lowest current market price for each asset. If we were forced to sell certain of our assets in the current market, there can be no certainty that we would be able to sell them for the prices at which we have recorded them and we may be forced to sell them at significantly lower prices.

We may need to seek additional financing in the event internal resources are not sufficient to meet our needs. The availability of additional financing would depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry and the market's perception of our financial condition. Disruptions and uncertainty or volatility in the capital and credit markets may exert downward pressure on availability of liquidity and credit capacity for certain issuers and may limit our access to capital required to operate and grow our business. Such

market conditions may limit our ability to replace, in a timely manner, maturing debt, satisfy statutory capital requirements and generate fee income and market-related revenue to meet liquidity needs.

As such, we may be forced to delay raising capital, issue shorter-term securities than we prefer, or bear an unattractive cost of capital which could decrease our profitability and reduce our financial flexibility. Our results of operations, financial condition and cash flows could be materially adversely affected.

**As a holding company, we are dependent on our operating subsidiaries to cover operating expenses and dividend payments.**

As a holding company, Aviva pic has no substantial operations of its own. Its principal sources of funding are dividends from subsidiaries, shareholder-backed funds and any amounts that may be raised through the issuance of debt and commercial paper. Our insurance and fund management operations are generally conducted through direct and indirect subsidiaries. Certain subsidiaries have regulatory restrictions that may limit the payment of dividends, which in some circumstances could limit our ability to pay dividends to shareholders. The inability of our subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements at the holding company level could have a material adverse effect on our business.

**Insurance risks relating to Aviva's business  
The cyclical nature of the insurance industry may cause fluctuations in our results.**

Historically, the insurance industry has been cyclical and operating results of insurers have fluctuated because of volatile and sometimes unpredictable developments, many of which are beyond the direct control of any insurer. Although we have a geographically diverse group of businesses providing a wide range of products, we expect to experience the effects of this cyclical nature, including changes in sales and premium levels. The unpredictability and competitive nature of the general insurance business has contributed historically to significant quarter-to-quarter and year-to-year fluctuations in underwriting results and net earnings.

**The use of inaccurate assumptions in pricing and reserving for insurance business may have an adverse effect on our business profitability.**

The Group's life insurance companies are required to make a number of assumptions in relation to the business written, including the mortality and morbidity rates of our customers, the development of interest rates, lapse rates (the rates at which customers terminate existing policies prior to their maturity dates) and future levels of expenses. These assumptions may turn out to be incorrect.

When establishing their liabilities, our life insurance companies allow for changes in the assumptions made, monitor their experience against the actuarial assumptions used and assess the information gathered to refine their long-term assumptions, together with taking actual claims experience into account. However, it is not possible to determine precisely the total amounts that will ultimately be paid under the policies written by the business as amounts may vary from estimates. Changes in assumptions may also lead to changes in the level of capital required to be maintained, meaning that we may need to increase the amount of our reserves. This could have a material adverse impact on the Group's value, the results of our operations and financial condition.

Additionally, our management of the general insurance business requires the general insurance companies to make a number of assumptions in relation to the business written. These assumptions include the costs of writing the business and settling claims, and the frequency and severity of claims. The assumptions may turn out to be incorrect, thereby adversely impacting our profit. Additionally, man-made disasters, including

accidents and intentional events, are particularly difficult to

predict with a high

degree of accuracy. These would also have an adverse impact on our profit due to higher than expected claims. Furthermore, outstanding claims provisions for the general insurance business are based on the best-estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty together with related claims handling costs.

Any provisions for re-opened claims are also included. A range of methods, including stochastic projections, may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement pattern of claims.

If the assumptions underlying the reserving basis were to prove incorrect, we might have to increase the amount of the general insurance provisions, which would adversely impact our financial condition or results of operations.

**We have a significant exposure to annuity business and a significant life insurance risk is associated with longevity.**

Longevity statistics are monitored in detail and compared with emerging industry trends. The results are used to inform both the reserving and pricing of annuities within the Group. It is likely that uncertainty will remain in the development of future longevity that cannot be mitigated.

A strengthening in the longevity assumption, either to reflect changes in the underlying life expectancy of the population or of our particular portfolio used to calculate our long-term business liabilities, would result in an increase in these reserves and reduce our shareholders' equity.

See 'Financial statements IFRS - Note 53 - Risk management'

**If our business does not perform well or if actual experience versus estimates used in valuing and amortising Deferred Acquisition Costs (DAC) and Acquired value of in-force business (AVIF) vary significantly, we may be required to accelerate the amortisation and/or impair the DAC and AVIF which could adversely affect our results of operations or financial condition.**

We incur significant costs in connection with acquiring new and renewal business. Those costs that vary with and are driven by the production of new and renewal business are deferred and referred to as DAC. The recovery of DAC is dependent upon the future profitability of the related business. The amount of future profit or margin is dependent principally on investment returns in excess of the amounts credited to policyholders, mortality, morbidity, persistency and expenses to administer the business. Of these factors, investment margins and general insurance underwriting profit are most likely to impact the rate of amortisation of such costs. The aforementioned factors enter into management's estimates of gross profits or margins, which generally are used to amortise such costs. If the estimates of gross profits or margins were overstated, then the amortisation of such costs would be accelerated in the period the actual amount is known and would result in a charge to income.

Significant or sustained equity market declines could result in an acceleration of amortisation of the DAC related to unit-linked business, resulting in a charge to income. Such adjustments could have a material adverse effect on our results of operations or financial condition.

AVIF reflects the estimated present value of future profits that will emerge over the remaining life of certain in-force contracts in a life insurance company, acquired either directly or through the purchase of a subsidiary, and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the insurance and investment contracts in-force at the acquisition date. AVIF is based on actuarially determined projections. Actual experience may vary from the projections. Revisions to estimates result in changes to the amounts expensed in the reporting period in which the revisions are made and could result in impairment and a charge to income. Where AVIF is amortised, an acceleration of the amortisation of AVIF would occur if the estimates of gross profits or margins were

overstated in the period in which the actual experience is known and would result in a charge to net income. Such adjustments could have an adverse effect on our results of operations or financial condition.

**Catastrophic events, which are often unpredictable by nature, could result in material losses and abruptly and significantly interrupt our business activities.**

Our business is exposed to volatile natural and man-made disasters such as pandemics, hurricanes, windstorms, earthquakes, terrorism, riots, fires and explosions. Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure.

Our life insurance operations are exposed to the risk of catastrophic mortality, such as a pandemic or other event that causes a large number of deaths. The effectiveness of external parties, including governmental and non-governmental organisations, in combating the spread and severity of such a pandemic could have a material impact on the losses experienced by us.

The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, pandemics, hurricanes, earthquakes and man-made catastrophes may produce significant damage in larger areas, especially those that are heavily populated. Catastrophic events could also harm the financial condition of our reinsurers and thereby increase the probability of default on reinsurance recoveries and could also reduce our ability to write new business. Furthermore, pandemics, natural disasters, terrorism and fires could disrupt our operations and result in significant loss of property, key personnel and information about our clients and our business if our business continuity plans fail to cope with the scale or nature of the catastrophe. Such events could adversely affect our business, results or operations, corporate reputation and financial condition for a substantial period of time.

Furthermore, market conditions beyond our control determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect our ability to write future business.

**Operational risks relating to Aviva's business. All of our businesses are subject to operational risks, including the risk of direct or indirect loss resulting from inadequate or failed internal and external processes, systems and human error or from external events.**

Our business is dependent on processing a large number of complex transactions across numerous and diverse products. Furthermore, the long-term nature of the majority of our business means that accurate records have to be maintained for significant periods.

We also outsource several operations, including certain servicing and IT functions and are therefore partially reliant upon the operational processing performance of our outsourcing partners.

Our systems and processes on which we are dependent to serve our customers are designed to appropriately identify and address the operational risks associated with our activities. However, they may nonetheless fail due to IT malfunctions, human error, intentional disruption or hacking of IT systems by third parties, business interruptions, non-performance by third parties or other external events. This could disrupt business operations resulting in material reputational damage and the loss of customers, and have a consequent material adverse effect on our results of operations and financial condition. Although we

## Shareholder information continued

have taken steps to upgrade systems and processes to reduce these operational risks, we cannot anticipate the details or timing of all possible operational and systems failures which may adversely impact our business.

**We operate in several markets through arrangements with third parties. These arrangements involve certain risks that we do not face with our subsidiaries.**

Our ability to exercise management control over our partnership operations, our joint ventures and our investment in them depends on the terms of the legal agreements. In particular, the relationships depend on the allocation of control among, and continued co-operation between, the participants.

We may also face financial or other exposure in the event that any of our partners fail to meet their obligations under the agreement or encounter financial difficulty. For example, a significant proportion of our product distribution, such as bancassurance, is carried out through arrangements with third parties not controlled by us and is dependent upon the continuation of these relationships. A temporary or permanent disruption to these distribution arrangements could affect our financial condition. Some of these arrangements require our third-party partners to participate in and provide capital to our joint venture, associate and subsidiary undertakings. Our partners may change their strategic priorities or encounter financial difficulties preventing them from providing the necessary capital to promote future growth.

In addition, we outsource certain customer service, technology and legacy policy administration functions to third parties and may do so increasingly in the future. If we do not effectively develop and implement our outsourcing strategy, third-party providers do not perform as anticipated or we experience technological or other problems with a transition to or between such providers, we may not realise the full extent of productivity improvements or cost efficiencies and may experience operational difficulties, increased costs and a loss of business.

**The failure to attract or retain the necessary personnel could have a material adverse effect on our results and/or financial condition.**

As a global financial services organisation, we rely to an extent on the quality of local management in the countries in which we operate. The success of our operations is dependent, among other things, on our ability to attract and retain highly qualified professional employees. Competition for such key employees is intense. Our ability to attract and retain key employees is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent.

**There are inherent funding risks associated with our participation in defined benefit staff pension schemes.**

We operate both defined benefit and defined contribution staff pension schemes. The defined benefit section of the UK staff pension scheme was closed to new members from 1 April 2011, with entry into the defined contribution sections being offered to the staff members affected. Closure of the defined benefit scheme has removed the volatility associated with adding future accrual for active members.

There are inherent funding risks associated with the defined benefit schemes. Events could result in a material reduction in the funding position of such schemes and, in some cases, may result in a deficit between the pension scheme's assets and liabilities. The factors that affect the scheme's position include: poor investment performance of pension fund investments, greater life expectancy than assumed; adverse changes in interest rates or inflation, and other events occurring that increase the costs of past service benefits over the amounts predicted in the actuarial assumptions. In the short term, the

funding position is inherently volatile due to movements in the market value of assets. Where a funding deficit or surplus arises, the position will be discussed with the scheme trustees to agree appropriate actions. This may include a plan to fund the deficit over a period of years. Any surplus or deficit in the defined benefit pension scheme will affect our shareholders' equity, although the IFRS position may diverge from the scheme funding position.

The UK pension schemes are subject to statutory requirements with regards to funding and other matters relating to the administration of the schemes. Compliance with these requirements is subject to regular review. A determination that we have failed to comply with applicable regulations could have a negative impact on our results of operations or our relationship with current and potential contributors and employees and adverse publicity.

**Our process for valuing investments may include methodologies, estimations and assumptions which require judgement and could result in changes to investment valuations.**

We value our available for sale (AFS) and fair value (FV) securities using designated methodologies, estimation and assumptions. These securities, which are reported at fair value on the consolidated statement of financial position, represent the majority of invested assets. We have categorised the measurement basis for assets carried at fair value into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with IFRS 7 Financial Instruments: Disclosures. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1); the middle priority to fair values other than quoted prices based on observable market information (Level 2); and the lowest priority to unobservable inputs that reflect the assumptions that we consider market participants would normally use (Level 3). The majority of our financial assets are valued based on quoted market information (Level 1) or observable market data (Level 2). The majority of investment property and commercial mortgages are classified as Level 2. At 31 December 2012, 5.1% of total financial investments, loans and investment properties at fair value were classified as Level 3, amounting to £13,434 million (5.8% and £12,918 million excluding assets held for sale). Where estimates were used for inputs to Level 3 fair values, these were based on a combination of independent third-party evidence and internally developed models, intended to be calibrated to market observable data where possible.

An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation.

See 'IFRS critical accounting policies - Investments'. Any change to investment valuations may affect our results of operations and reported financial condition.

**Systems errors or regulatory changes may affect the calculation of unit prices or deduction of charges for our unit-linked products which may require us to compensate customers retrospectively.**

A significant proportion of our product sales are unit-linked contracts, where product benefits are linked to the prices of underlying unit funds. While comprehensive controls are in place, there is a risk of error in the calculation of the prices of these funds due to human error in data entry, IT-related issues or other causes. Additionally, it is possible that policy charges which are deducted from these contracts are taken incorrectly, or the methodology is subsequently challenged by policyholders or regulators and changed retrospectively. Any of these can give rise to compensation payments to customers. Controls are in place to mitigate these risks, but errors could give rise to future liabilities. Payments due to errors or compensation may negatively impact our profits.

**Moves to simplify the operating structure and activities of the Group increases the reliance placed on core businesses and is subject to execution risk.**

As part of the Group's move to a more simplified structure, a number of business disposals and operational restructures have taken place and may continue to occur in the future. This includes the removal of the regional organisational structure and the potential sale of a number of non-core businesses. These changes are expected to reduce the operational costs of the Group and allow resources to be re-deployed in more capital efficient businesses. There is no assurance that these expected benefits will be realised. These changes may reduce adjusted operating profits in the short-term and will lead to changes in the geographical and product risk profile of the Group. The execution risk including the risks relating to securing the regulatory approvals necessary to complete our planned business disposals, could result in the failure to achieve cost savings, the loss of key staff, and disruption to core business activities and governance structures which could have a material adverse effect on our business, results of operations and financial condition.

**Brand and reputation risks relating to Aviva's business. We are rated by several rating agencies, and a decline in any of these ratings could affect our standing among customers, broker-dealers, agents, wholesalers and other distributors of our products and services and cause our sales and earnings to decrease.**

A rating downgrade, or the perceived potential for such a downgrade, of Aviva pic or any of our rated insurance subsidiaries may, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies. The outcome of such activities may be cash payments requiring the sale of invested assets, including illiquid assets, at a price that may result in realised investment losses. These cash payments to policyholders would result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause us to accelerate amortisation of policy acquisition costs, which would reduce net income. A rating downgrade may also impact sales volumes, particularly in the US where there is more focus on ratings when evaluating similar products. The ratings provided by A.M. Best are widely considered to be the most important for distribution in the US, and although we have agreed to sell such operations, a downgrade could lead to a significant loss of sales. Similarly, a rating downgrade may increase our cost of borrowing or limit our access to some forms of financing.

**We are dependent on the strength of our brand, the brands of our partners and our reputation with customers and agents in the sale of our products and services.**

Our results are, to a certain extent, dependent on the strength of our brand and reputation. While we as a Group are well recognised, we are vulnerable to adverse market and customer perception. We operate in an industry where integrity, customer trust and confidence are paramount. We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information, inadequate services, amongst others, whether true or not, could impact our brand or reputation. Our brand and reputation could also be affected if products or services recommended by us (or any of our intermediaries) do not perform as expected (whether or not the expectations are founded) or in line with the customers' expectations for the product range. Such a change to our brand strength could adversely affect our results of operations and financial condition.

**We may not be able to protect our intellectual property and may be subject to infringement claims by a third party.**

Our primary brand (Aviva) is a registered trade mark in the UK and elsewhere. We own other registered or pending trade marks in the UK, including Community trade marks having effect in the entire EU. We rely on a combination of contractual rights, copyright and trademark laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

Third parties may have, or may eventually be issued, patents or other protections that could be infringed by our products, methods, processes or services or could limit our ability to offer certain product features. In recent years, there has been increasing intellectual property litigation in the financial services industry challenging, among other things, product designs and business processes. If a third party were to successfully assert an intellectual property infringement claim against us, or if we were otherwise precluded from offering certain features or designs, or utilising certain processes, it could have a material effect on our business, results of operation and financial condition.

**Our businesses are conducted in highly competitive environments.**

There are many factors which affect our ability to sell our products, including fiscal incentives, price and yields offered, financial strength and ratings, range of product lines and product quality, brand strength and name recognition, investment management performance and historical bonus levels. In some of our markets, the Group faces competitors that are larger, have greater financial resources or greater market share, offer a broader range of products, benefit from more advantageous tax treatments, or have higher bonus rates or claims-paying ratios. Further, heightened competition for talented and skilled employees with local experience, particularly in the emerging, high-growth markets, may limit our potential to grow our business as quickly as planned.

Our principal competitors in the life market include many of the major financial services businesses including, in particular, Axa, Allianz, Generali, Prudential and Standard Life. Our principal competitors in the general insurance market include Royal Bank of Scotland Insurance, RSA, Zurich, Axa and Allianz.

We also face competitors who specialise in many of the niche markets in which we operate. We believe that competition will intensify across all businesses in response to consumer demand, technological advances, the impact of consolidation, regulatory actions and other factors.

Our ability to generate an appropriate return depends significantly upon our capacity to anticipate and respond appropriately to these competitive pressures.

**Our regulated business is subject to extensive regulatory supervision both in the UK and internationally.**

We are subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies, including the FSA and other regulators. In light of wider financial and economic conditions, some of these authorities are considering, or may in the future consider, enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory or enforcement authority in new or more robust ways. All of these possibilities, if they occurred,



could affect the way we conduct our business and manage our requirements. capital, and may require us to satisfy increased capital

102

A.i.a p.l.c

## Shareholder information continued

Annual report on Form 20-F 2012

Insurance regulation in the UK is largely based on the requirements of EU directives. Inconsistent application of directives by regulators in different EU member states may place our business at a competitive disadvantage to other European financial services groups. In addition, changes in the local regulatory regimes of designated territories could affect the calculation of our solvency position.

Our insurance subsidiaries worldwide are subject to detailed and comprehensive government regulation in each of the jurisdictions in which they conduct business. Regulatory agencies have broad administrative power over many aspects of the insurance business, which may include premium rates, marketing and selling practices, advertising, licensing agents, policy forms, capital adequacy and permitted investments. Government regulators are concerned primarily with the protection of policyholders rather than our shareholders or creditors. In the UK, our business is subject to regulation by the FSA, which has broad powers under the FSIV1A, 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 FSA has the power to take a range of investigative, disciplinary or enforcement actions, including public censure, restitution, fines or sanctions and to award compensation. The FSA is being replaced by twin regulators, the Prudential Regulation Authority and the Financial Conduct Authority. This change will take effect on 1 April 2013.

The FSA may make enquiries of the companies which it regulates regarding compliance with regulations governing the operation of business and, similar to the other UK regulated financial services companies, we face the risk that the FSA could find that we have failed to comply with applicable regulations or have not undertaken corrective action as required.

Issues and disputes may arise from time to time from the way in which the insurance industry or fund management industry has sold or administered an insurance policy or other product or in the way in which they have treated policyholders or customers, either individually or collectively.

Where larger groups or matters of public policy are concerned, the FSA may intervene directly. There have been several industry-wide issues in recent years in which the FSA has intervened directly, including the sale of personal pensions, the sale of mortgage-related endowments and investments in split capital investment trusts and payment protection insurance.

Outside of the UK, our business is regulated by local regulators that often have similar powers to the FSA and could therefore have a similar negative impact on perceptions of our business or have a material adverse effect on our business.

Furthermore, various jurisdictions in which we operate, including the UK, have created investor compensation schemes that require mandatory contributions from market participants in some instances in the event of a failure of another market participant. As a major participant in the majority of our chosen markets, circumstances could arise where we, along with other companies, may be required to make such contributions.

A determination that we have failed to comply with applicable regulation could have a negative impact on our results of operations or on our relations with current and potential customers. Regulatory action against a member of the Group could result in adverse publicity for, or negative perceptions regarding, the Group, or could have a material adverse effect on our business, our results of operations and financial condition and divert management's attention from the day-to-day management of the business.

We will not always be able to predict the impact of future legislation or regulation or changes in the interpretation or operation of existing legislation or regulation on our business, results of operations and financial condition. Changes in

government policy, legislation or regulatory interpretation applying to companies in the financial services and insurance industries in any of the markets in which we operate, which may be applied retrospectively, may adversely affect our product range, distribution channels, capital requirements, dividends payable by subsidiaries and, consequently, results and financing requirements.

We may face increased compliance costs due to the need to set up additional compliance controls or the direct cost of such compliance because of changes to financial services legislation or regulation.

The Solvency II Directive ('Solvency II'), an insurance industry regulation agreed by the European Parliament in 2009, will require European domiciled insurers to move to more risk-based capital requirements. The implementation date for Solvency II has been extended to January 2014 and may be extended further. There continue to be material uncertainties around the impact of the more detailed technical requirements of Solvency II and there is a risk that this could lead to a significant increase in the capital required to support our business.

### **We are involved in various legal proceedings, regulatory investigations and examinations and may be involved in more in the future.**

We have been named as defendants in lawsuits, including class actions and individual lawsuits. We have been subject to regulatory investigations or examinations in the various jurisdictions where we operate. These actions arise in various contexts, including in connection with our activities as an insurer, securities issuer, employer, investment adviser, investor and taxpayer. Certain of these lawsuits and investigations seek significant or unspecified amounts of damages, including punitive damages, and certain of the regulatory authorities involved in these proceedings have substantial powers over the conduct and operations of our business.

Due to the nature of certain of these lawsuits and investigations, we cannot make an estimate of loss or predict with any certainty the potential impact of these lawsuits or investigations.

In the course of conducting insurance business, we receive general insurance liability claims, and become involved in actual or threatened related litigation arising therefrom, including claims in respect of pollution and other environmental hazards. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents that they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty.

Additionally, it is possible that a regulator in one of our major markets may conduct a review of products previously sold, either as part of an industry-wide review or specific to us. The result of this review may be to compensate customers for losses they have incurred as a result of the products they were sold.

All of the above could adversely impact our results of operations or financial condition.

### **From time to time, changes in the interpretation of existing tax laws, amendments to existing tax rates or the introduction of new tax legislation may adversely impact our business.**

We operate in numerous tax jurisdictions around the world and face risks associated with changes in tax law, interpretation of tax law, changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to an additional tax charge or a financial penalty.

If, as a result of a particular tax risk materialising, the tax costs associated with certain transactions are greater than anticipated, it could affect the profitability of those transactions. There are also specific rules governing the taxation of policyholders. We are unable to predict accurately the impact of

future changes in tax law on the taxation of life insurance and pension policies in the hands of policyholders. Amendments to

existing legislation, particularly if there is the withdrawal of any

10  
3

Aviva 

Annual report on Form 20-F 2012

## Shareholder information continued

tax relief, or an increase in tax rates, or the introduction of new rules, may affect the future long-term business and the decisions of policyholders. The impact of such changes upon us might depend on the mix of business in-force at the time of such change.

The design of life insurance products by our life insurance companies takes into account a number of factors, including risks and taxation. The design of long-term insurance products is based on the tax legislation in force at that time. Changes in tax legislation or in the interpretation of tax legislation may therefore, when applied to such products, have a material adverse effect on the financial condition of the relevant long-term business fund of the company in which the business was written.

### **Risks related to ownership of the ADSs and ordinary shares**

#### **The trading price of our AORs and dividends paid on our ADSs may be materially adversely affected by fluctuations in the exchange rate for converting sterling into US dollars.**

An ADS is a negotiable US security representing ownership in one share. An ADR is denominated in US dollars and represents ownership of any number of ADSs. ADRs are publicly traded shares in a non-US corporation, quoted and traded in US dollars in the US securities market. Any dividends are paid to investors in US dollars. ADRs are specifically designed to facilitate the purchase, holding and sale of non-US securities by US investors. The term ADR is often used to mean both the certificates and the securities themselves.

Fluctuations in the exchange rate for converting pound sterling into US dollars may affect the value of our ADRs. Specifically, as the relative value of the pound sterling against the US dollar declines, each of the following values will also decline.

- the US dollar equivalent of the pound sterling trading price of our ordinary shares on the London Stock Exchange which may consequently cause the trading price of our ADRs in the US to also decline;
- the US dollar equivalent of the proceeds that a holder of our ADSs would receive upon the sale in the UK of any our ordinary shares withdrawn from the depository; and
- the US dollar equivalent of cash dividends paid in pound sterling on our ordinary shares represented by our ADSs

#### **The holders of our ADSs may not be able to exercise their voting rights due to delays in notification to, and by, the depository.**

The depository for our ADSs may not receive voting materials for our ordinary shares represented by our ADSs in time to ensure that holders of our ADSs can instruct the depository to vote their shares. In addition, the depository's liability to holders of our ADSs for failing to carry out voting instructions or for the manner of carrying out voting instructions is limited by the Deposit Agreement governing our ADR facility. As a result, holders of our ADSs may not be able to exercise their right to vote and may have limited or no recourse against the depository or us, if their shares are not voted according to their request.

#### **Holders of our ADSs will have limited recourse if we or the depository fail to meet our respective obligations under the Deposit Agreement.**

The Deposit Agreement expressly limits our obligations and liability and those of the depository. Neither we nor the depository will be liable if either of us:

- are prevented from or delayed in performing any obligation by circumstances beyond our/their control;
- exercise or fail to exercise discretion under the Deposit Agreement; or
- take any action based upon the advice of, or information from, legal counsel, accountants, any person presenting ordinary shares for deposit, any person in whose name the

ADSs are registered on the books of the depository, any person or entity having a beneficial interest deriving from the ownership of ADRs, or any other person believed by us or the depository in good faith to be competent to give such advice or information.

In addition, the depository has the obligation to participate in any action, suit or other proceeding with respect to our ADSs which may involve it in expense or liability only if it is indemnified. These provisions of the Deposit Agreement will limit the ability of holders of our ADSs to obtain recourse if we or the depository fail to meet our obligations under the Deposit Agreement or if they wish to involve us or the depository in a legal proceeding.

#### **The holders of our ADRs in the US may not be able to participate in offerings of rights, warrants or similar securities to holders of our ordinary shares on the same terms and conditions as holders of our ordinary shares.**

In the event that we offer rights, warrants or similar securities to the holders of our ordinary shares or distribute dividends payable, in whole or in part, in securities, the Deposit Agreement provides that the depository (after consultation with us) shall have discretion as to the procedure to be followed in making such rights or other securities available to ADR holders, including disposing of such rights or other securities and distributing the net proceeds in US dollars to ADR holders. Given the significant number of our ADR holders in the US, we generally would be required to register with the SEC any public offering of rights, warrants or other securities made to our ADR holders unless an exemption from the registration requirements of the US securities laws is available. Registering such an offering with the SEC can be a lengthy process which may be inconsistent with the timetable for a global capital raising operation. Consequently, we have in the past elected and may in the future elect not to make such an offer in the US, including to our ADR holders in the US, and rather only conduct such an offering in an 'offshore' transaction in accordance with 'Regulation S' under the US Securities Act of 1933, as amended (the 'Securities Act'). Therefore, there can be no assurance that our ADR holders will be able to participate in such an offering in the same manner as our ordinary shareholders.

**The ADR and ordinary share price of Aviva has been, and may continue to be volatile. >**

The share price of our ADRs and ordinary shares has been volatile in the past and the share price and trading volume of our ADRs may continue to be subject to significant fluctuations due, in part, to changes in our actual or forecast operating results and the inability to fulfil the profit expectations of securities analysts, as well as to the high volatility in the securities markets generally and more particularly in shares of financial institutions. Other factors, besides our financial results, that may impact our share price include, but are not limited to:

- market expectations of the performance and capital adequacy of financial institutions in general;
- investor perceptions of the success and impact of our strategies;
- a downgrade or review of our credit ratings;
- potential litigation or regulatory action involving Aviva or sectors we have exposure to through our insurance and fund management activities;
- the operations, accounting practices or regulatory investigations, and share price performance of other companies in the insurance and fund management markets in which the Group operates, and
- conjecture about the Group's business in the press, media or investment communities.

**As a 'foreign private issuer' in the US we are exempt from certain rules under the US securities laws and are permitted to file less information with the SEC than US companies.**

As a 'foreign private issuer' we are exempt from certain rules under the US Securities Exchange Act of 1934, as amended (the 'Exchange Act'), that impose certain disclosure obligations and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. In addition, our officers, directors and principal shareholders are exempt from the reporting and 'short-swing' profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our ordinary shares and ADRs. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as US companies whose securities are registered under the Exchange Act. In addition, we are not required to comply with Regulation FD, which restricts the selective disclosure of material information. Although we must comply with UK Listing Rules on insider reporting of share ownership and on protection of inside information, there may be less publicly available information concerning us than there is for US public companies.

**Aviva pic is an English company and it may be difficult to enforce judgments against us or our directors and executive officers.**

Aviva pic is incorporated under the laws of England and Wales and our business is based in the UK. In addition, certain of our directors and officers reside outside the US, and a substantial portion of our assets and the assets of such persons are located in jurisdictions outside the US. As such, it may be difficult or impossible to effect service of process within the US upon us or those persons or to recover against us or them on judgments of US courts, including judgments predicated upon civil liability provisions of the US federal securities laws.

**Shareholder rights under English law differ from the US.**

Individual shareholders of an English company (including US persons) have the right under English law to bring lawsuits on behalf of the company in which they are a shareholder, and on their own behalf against the company, in certain limited circumstances. English law does not permit class action lawsuits by shareholders, except in limited circumstances.

## Financial statements IFRS

In this section			
Report of Independent Registered Public Accounting Firm	106	24 Deferred acquisition costs, other assets, prepayments and accrued income	169
Report of Independent Registered Public Accounting Firm	107	25 Assets held to cover linked liabilities	170
Accounting policies	108	26 Ordinary share capital	171
Consolidated financial statements	120	27 Group's share plans	171
Consolidated income statement	120	28 Shares held by employee trusts	174
Consolidated statement of comprehensive income	121	29 Preference share capital	175
Consolidated statement of changes in equity	122	30 Direct capital instruments and fixed rate tier 1 notes	175
Consolidated statement of financial position	125	31 Merger reserve	176
Consolidated statement of cash flows	126	32 Other reserves	176
		33 Retained earnings	177
Notes to the consolidated financial statements		34 Non-controlling interests	177
1 Exchange rates	127	35 Contract liabilities and associated reinsurance	178
2 Presentation changes	128	36 Insurance liabilities	178
3 Subsidiaries	129	37 Liability for investment contracts	188
4 Segmental information	132	38 Financial guarantees and options	189
5 Details of income	142	39 Reinsurance assets	192
6 Details of expenses	143	40 Effect of changes in assumptions and estimates during the year	193
7 Finance costs	144	41 Unallocated divisible surplus	194
8 Employee information	145	42 Tax assets and liabilities	195
9 Auditors' remuneration	146	43 Provisions	196
10 Tax	148	44 Pension obligations	197
11 (Loss)/earnings per share	150	45 Borrowings	203
12 Dividends and appropriations	151	46 Payables and other financial liabilities	206
13 Goodwill	152	47 Other liabilities	206
14 Acquired value of in-force business (AVIF) and intangible assets	154	48 Contingent liabilities and other risk factors	206
15 Interests in, and loans to, joint ventures	155	49 Commitments	208
16 Interests in, and loans to, associates	157	50 Group capital structure	209
17 Property and equipment	158	51 Statement of cash flows	210
18 Investment property	159	52 Capital statement	212
19 Fair value methodology	159	53 Risk management	214
20 Loans	162	54 Derivative financial instruments and hedging	226
21 Securitised mortgages and related assets	164	55 Assets under management	228
22 Financial investments	165	<b>56 Related party transactions</b>	<b>229</b>
23 Receivables	169	<b>Financial Statement Schedule - Financial Statements of the Company</b>	<b>230</b>

## To the Board of Directors and the Shareholders

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of income and comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Aviva pic and its subsidiaries at December 31, 2012, and the results of their operations and their cash flows for the year ended December 31, 2012 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. In addition, in our opinion, the Financial Statement Schedule - Financial Statements of the Company presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in 'Management's annual report on internal control over financial reporting', appearing on page 257 of the Annual report on Form 20-F 2012. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

We also have audited the adjustments to the 2011 and 2010 financial statements to retrospectively apply the changes in presentation with regard to the 2012 discontinued operations, changes to operating segments, the restatement of prior period figures and the additional information as described in Note 2- Presentation changes to the consolidated financial statements. In addition, we also have audited the adjustments to the 2011 and 2010 financial information described in Note A - Presentation changes included within the Financial Statement Schedule - Financial Statements of the Company. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2011 and 2010 consolidated financial statements and the 2011 and 2010 Financial Statement Schedule - Financial Statements of the Company other than with respect to how the adjustments have been applied and, accordingly, we do not express an opinion or any other form of assurance on the 2011 and 2010 consolidated financial statements or the 2011 and 2010 Financial Statement Schedule - Financial Statements of the Company taken as a whole.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers  
LLP London, United  
Kingdom

22 March 2013

# Accounting Firm

The Board of Directors and Shareholders of Aviva pic

We have audited, before the effects of adjustments to retrospectively reflect the discontinued operations, the change in the composition of reportable segments, the restatement of prior period figures and the additional information, discussed in Note 2 of the consolidated financial statements, the accompanying consolidated statement of financial position of Aviva pic and subsidiaries as of December 31, 2011, and the related consolidated income statements, statements of comprehensive income, changes in equity, and cash flows for each of the two years in the period ended December 31, 2011 (the 2011 and 2010 consolidated financial statements before the effects of the retrospective adjustments described above are not presented herein). Our audits also included the financial statement schedule listed in the Index at Item 18, before the effects of adjustments to retrospectively reflect the presentation changes discussed in Note A to the Financial Statement Schedule - Financial Statements of the Company, for the same period as noted above (not presented separately herein). These financial statements and schedule are the responsibility of Aviva pic's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits, before the effects of the adjustments described above, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America) Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, before the effects of the adjustments described above, present fairly, in all material respects, the consolidated financial position of Aviva pic and subsidiaries at December 31, 2011, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2011, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the related financial statement schedule, before the effects of the adjustments described above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively reflect the discontinued operations, the change in the composition of reportable segments, the restatement of prior period figures and the additional information, described in Note 2 to the consolidated financial statements or the adjustments to retrospectively reflect the presentation changes discussed in Note A to the financial statement schedule. Accordingly, we do not express an opinion nor any other form of assurance about whether such adjustments are appropriate and have been properly applied Those retrospective adjustments were audited by PricewaterhouseCoopers LLP.

Ernst & Young LLP  
London, United Kingdom

20 March 2012

## Accounting policies

Aviva pic (the 'Company'), a public limited company incorporated and domiciled in the United Kingdom (UK), together with its subsidiaries (collectively, the 'Group' or 'Aviva') transacts life assurance and long-term savings business, fund management and most classes of general insurance and health business through its subsidiaries, associates and branches in the UK, Ireland, continental Europe, United States (US), Canada, Asia and other countries throughout the world.

Following the announcement in April 2012 relating to the restructuring of the Group, the Group's operating segments were changed to align them with the new organisational reporting structure. The Group has determined its operating segments along market reporting lines, reflecting the management structure whereby a member of the Executive Management team is accountable to the group chief executive for the operating segment for which he is responsible. Further details of the reportable segments are given in note 4.

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

### (A) Basis of presentation

The consolidated financial statements and those of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Group and Company have also complied with IFRS as issued by the IASB and applicable at 31 December 2012. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

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

Items included in the financial statements of each of the Group's entities are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are stated in sterling, which is the Company's functional and presentation currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of pounds sterling (£m). The separate financial statements of the Company are on pages 230 to 237.

See note 2 for presentation changes to the consolidated financial statements.

New standards, interpretations and amendments to published standards that have been adopted by the Group

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

- (i) Amendment to IFRS 7, Financial Instruments - Disclosures, relating to the transfer of financial assets
- (ii) Amendment to IAS 12, Income Taxes, relating to deferred tax

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Group

The following new standards, amendments to existing standards and interpretations have been issued, are effective for accounting

periods beginning on or after the following dates and have not been adopted by the Group:

#### **Effective for annual periods beginning on or after 1 July 2012 Amendment to IAS 1. Financial Statement Presentation**

The amendment requires entities to group items presented in other comprehensive income according to whether they will subsequently be reclassified to profit and loss. The adoption of the amendment will change the presentation of the consolidated statement of comprehensive income in the financial statements. The amendment has been endorsed by the EU.

#### **Effective for annual periods beginning on or after 1 January 2013**

##### **(i) Amendment to IAS 19, Employee Benefits**

The amendment revises requirements for pensions and other post-retirement benefits, termination benefits and other employee benefits. The key changes include the revision of the calculation of the finance cost, enhanced disclosures surrounding the characteristics and risk profile of defined benefit plans, and a requirement to include all actuarial gains and losses immediately in other comprehensive income which is already in line with the Group's current policy. The amended standard will impact finance costs as the concept of expected return is removed and replaced with interest on scheme assets, which is calculated using the same interest rate that is applied for the purposes of discounting the defined benefit obligation. The difference between interest income on scheme assets and the actual return is included in other comprehensive income. If this amendment had been adopted for the year ended 31 December 2012, the net impact would have been an increase in profit before tax and a corresponding decrease in other comprehensive income of £145 million. This is the difference between the current expected return on scheme assets and the interest income on scheme assets calculated using the discount rate. The amendment has been endorsed by the EU.

##### **(ii) Amendment to IFRS 7, Financial Instruments - Disclosures**

The amendment includes enhanced disclosures to enable users of the financial statements to evaluate the effect or potential effect of netting arrangements in the statement of financial position. The amendments will not have a significant impact for the Group. The amendment has been endorsed by the EU.

##### **(iii) IFRS 10, Consolidated Financial Statements**

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities, based on the concept of power, exposure or rights to variable returns and their linkage. This will replace the current approach which emphasises the power to govern the financial and operating policies, and exposure to risks and rewards, depending on the nature of the entity. IFRS 10 defines and prescribes how to apply the principle of control in determining which entities are required to be consolidated in the consolidated financial statements. The standard has been endorsed by the EU.

Based on our assessment to date, the Group does not expect the overall impact of the adoption of IFRS 10 on the Group's equity and profit before tax for the year to be material. The implementation of IFRS 10 is expected to mainly result in the Group consolidating some investment vehicles that were previously not consolidated.

## Accounting policies continued

- (iv) *IFRS 11, Joint Arrangements*  
IFRS 11 defines and establishes accounting principles for joint arrangements. It distinguishes between two types of joint arrangements - joint ventures and joint operations - based on how rights and obligations are shared by parties to the arrangements. The full impact of the changes has yet to be fully assessed but is not expected to have a significant impact on the Group's equity and profit before tax for the year. The standard has been endorsed by the EU.
- (v) *IFRS 12, Disclosure of Interests in Other Entities*  
IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is expected to have a significant impact on the level of disclosure in respect of these interests. The standard has been endorsed by the EU.
- (vi) *IAS 27, Separate Financial Statements (2011)*  
IAS 27 has been revised to remove the requirements for consolidated financial statements which are superseded by the issue of IFRS 10. The standard has been endorsed by the EU.
- (vii) *IAS 28, Investment in Associates and Joint Ventures (2011)*  
IAS 28 has been revised to include joint ventures as well as associates. Joint ventures are required to be equity accounted following the issue of IFRS 11. There are no implications for the Group financial statements. The standard has been endorsed by the EU.
- (viii) *IFRS 13, Fair Value Measurement*  
IFRS 13 replaces the guidance on fair value measurement in existing IFRSs with a single standard. The standard does not include requirements regarding which items should be measured at fair value but provides guidance on how to determine fair value. The standard also includes enhanced disclosures about fair value measurement. The adoption of IFRS 13 is not expected to have a significant impact on the financial statements. The standard has been endorsed by the EU.
- (ix) *Improvements to IFRSs 2009-2011*  
Improvements to IFRSs 2009-2011 details amendments to five IFRSs, including IAS 1, Presentation of Financial Statements, IAS 32, Financial Instruments - Presentation, and IAS 34, Interim Financial Reporting. The amendments clarify existing guidance and do not give rise to a change in existing accounting practice. There are no implications for the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

**Effective for annual periods beginning on or after 1 January 2014**

- (i) *Amendment to IAS 32, Financial Instruments - Presentation*  
The amendment to IAS 32 clarifies the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The impact of the adoption of the amendment has yet to be fully assessed but is not expected to have significant implications for the Group financial statements. The amendment has been endorsed by the EU.
- (ii) *Amendments to IFRS 10, IFRS 12 and IAS 27 (2011)*  
The amendments provide an exemption from consolidation of subsidiaries under IFRS 10 'Consolidated Financial Statements' for entities which meet the definition of an 'investment entity', such as certain investment funds. Instead, such entities would measure their investment in

particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 'Financial Instruments' or IAS 39 'Financial Instruments: Recognition and Measurement'. There are no implications for the Group's consolidated financial statements. The amendments have yet to be endorsed by the EU.

**Effective for annual periods beginning on or after 1 January 2015**
*IFRS 9, Financial Instruments*

IFRS 9 will replace IAS 39, Financial Instruments - Recognition and Measurement. Under IFRS 9, all recognised financial assets that are currently within the scope of IAS 39 will be measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial asset. All equity instruments will be measured at fair value.

A debt instrument is measured at amortised cost only if it is held to collect the contractual cash flows and the cash flows represent principal and interest, otherwise it is measured at fair value through profit and loss (FVTPL). For financial liabilities designated as at FVTPL, the change in the fair value attributable to changes in the liability's credit risk is recognised in other comprehensive income unless it gives rise to an accounting mismatch in profit or loss.

We have not yet completed our assessment of the impact of the adoption of IFRS 9 on the Group which, to a large extent, will need to take into account the finalisation of the standard and the interaction of the requirements of IFRS 9 with the IASB's ongoing insurance contracts accounting project. The standard has not yet been endorsed by the EU.

**(B) Operations held for sale**

Assets and liabilities held for disposal as part of operations which are held for sale are shown separately in the consolidated statement of financial position. Operations held for sale are recorded at the lower of their carrying amount and their fair value less the estimated selling costs.

**(C) Critical accounting policies and the use of estimates**

The preparation of financial statements requires the Group to select accounting policies and make estimates and assumptions that affect items reported in the consolidated income statement, consolidated statement of financial position, other primary statements and notes to the consolidated financial statements.

Critical accounting policies and the use of estimates. These major areas of judgement on policy application are summarised below.

Item	Critical accounting judgement estimate or Accounting assumption policy
Consolidation	Assessment of whether the D Group controls the underlying entities
Insurance and participating investment contract liabilities	Assessment of the significance F of insurance risk passed
Financial investments	Classification of investments

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

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



## Accounting policies continued

Item	Accounting policy
Insurance and participating investment contract liabilities	F&K
Goodwill, AVIF and intangible assets	N
Fair values of financial investments	S
Impairment of financial investments	S
Fair value of derivative financial instruments	T
Deferred acquisition costs and other assets	W
Provisions and contingent liabilities	Z
Pension obligations	AA
Deferred income taxes	AB
Operations held for sale	B

**(D) Consolidation principles****Subsidiaries**

Subsidiaries are those entities (including special purpose entities) in which the Group, directly or indirectly, has power to exercise control over financial and operating policies in order to gain economic benefits. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are excluded from consolidation from the date the Group no longer has effective control. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated. Accounting policies of subsidiaries are aligned on acquisition to ensure consistency with the Group policies.

The Group is required to use the acquisition method of accounting for business combinations. Under this method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group has the option to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the consideration transferred over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (see accounting policy N below). Acquisition-related costs are expensed as incurred. Transactions that do not result in a loss of control are treated as equity transactions with non-controlling interests.

**Merger accounting and the merger reserve** Prior to 1 January 2004, the date of first time adoption of IFRS, certain significant business combinations were accounted for using the 'pooling of interests method' (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account. These transactions have not been restated, as permitted by the IFRS 1 transitional arrangements.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

**Investment vehicles**

In several countries, the Group has invested in a number of specialised investment vehicles such as Open-ended Investment Companies (OEICs) and unit trusts. These invest mainly in equities, bonds, cash and cash equivalents, and properties, and distribute most of their income. The Group's percentage ownership in these vehicles can fluctuate from day to day according to the Group's and third-party participation in them. Where Group companies are deemed to control such vehicles, with control determined based on an analysis of the

guidance in IAS 27 and SIC 12, they are consolidated, with the interests of parties other than Aviva being classified as liabilities. These appear as 'Net asset value attributable to unitholders' in the consolidated statement of financial position. Where the Group does not control such vehicles, and these investments are held by its insurance or investment funds, they do not meet the definition of associates (see below) and are, instead, carried at fair value through profit and loss within financial investments in the consolidated statement of financial position, in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

As part of their investment strategy, the UK and certain European long-term business policyholder funds have invested in a number of property limited partnerships (PLPs), either directly or via property unit trusts (PUTs), through a mix of capital and loans. The PLPs are managed by general partners (GPs), in which the long-term business shareholder companies hold equity stakes and which themselves hold nominal stakes in the PLPs. The PUTs are managed by a Group subsidiary.

Accounting for the PUTs and PLPs as subsidiaries, joint ventures or other financial investments depends on the shareholdings in the GPs and the terms of each partnership agreement. Where the Group exerts control over a PLP, it has been treated as a subsidiary and its results, assets and liabilities have been consolidated. Where the partnership is managed by a contractual agreement such that there is joint control between the parties, notwithstanding that the Group's partnership share in the PLP (including its indirect stake via the relevant PUT and GP) may be greater than 50%, such PUTs and PLPs have been classified as joint ventures. Where the Group holds minority stakes in PLPs, with no significant influence or control over their associated GPs, the relevant investments are carried at fair value through profit and loss within financial investments.

**Associates and joint ventures**

Associates are entities over which the Group has significant influence, but which it does not control. Generally, it is presumed that the Group has significant influence if it has between 20% and 50% of voting rights. Joint ventures are entities whereby the Group and other parties undertake an economic activity which is subject to joint control arising from a contractual agreement. In a number of these, the Group's share of the underlying assets and liabilities may be greater than 50% but the terms of the relevant agreements make it clear that control is not exercised. Such jointly controlled entities are referred to as joint ventures in these financial statements.

Gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the associates and joint ventures. Losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred between entities.

Investments in associates and joint ventures are accounted for using the equity method of accounting. Under this method, the cost of the investment in a given associate or joint venture, together with the Group's share of that entity's post-acquisition changes to shareholders' funds, is included as an asset in the consolidated statement of financial position. As explained in accounting policy N, the cost includes goodwill identified on acquisition. The Group's share of their post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Equity accounting is discontinued when the Group no longer has significant influence or joint control over the investment.

If the Group's share of losses in an associate or joint venture equals or exceeds its interest in the undertaking, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the entity.

#### The Company's investments

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

### (E) Foreign currency translation

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation of the net investment in foreign subsidiaries, associates and joint ventures, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income and taken to the currency translation reserve within equity. On disposal of a foreign entity, such exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on sale. The cumulative translation differences were deemed to be zero at the transition date to IFRS.

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

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit or loss (FV) (see accounting policy S) are included in foreign exchange gains and losses in the income statement. For monetary financial assets designated as AFS, translation differences are calculated as if they were carried at amortised cost and so are recognised in the income statement, whilst foreign exchange differences arising from fair value gains and losses are recognised in other comprehensive income and included in the investment valuation reserve within equity. Translation differences on non-monetary items, such as equities which are designated as 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.

### (F) Product classification

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

benefits as a supplement to guaranteed benefits. These are referred to as participating contracts.

As noted in accounting policy A above, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the later of the date of transition to IFRS or the date of the acquisition of the entity, in accordance with IFRS 4. Accounting for insurance contracts in UK companies is determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers, the most recent version of which was issued in December 2005 and amended in December 2006. In certain businesses, the accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed, and adjustments to the measurement basis have occurred, the financial statements of that year will have disclosed the impacts accordingly. One such example is our adoption of Financial Reporting Standard 27, Life Assurance, (FRS 27) which was issued by the UK's Accounting Standards Board (ASB) in December 2004. Aviva, along with other major insurance companies and the ABI, signed a Memorandum of Understanding with the ASB, under which we voluntarily agreed to adopt in full the standard from 2005 in the Group's IFRS financial statements. FRS 27 adds to the requirements of IFRS but does not vary them in any way. The additional requirements of FRS 27 are detailed in accounting policy K below and in note 52.

### (G) Premiums earned

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

General insurance and health premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

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

**(H) Other investment contract fee revenue**

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

Initiation and other 'front-end' fees (fees that are assessed against the policyholder balance as consideration for origination of the contract) are charged on some non-participating investment and investment fund management contracts. Where the investment contract is recorded at amortised cost, these fees are deferred and recognised over the expected term of the policy by an adjustment to the effective yield. Where the investment contract is measured at fair value, the front-end fees that relate to the provision of investment management services are deferred and recognised as the services are provided.

**(I) Other fee and commission income**

Other fee and commission income consists primarily of fund management fees, distribution fees from mutual funds, commissions on reinsurance ceded, commission revenue from the sale of mutual fund shares and transfer agent fees for shareholder record keeping. Reinsurance commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy W. All other fee and commission income is recognised as the services are provided.

**(J) Net investment income**

Investment income consists of dividends, interest and rents receivable for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on FV investments (as defined in accounting policy S) Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts. Rental income is recognised on an accruals basis

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

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

**(K) Insurance and participating investment contract liabilities****Claims**

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

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

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims Internal costs include all direct expenses of the claims

department and any part of the general administrative costs directly attributable to the claims function.

**Long-term business provisions**

Under current IFRS requirements, insurance and participating investment contract liabilities are measured using accounting policies consistent with those adopted previously under existing accounting practices, with the exception of liabilities remeasured to reflect current market interest rates to be consistent with the value of the backing assets, and those relating to UK with-profit and non-profit contracts. For liabilities relating to UK with-profit contracts, the Group has adopted FRS 27, Life Assurance, as described in policy F above, in addition to the requirements of IFRS.

In the United States, shadow adjustments are made to the liabilities or related deferred acquisition costs and are recognised directly in other comprehensive income. This means that the measurement of these items is adjusted for unrealised gains or losses on the backing assets such as AFS financial investments (see accounting policy S), that are recognised directly in other comprehensive income, in the same way as if those gains or losses had been realised.

The long-term business provisions are calculated separately for each life operation, based either on local regulatory requirements or existing local GAAP at the later of the date of transition to IFRS or the date of the acquisition of the entity, and actuarial principles consistent with those applied in the UK. Each calculation represents a determination within a range of possible outcomes, where the assumptions used in the calculations depend on the circumstances prevailing in each life operation The principal assumptions are disclosed in note 36(a). For liabilities of the UK with-profit funds, FRS 27 requires liabilities to be calculated as the realistic basis liabilities as set out by the UK's Financial Services Authority (FSA), adjusted to remove the shareholders' share of future bonuses. For UK non-profit insurance contracts, the Group applies the realistic regulatory basis as set out in the FSA Policy Statement 06/14, Prudential Changes for Insurers, where applicable.

**Unallocated divisible surplus**

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

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

**Embedded derivatives**

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

**Liability adequacy**

At each reporting date, an assessment is made of whether the recognised long-term business provisions are adequate, using current estimates of future cash flows. If that assessment shows that the carrying amount of the liabilities (less related assets) is insufficient in light of the estimated future cash flows, the

deficiency is recognised in the income statement by setting up an additional provision in the statement of financial position.

### **General insurance and health provisions Outstanding claims provisions**

General insurance and health outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques are given in note 36(c)

Provisions for latent claims are discounted, using rates based on the relevant swap curve, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected below adjusted operating profit as an economic assumption change. The range of discount rates used is described in note 36(c). Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts.

### **Provision for unearned premiums**

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

### **Liability adequacy**

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

### **Other assessments and levies**

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

## **(L) Non-participating investment contract liabilities**

### **Claims**

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

### **Contract liabilities**

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

The majority of the Group's contracts classified as non-participating investment contracts are unit-linked contracts and are measured at fair value. Certain liabilities for non-linked non-participating contracts are measured at amortised cost.

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

Amortised cost is calculated as the fair value of consideration received at the date of initial recognition, less the net effect of payments such as transaction costs and front-end fees, plus or minus the cumulative amortisation (using the effective interest rate method) of any difference between that initial amount and the maturity value, and less any write-down for surrender payments. The effective interest rate is the one that equates the discounted cash payments to the initial amount. At each reporting date, the amortised cost liability is determined as the value of future best estimate cash flows discounted at the effective interest rate.

## **(M) Reinsurance**

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

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

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

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance and investment contract liabilities. This includes balances in respect of investment contracts which are legally reinsurance contracts but do not meet the definition of a reinsurance contract under IFRS. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

Reinsurance of non-participating investment contracts and reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured. These deposit assets or liabilities are shown within reinsurance assets in the consolidated statement of financial position.

If a reinsurance asset is impaired, the Group reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract,

and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

## (N) Goodwill, AVIF and intangible assets

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 January 2004 (the date of transition to IFRS) is carried at its book value (original cost less cumulative amortisation) on that date, less any impairment subsequently incurred Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated. Goodwill arising on the Group's investments in subsidiaries since that date is shown as a separate asset, whilst that on associates and joint ventures is included within the carrying value of those investments.

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

### Intangible assets

Intangibles consist primarily of contractual relationships such as access to distribution networks and customer lists. The economic lives of these are determined by considering relevant factors such as usage of the asset, typical product life cycles, potential obsolescence, maintenance costs, the stability of the industry, competitive position and the period of control over the assets. These intangibles are amortised over their useful lives, which range from five to 30 years, using the straight-line method.

The amortisation charge for the year is included in the income statement under 'Other operating expenses'. For intangibles with finite lives, impairment charges will be recognised in the income statement where evidence of such impairment is observed. Intangibles with indefinite lives are subject to regular impairment testing, as described below.

### Impairment testing

For impairment testing, goodwill and intangibles with indefinite useful lives have been allocated to cash-generating units. The carrying amount of goodwill and intangible assets with indefinite useful lives is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill and indefinite life intangibles are written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on goodwill allocation and impairment testing are given in note 13.

## (O) Property and equipment

Owner-occupied properties are carried at their revalued amounts, which are supported by market evidence, and movements are recognised in other comprehensive income and taken to a separate reserve within equity. When such properties

are sold, the accumulated revaluation surpluses are transferred from this reserve to retained earnings. These properties are depreciated down to their estimated residual values over their useful lives. All other items classed as property and equipment within the

statement of financial position are carried at historical cost less accumulated depreciation.

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

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

Properties under construction	No depreciation 25 years
Owner-occupied properties, and related mechanical and electrical equipment	Motor vehicles
	Three years, or lease term if longer
Computer equipment	Other assets
	Three to five years
	Three to five years

The assets' residual values, useful lives and method of depreciation are reviewed

regularly, and at least at each financial year end, and adjusted if appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount.

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

## (P) Investment property

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

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

## (Q) 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. Non-financial assets except goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## (R) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired.

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

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

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

### (S) Financial investments

The Group 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 local management at initial recognition. The FV category has two subcategories - those that meet the definition as being held for trading and those the Group chooses to designate as FV (referred to in this accounting policy as 'other than trading').

In general, the other than trading category is used as, in most cases, the Group's investment or risk management strategy is to manage its financial investments on a fair value basis. Debt securities and equity securities, which the Group buys with the intention to resell in the short term, are classified as trading, as are non-hedge derivatives (see accounting policy T below). The AFS category is used where the relevant long-term business liability (including shareholders' funds) is passively managed, as well as in certain fund management and non-insurance operations.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values. Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as trading, other than trading and AFS, are subsequently carried at fair value. Changes in the fair value of trading and other than trading investments are included in the income statement in the period in which they arise. Changes in the fair value of securities classified as AFS are recognised in other comprehensive income and recorded in a separate investment valuation reserve within equity.

Investments carried at fair value are measured using a fair value hierarchy, described in note 19, with values based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer.

When securities classified as AFS are sold or impaired, the accumulated fair value adjustments are transferred out of the investment valuation reserve to the income statement with a corresponding movement through other comprehensive income.

Impairment

The Group reviews the carrying value of its AFS investments on a regular basis. If the carrying value of an AFS investment is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment. The following policies are used to determine the level of any impairment, some of which involve considerable judgement:

**AFS debt securities:** An AFS debt security is impaired if there is objective evidence that a loss event has occurred which has impaired the expected cash flows, i.e. where all amounts due according to the contractual terms of the security are not considered collectible. An impairment charge, measured as the difference between the security's fair value and amortised cost, is recognised when the issuer is known to be either in default or in financial difficulty. Determining when an issuer is in financial difficulty requires the use of judgement, and we consider a number of factors including industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, credit rating declines and a breach of contract. A decline in fair value below amortised cost due to changes in risk-free interest rates does not necessarily represent objective evidence of a loss event.

For securities identified as being impaired, the cumulative unrealised net loss previously recognised within the investment valuation reserve is transferred to realised losses for the year, with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve unless this increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement. In such an event, the reversal of the impairment loss is recognised as a gain in the income statement.

**AFS equity securities:** An AFS equity security is considered impaired if there is objective evidence that the cost may not be recovered. In addition to qualitative impairment criteria, such evidence includes a significant or prolonged decline in fair value below cost. Unless there is evidence to the contrary, an equity security is considered impaired if the decline in fair value relative to cost has been either at least 20% for a continuous six-month period or more than 40% at the end of the reporting period, or been in an unrealised loss position for a continuous period of more than 12 months at the end of the reporting period. We also review our largest equity holdings for evidence of impairment, as well as individual equity holdings in industry sectors known to be in difficulty. Where there is objective evidence that impairment exists, the security is written down regardless of the size of the unrealised loss.

For securities identified as being impaired, the cumulative unrealised net loss previously recognised within the investment valuation reserve is transferred to realised losses for the year with a corresponding movement through other comprehensive income. Any subsequent increase in fair value of these impaired securities is recognised in other comprehensive income and recorded in the investment valuation reserve.

Reversals of impairments on any of these assets are only recognised where the decrease in the impairment can be objectively related to an event occurring after the write-down (such as an improvement in the debtor's credit rating), and are not recognised in respect of equity instruments.

### (T) Derivative financial instruments and hedging

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps,

currency and interest rate options (both written and purchased) and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, credit indices, commodity values or equity instruments.

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

Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Group's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 54.

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

**Interest rate and currency swaps** Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments. Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Both types of swap contracts may include the net exchange of principal. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments

**Interest rate futures, forwards and options contracts** Interest rate futures are exchange-traded instruments and represent commitments to purchase or sell a designated security or money market instrument at a specified future date and price. Interest rate forward agreements are OTC contracts in which two parties agree on an interest rate and other terms that will become a reference point in determining, in concert with an agreed notional principal amount, a net payment to be made by one party to the other, depending what rate in fact prevails at a future point in time. Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve

the potential obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to

gain or loss on all interest rate contracts will increase or decrease over their respective lives as interest rates fluctuate.

#### Foreign exchange contracts

Foreign exchange contracts, which include spot, forward and futures contracts, represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Foreign exchange option contracts are similar to interest rate option contracts, except that they are based on currencies, rather than interest rates.

Exposure to gain or loss on these contracts will increase or decrease over their respective lives as currency exchange and interest rates fluctuate.

#### Derivative instruments for hedging

On the date a derivative contract is entered into, the Group designates certain derivatives as either:

- (i) a hedge of the fair value of a recognised asset or liability (fair value hedge);
- (ii) a hedge of a future cash flow attributable to a recognised asset or liability, a highly probable forecast transaction or a firm commitment (cash flow hedge); or
- (iii) a hedge of a net investment in a foreign operation (net investment hedge).

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met. At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as the risk management objective and the strategy for undertaking the hedge transaction. The Group also documents its assessment of whether the hedge is expected to be, and has been, highly effective in offsetting the risk in the hedged item, both at inception and on an ongoing basis.

Changes in the fair value of derivatives that are designated and qualify as net investment or cash flow hedges, and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income and a separate reserve within equity. Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant investment or occurrence of the cash flow as appropriate. Changes in the fair value of derivatives that are designated and qualify as fair value hedges against assets carried at amortised cost are adjusted against the carrying value of the hedged asset to the extent those changes relate to the hedged risk. This adjustment is then amortised to the income statement over the anticipated remaining life of the hedged instrument. Where the hedge is against the value of AFS securities, changes in its value are recognised in the income statement, partially or wholly offset by a transfer from the investment valuation reserve for the change in value of the hedged item

The Group discontinues hedge accounting if the hedging instrument expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

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

## (U) Loans

Loans with fixed maturities, including policyholder loans, mortgage loans on investment property, securitised mortgages and collateral loans, are recognised when cash is advanced to

borrowers. The majority of these loans are carried at their unpaid principal balances and adjusted for amortisation of premium or discount, non-refundable loan fees and related direct costs. These amounts are deferred and amortised over the life of the loan as an adjustment to loan yield using the effective interest

rate method. Loans with indefinite future lives are carried at unpaid principal balances or cost.

For certain mortgage loans, the Group has taken advantage of the fair value option under IAS 39 to present the mortgages, associated borrowings and derivative financial instruments at

fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch that would otherwise arise from using different measurement bases for these three items. The fair values of mortgages classified as FV are estimated using discounted cash flow forecasts, based on a risk-adjusted discount rate which reflects the risks associated with these products, calibrated using the margins available on new lending or with reference to the rates offered by competitors. They are revalued at each period end, with movements in their fair values being taken to the income statement.

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

### **(V) Collateral**

The Group receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans, in order to reduce the credit risk of these transactions. Collateral is also pledged as security for bank letters of credit. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Group, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities (note 46). However, where the Group has a currently enforceable legal right of set-off, the collateral liability and associated derivative balances are shown net, in line with market practice. Non-cash collateral received is not recognised in the statement of financial position unless the Group either (a) sells or repurchases these assets in the absence of default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

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

### **(W) Deferred acquisition costs and other assets**

Costs relating to the acquisition of new business for insurance and participating investment contracts are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered out of future margins in revenues on these contracts. For participating contracts written in the UK, acquisition costs are generally not deferred as the liability for these contracts is calculated in accordance with the FSA's realistic capital regime and FRS 27. For non-participating investment and investment fund management contracts, incremental acquisition costs and sales enhancements that are

directly attributable to securing an investment management service are also deferred.

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

Long-term business deferred acquisition costs are amortised systematically over a period no longer than that in which they are expected to be recoverable out of these future margins. Deferrable acquisition costs for non-participating investment and investment fund management contracts are amortised over the period in which the service is provided.

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

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

Other assets include vehicles which are subject to repurchase agreements and inventories of vehicle parts. The former are carried at the lower of their agreed repurchase price or net realisable value, whilst the latter are carried at the lower of cost and net realisable value, where cost is arrived at on the weighted average cost formula or 'first in first out' (FIFO) basis. Provision is made against inventories which are obsolete or surplus to requirements.

### **(X) Statement of cash flows**

Cash and cash equivalents

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

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

Operating cash flows

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

### **(Y) Leases**

Leases, where a significant portion of the risks and rewards of ownership is retained by the lessor, are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the relevant leases.

Where the Group is the lessor, lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable. The Group has not entered into any material finance lease arrangements either as lessor or lessee.

### **(Z) Provisions and contingent liabilities**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Restructuring provisions comprise lease termination penalties

and employee termination payments. Provisions are not recognised for future operating losses.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.



The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

## **(AA) Employee benefits**

### **Annual leave and long service leave**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the statement of financial position date.

### **Pension obligations**

The Group operates a large number of pension schemes, whose members receive benefits on either a defined benefit basis (generally related to a member's final salary and length of service) or a defined contribution basis (generally related to the amount invested, investment return and annuity rates), the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant Group companies.

For defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees. The pension obligation is measured as the present value of the estimated future cash outflows, using a discount rate based on market yields for high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. The resulting pension scheme surplus or deficit appears as an asset or liability in the consolidated statement of financial position.

Costs charged to the income statement comprise the current service cost (the increase in pension obligation resulting from employees' service in the current period, together with the schemes' administration expenses), past service cost (resulting from changes to benefits with respect to previous years' service), and gains or losses on curtailment (when the employer materially reduces the number of employees covered by the scheme) or on settlements (when a scheme's obligations are transferred outside the Group). In addition, the difference between the expected return on scheme assets, less investment expenses, and the interest cost of unwinding the discount on the scheme liabilities (to reflect the benefits being one period closer to being paid out) is credited to investment income. All actuarial gains and losses, being the difference between the actual and expected returns on scheme assets, changes in assumptions underlying the liability calculations and experience gains or losses on the assumptions made at the beginning of the period, are recognised immediately in other comprehensive income. For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the income statement in the year to which they relate and are included in staff costs.

### **Other post-employment obligations**

Some Group companies provide post-employment healthcare or other benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. Unlike the pension schemes, no assets are set aside in separate funds to provide for the future liability but none of these schemes is material to the Group. The costs of the Canadian scheme are included within those for the defined benefit pension schemes in that country. For such schemes in other countries, provisions are calculated in line with local regulations, with movements being charged to the income statement within staff costs.

### **Equity compensation plans**

The Group offers share award and option plans over the Company's ordinary shares for certain employees, including a Save As You Earn plan (SAYE plan), details of which are given in the Directors' Remuneration Report.

The Group accounts for options and awards under equity compensation plans, which were granted after 7 November 2002, until such time as they are fully vested, using the fair value based method of accounting (the 'fair value method'). Under this method, the cost of providing equity compensation plans is based on the fair value of the share awards or option plans at date of grant, which is recognised in the income statement over the expected vesting period of the related employees and credited to the equity compensation reserve, part of shareholders' funds. In certain jurisdictions, awards must be settled in cash instead of shares, and the credit is taken to liabilities rather than reserves. The fair value of these cash-settled awards is recalculated each year, with the income statement charge and liability being adjusted accordingly.

As described in accounting policy AD below, shares purchased by employee share trusts to fund these awards are shown as a deduction from shareholders' funds at their original cost.

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (par value) and the balance to share premium. Where the shares are already held by employee trusts, the net proceeds are credited against the cost of these shares, with the difference between cost and proceeds being taken to retained earnings. In both cases, the relevant amount in the equity compensation reserve is then credited to retained earnings.

## **(AB) Income taxes**

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

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

The principal temporary differences arise from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantively enacted at the statement of financial position date are used to determine the deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

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

Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill, or

from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to fair value re-measurement of available for sale investments, 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. Current tax on interest paid on direct capital instruments and fixed rate tier 1 notes is credited directly in equity

In addition to paying tax on shareholders' profits, the Group's life businesses in the UK, Ireland and Singapore pay tax on policyholders' investment returns ('policyholder tax') on certain products at policyholder tax rates. Policyholder tax is accounted for as an income tax and is included in the total tax expense. The Group has decided to show separately the amounts of policyholder tax to provide a more meaningful measure of the tax the Group pays on its profits. In the pro forma reconciliations, adjusted operating profit has been calculated after charging policyholder tax.

### **(M) Borrowings**

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

Where loan notes have been issued in connection with certain securitised mortgage loans, the Group has taken advantage of the revised fair value option under IAS 39 to present the mortgages, associated liabilities and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch which would otherwise arise from using different measurement bases for these three items.

### **(N) Share capital and treasury shares**

#### Equity instruments

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

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable, and
- (ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Group exchanging a fixed amount of cash or other assets for a fixed number of the Group's own equity instruments.

#### Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

#### Dividends

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

#### Treasury shares

Where the Company or its subsidiaries purchase the Company's share capital or obtain rights to purchase its share capital, the consideration paid (including any attributable transaction costs net of income taxes) is shown as a deduction from total shareholders' equity. The Group's only such holding

comprises shares purchased by employee trusts to fund certain awards under the equity compensation plans described in accounting policy AA above. Gains and losses on sales of own shares are charged or credited to the treasury share account in equity.

### **(O) Fiduciary activities.**

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these financial statements where the Group has no contractual rights in the assets and acts in a fiduciary capacity such as nominee, trustee or agent.

### **(P) (Loss)/earnings per share**

Basic losses/earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by the Group and held as Treasury shares.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares/such as convertible debt and share options granted to employees.

Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net (losses) earnings per share.

# Annual report on Form 20-F 2012 statements

## Consolidated financial

### Consolidated income statement

For the year ended 31 December 2012

	2012 £ m	2011 £ m	2010 £ m
	Continuing operations <sup>1</sup>	Continuing operations <sup>1</sup>	Discontinued operations <sup>1</sup>
Income			
Gross written premiums	22,744		
Premiums ceded to reinsurers	(1,571)		
	<b>3,796</b>		
	<b>(207)</b>		
	26,255		
	(1,548)		
	)		
	5,863		
	(200)		
	)		
	27,192		
	(1,606)		
	)		
	9,082		
	(257)		
	)		
Premiums written net of reinsurance	21,173	<b>3,589</b>	
Net change in provision for unearned premiums	(16)		
	24,707		
	(236)		
	5,663		
	(56)		
	25,586		
	(72)		
	8,825		
	(3)		
Net earned premiums	<b>3,58</b>	24,471	
Fee and commission income	<b>9,23</b>	1,465	
Net investment income	<b>2,24</b>	4,341	
Share of (loss)/profit after tax of joint ventures and associates	<b>1</b>	(123)	
(Loss)/profit on the disposal and remeasurement of subsidiaries and associates	21,157	1,273	
	21,106	(277)	
	<b>(164)</b>	5,6	
	<b>(2,359)</b>	07	
		111	
		2,0	
		86	
		28	
		(32)	
		25,5	
		14	
		1,45	
		1	
		16,7	
		46	
		141	
		163	
		8,8	
		22	
		33	
		1	
		5,24	
		7	
		(1	
		0)	
		<b>(4)</b>	
Expenses	<b>43.0</b>	3,494	30,719
Claims and benefits paid, net of recoveries from reinsurers			7,800
Change in insurance liabilities, net of reinsurance			14,386
			44,015
			Fee and Other commission expenses
			n expense

Finance costs

	(23,601)				
	(430)				
	(4,450)				
	(6,316)				
	(4,472)				
	(2,845)				
	(735)				
	(2,721)				
	(1,566)				
	(77)				
	(498)				
	(1,307)				
	(21)				
	(24,380)				
	(2,284)				
	) 1,478				
	2,721				
	(4,326)				
	)				
	(2,779)				
	) (776)				
	(4,029)				
	)				
	(2,523)				
	) (180)				
	(19)				
	(420)				
	(809)				
	(284)				
	(22,240)				
	(2,837)				
	)				
	(9,212)				
	) 362				
	(5,500)				
	)				
	(2,116)				
	) (682)				
	(6,912)				
	)				
	(3,692)				
	)				
	(177)				
	)				
	(33)				
	)				
	(367)				
	)				
	(1,421)				
	)				
	(740)				
	(42,849)	(6,190)	(30,346)	(8,264)	(42,225) (13,342)
Profit/(loss) before tax	<b>246 (2,696)</b>	373	(464) *	1,790	1,044
Tax attributable to policyholders' returns	(221) -	178		<b>(394)</b>	
Profit/(loss) before tax attributable to shareholders' profits	<b>25 (2,696)</b>	55	(464)	1,396	1,044
Tax (expense)/credit		<b>(152)</b>	44	107	(203)
Less: tax attributable to policyholders' returns	(448) 221	<u>(178)</u>		(739)	394
Tax attributable to shareholders' profits	(227) (152)	(134)	107	(345)	(203)
(Loss) profit after tax	(202) (2,848)	417	(357)	1,051	84
(Loss) from discontinued operations	(2,848)	(357)		84	
(Loss) profit for the year	(3,050)	<b>60</b>		1,892	
Attributable to:					
Equity shareholders of Aviva	(3,218)				
Non-controlling interests	168				
(Loss) profit for the year	(3,050)				
	225				
	(165)				
	)				
	60				
	1,463				
	429				
	1,892				
(Loss) earnings per share					
Basic (pence per share)	(113.1)p		5	8p	
Diluted (pence per share)	(113.1)p		5	7p	
			50.4p		
			49.6p		

- Diluted (pence per (15.2)p (15.2)p  
share) 11.1p 10.9p  
37.6p 37.0p

- 1 Discontinued operations in the current period represents the results of the US life and related internal asset management businesses (US Life) and in the prior periods represents the results of US Life and Delta Lloyd 106 May 2011
- 2 Following a review of the classification of contracts issued by the Group's Italian long-term business, certain portfolios have been reclassified from participating insurance to participating investment contracts for all years presented. There is no impact on the result for any year presented as a result of this process.

The accounting policies (identified alphabetically) on pages 108 to 119 and notes (identified numerically) on pages 127 to 229 are an integral part of these financial statements

**Consolidated statement of comprehensive income**

For the year ended 31 December 2012

	2012 £ m	2010 £ m	
<b>(Loss) profit for the year from continuing operations</b>	<b>(202)</b>		
<b>(Loss) for the year from discontinued operations<sup>1</sup></b>	<b>(2,848)</b>		
	417		
	(357)		
	1.05		
	1		
	841		
<b>Total (loss) profit for the year</b>	<b>(3,050)</b>	60,189	
<b>Other comprehensive income/(expense) from continuing operations:</b>			
Investments classified as available for sale			
Fair value gains/dosses)	27		
Fair value gains transferred to profit on disposals			(2)
Impairment losses on assets previously revalued through other comprehensive income now taken to the income statement			)
Owner-occupied properties - fair value (losses)/gains	(3)	(	
Share of other comprehensive income of joint ventures and associates	(14)	5	
Actuarial (losses)/gains on pension schemes	(830)	)	
Other pension scheme movements		1	
Foreign exchange rate movements	(20)		(14)
Aggregate tax effect - shareholder tax	0		
	<b>163</b>		1,078
			(18)
			(12)
			35
		22	
		(134)	996
		(22)	(284)
		(160)	
<b>Other comprehensive (expense)/income, net of tax from continuing operations</b>	<b>(828)</b>		
<b>Other comprehensive income, net of tax from discontinued operations<sup>1</sup></b>	<b>) 68</b>		
	39		
	6		
	30		
	0		
	1.06		
	7		
	364		
<b>Total other comprehensive (expense)/income, net of tax</b>	<b>(760)</b>	696	<b>1,43</b>
Total comprehensive (expense)/income for the year from continuing operations	(1,030)	813	2,118
Total comprehensive (expense)/income for the year from discontinued operations <sup>1</sup>	(2,780)	(57)	1,205
Total comprehensive (expense)/income for the year	(3,810)	756	3,323
Attributable to:			
Equity shareholders of Aviva pic	(3,942)	923	2,950
Non-controlling interests	132	(167)	373
	~	(3,810)	756
			<b>3,323</b>

<sup>1</sup> Discontinued operations in the current period represents the results of the US life and related internal asset management businesses (US tile), and in the prior periods represents the results of US Life and Delta Lloyd  
10 6 May 2011

The accounting policies (identified alphabetically) on pages 108 to 119 and notes (identified numerically) on pages 127 to 229 are an integral part of these financial statements





The accounting policies (identified alphabetically) on pages 108 to 119 and notes (identified numerically) on pages 127 to 229 are an integral part of these financial statements

## Consolidated financial statements continued

## Consolidated statement of changes in equity continued

For the year ended 31 December 2011

	Ordinary share capAa	Preference share capital tm	Share premium fm	Share reserve fm	Me reserve fm	held by employee trusts fm	Currency translati reserve Em	occupie properties reserve fm	Shares Investment valuation reserve fm	ECMy Hedging instru- ments reserve fm	Equity reserve fm	Retained earnings fm	attributable to holders of Awa fm	OCI and Fijredra ter 1 notes fm	Non controlling interests fm	Total equity fm	fm
Balance at 1 January	705	200	1,194	3,271		(32)	2,183	83		573	(693)						
Profit(loss) for the year				12,994	99	990	5,411	3,741	17,725								
Other comprehensive (expense) income										225		225		(165)	60		
Total comprehensive (expense) income for the year				757	(167)	756	698			72	30	(2)	696				
Owner-occupied properties fair value gains transferred to retained earnings on disposals				(6)						72	30	982	923				
Dividends and appropriations	2		(21)				307					307	307				
Shares issued in lieu of dividends															6		
Capital contributions from non-controlling interests				(2)	(115)		(485)	(18)						(600)	(1,770)	(2,370)	
Effect of deconsolidation of Delta Lloyd												48					
Non-controlling interests share of dividends declared in the year													48		(126)	(126)	
Transfer to profit on disposal of subsidiaries, joint ventures and associates							(3)							(3)		(3)	
Changes in non-controlling interests												(61)	61		(11)	(11)	
in existing subsidiaries							(29)					16	16	(29)		(29)	
Shares acquired by employee trusts					18												(205)
Shares distributed by employee trusts					16												
Reserves credit for equity compensation plans																	
Shares issued under equity compensation plans																	
Reclassification to financial liabilities																	
Aggregate tax effect - shareholder tax																	
Balance at 31 December	726			200	(43)	1,530	79	530	(663)	86	5,954	12,843	990	1,530			
											15,363						

The accounting policies (identified alphabetically) on pages 108 to 119 and notes (identified numerically) on pages 127 to 229 are an integral part of these financial statements

## Consolidated statement of changes in equity continued

For the year ended 31 December 2010

	Ordinary share capital	Reference share capital	Share premium	Share reserve	Me reserve	Shares held by employees	Currency translation reserve	Owner-occupied properties reserve	Investment valuation reserve	Equity Hedging trusts	Equity compensation reserve	Retained earnings	amrthutable to shareholders	OCland Fixed rate notes	Non controlling interests	Total equity	£m	£m
Balance at 1 January						692	200			1,207	3,271	15,086	(68)	2,224		104		
Profit/(loss) for the year	163	(771)				109	3,425	10,556		990	3,540							
Other comprehensive (expense)/income										78	1,463	1,463	1,057			429		
Total comprehensive (expense)/income for the year							(38)	(21)	411		1,487					1,892		
Owner-occupied properties fair value gains transferred to retained earnings on disposals										78	2,520	2,950			373	3,323		
Dividends and appropriations	13		(13)									209	209					
Shares issued in lieu of dividends		9																20
Capital contributions from non-controlling interests																42	42	
Dilution of shareholding in Delta Lloyd							(3)		(1)			(4)	(8)					
Non-controlling interests share of dividends declared in the year																		(187)
Transfer to profit on disposal of subsidiaries, joint ventures and associates																		(187)
Non-controlling interests in acquired/(disposed) subsidiaries																		3
Changes in non-controlling interests in existing subsidiaries																		
Shares acquired by employee trusts							(14)											
Shares distributed by employee trusts												(38)	(38)					
Reserves credit for equity compensation plans													(14)			(14)	(50)	
Shares issued under equity compensation plans	51		41			50												
Reclassification to financial liabilities											41		41					
Aggregate tax effect - shareholder tax											(51)	17	17					
Balance at 31 December	705	200	1,194	3,271	(32)	2,183	99	5,411	12,994	990								
	83	573	(693)															

The accounting policies (identified alphabetically) on pages 108 to 119 and notes (identified numerically) on pages 127 to 229 are an integral part of these financial statements

Aviva

## Consolidated financial statements continued

Annual report on Form 20-F 2012

## Consolidated statement of financial position

As at 31 December 2012

	2012 fm	
<b>Assets</b>		
Goodwill	1,520	
Acquired value of in-force business and intangible assets	1,084	
Interests in, and loans to, joint ventures	1,493	○
Interests in, and loans to, associates	218	
Property and equipment	391	
Investment property	10,81	
Loans	5	
Financial investments	24,53	
Reinsurance assets	7	
Deferred tax assets	189,0	
Current tax assets	78	
Receivables	6,684	
Deferred acquisition costs and other assets	188,67	
Prepayments and accrued income	7,617	
Cash and cash equivalents	3,799	
Assets of operations classified as held for sale	2,701	
<b>Total assets</b>	2,640	2,021
	1,700	1,118
	510	11,638
	28,116	
	216,058	
	7,112	238,140
	7,937	6,444
	3,235	23,043
	426	
	315,689	
	312,376	
<b>Equity</b>		
Capital Ordinary share capital	736	
Preference Share Capital	200	
	936	
Capital reserves		
Share premium		726,200
Merger reserve		.926
Shares held by employee trusts	1,165	
Other reserves Retained earnings	3,271	
	1,173	
	3,271	
	4,436	4,444
	(32)	(43)
	1,675	1,562
	-1,389	5,954
<b>Equity attributable to shareholders of Aviva pic</b>	8,404	12,843
Direct capital instruments and fixed rate tier 1 notes	1,382	990,1574
Non-controlling interests	1,530	
<b>Total equity</b>	11,360	15,363
<b>Liabilities</b>		
Gross insurance liabilities		147,3
Gross liabilities for investment contracts		79
Unallocated divisible surplus		113,3
Net asset value attributable to unitholders		66
Provisions		650
Deferred tax liabilities		10,35
Current tax liabilities		2,992
Borrowings		1,171
Payables and other financial liabilities		232
Other liabilities		8,450
Liabilities of operations classified as held for sale		11,23
		^
<b>Total liabilities</b>	113,091	
<b>Total equity and liabilities</b>	110,494	
	6,931	
	11,146	
	1,119	547
	112	8,194
	9,441	1,843
	41,411	
	304,329	297,013
	315,689	312,376

Following a review of the classification of contracts issued by the Group's halun long-term business, certain portfolios have been reclassified from participating insurance to participating investment contracts for all years presented. There is no impact on the results for any year presented as a result of this reclassification.

Approved by the Board on 22 March 2013

Patrick Regan Chief  
financial officer

{,omparry immfoel 2H,JHe36

The accounting policies (identified alphabetically) on pages 108 to 119 and notes (identified numerically) on pages 127 to 229 are an integral part of these financial statements.

## Consolidated financial statements continued

## Consolidated statement of cash flows

For the year ended 31 December 2012

The cash flows presented in this statement cover all the Group's activities and include flows from both policyholder and shareholder activities. All cash and cash equivalents are available for use by the Group.

	201 2 C m	201 1 tm	201 0 tm
<b>Cash flows from operating activities</b>			
Cash generated from continuing operations	2,676		
Tax paid	(428)		
<b>Net cash from/(used in) operating activities - continuing operations</b>	<b>2,248</b>		
<b>-Net cash from/(used in) operating activities - discontinued operations</b>	<b>46</b>		
	111		
	(425)		
	(314		
	)		
	(28		
	)		
	1,419		
	(443)		
	97		
	6		
	83		
	1		
<b>Total net cash from/(used in) operating activities</b>	<b>2,294</b>	(342)	1,807
<b>Cash flows from investing activities</b>			
Acquisition of, and additions to subsidiaries, joint ventures and associates, net of cash acquired	(129		
Disposals of subsidiaries, joint ventures and associates, net of cash transferred	) 421		
New loans to joint ventures	(4)		
Repayment of loans to joint ventures	12		
Net new loans to joint ventures	8		
Purchases of property and equipment	(220)		
Proceeds on sale of property and equipment	43		
Purchases of intangible assets	(128)		
<b>Net cash (used in)/from investing activities - continuing operations</b>	<b>(5</b>		
<b>cash (used in) investing activities - discontinued operations</b>	<b>)</b>		
<b>Total net cash (used in)/from investing activities</b>	<b>(10)</b>		
	(15)		
	(11		
	4)		
	877		
	(1		
	8)		
	17		
	(1)		
	(86)		
	40		
	(109		
	)		
	607		
	(529)		
	78		
	54		
	2		
	22		
	2		
	(64)		
	5		
	(59)		
	(109		
	) 14		
	(128		
	)		
	482		
	(133		
	)		
	349		
<b>Cash flows from financing activities</b>		New borrowings	Repaymen
Proceeds from issue of ordinary shares and fixed rate tier 1 notes, net of transaction costs		drawn down, net	t of
Treasury shares purchased for employee trusts		of expenses	borrowings

Net drawdown of borrowings			
Interest paid on borrowings			
Preference dividends paid		(29)	(14)
Ordinary dividends paid			<u>2,825</u>
Coupon payments on direct capital instruments and fixed rate tier 1 notes	392 (33)		<u>(1,988)</u>
Capital contributions from non-controlling interests	2,529	3,423	(2,513)
Dividends paid to non-controlling interests of subsidiaries			1
Changes in non controlling interests			837
		64	(679)
		(686)	(17)
		(17)	(472)
		(431)	(59) 42
		(58)	(157)
		68	15
		(126)	
		(3,359)	
		<b>16 (665)</b>	
		<b>(17) (630)</b>	
		<b>(73) 20</b>	
		<b>(102)</b>	
<b>Net cash (used in) financing activities - continuing operations</b>		<b>(1,092)</b>	
<b>cash (used in) financing activities - discontinued operations</b>		<b>(27)</b>	
		(1,215)	
		) (558)	
		(504)	
		(849)	
<b>Total net cash (used in) financing activities</b>		(1,119)	(1,773) (1,353)
<b>Total net increase/(decrease) in cash and cash equivalents</b>		1,160	(2,037) 803 24,251
Cash and cash equivalents at 1 January		22,401	24,695 (359)
Effect of exchange rate changes on cash and cash equivalents		(313)	(257)
<b>Cash and cash equivalents at 31 December</b>	23,248	22,401	24,695

The accounting policies (identified alphabetically) on pages 108 to 119 and notes (identified numerically) on pages 127 to 229 are an integral part of these financial statements.

12  
7

## Notes to the consolidated financial statements

### 1 - Exchange rates

The Group's principal overseas operations during the year were located within the Eurozone and the United States. The results and cash flows of these operations have been translated into sterling at the average rates for the year and the assets and liabilities have been translated at the year end rates as follows:

	2012	2011	2010
<b>Eurozone</b>			
- Average rate (€1 equals)	£0.81		£0.87
£0.85			
- Period end rate (€1 equals)	£0.81	£0.84	£0.86
<b>United States</b>			
- Average rate (\$US1 equals)	£0.63	£0.63	£0.65
- Period end rate (\$US1 equals)	£0.62	£0.65	£0.64

Total foreign currency translations from continuing operations amounted to a gain of £128 million (2011: £35 million loss; 2010: £36 million gain) in the income statement. These result from the settlement of transactions and translations of assets and liabilities denominated in foreign currencies



## 2 - Presentation changes

### (a) Discontinued operations

As described in note 3c, the Group's US life and annuity business and associated investment management operations (together 'US Life'), have been classified as held for sale. As the Group will exit from a major geographical area of operations, previously presented as 'United States' in the segmental reporting note, the results of US Life for the year, as well as those for preceding years, have been classified as discontinued operations.

The results presented as discontinued operations for 2011 and preceding years also include the results of Delta Lloyd N.V. as a subsidiary, which was deconsolidated during 2011.

### (b) Change to operating segments

Following the announcement in April 2012 relating to the restructuring of the Group, the Group's operating segments were changed to align them with the revised organisational reporting structure. The Group has determined its operating segments along market reporting lines, reflecting the management structure whereby a member of the Executive Management team is accountable to the group chief executive for the operating segment for which he is responsible. Further details of the reportable segments are given in note 4.

### (c) Restatement of prior period figures

(i) Following a review of the classification of contracts issued by the Group's Italian long-term business certain portfolios have been reclassified from participating insurance contracts to participating investment contracts. As a result there has been a reallocation from gross insurance liabilities at 31 December 2011 to gross liabilities for investment contracts of £2,722 million. The change in insurance liabilities net of reinsurance recognised in the income statement for the year to 31 December 2011 has decreased by £168 million, and the change in investment contract provisions has increased by an equal amount. There is no impact on profit for the year or equity reported for the year ended 31 December 2011. The change in insurance liabilities net of reinsurance recognised in the income statement for the year to 31 December 2010 has increased by £648 million, and the change in investment contract provisions has decreased by an equal amount. There is no impact on profit for the year or equity reported for the year ended 31 December 2010.

(ii) Certain other comparative information in the notes to the financial statements has been restated as follows:

- In note 20, information relating to loans carried at fair value has been restated to include certain mortgage portfolios;
- In note 22(d)(i), information relating to non-cash collateral received has been restated to include collateral relating to certain additional financial investments used in stock-lending arrangements.
- In note 53(b)(X0), following a review of the collateral reported, the total net credit exposure has been restated.
- In note 53(d)(i), the linked business maturity profile has been restated to reflect an expected rather than contractual basis.
- In note 56, following a review of the composition of key management in the current year comparative amounts have been restated

These changes to comparative information relate solely to disclosures and do not impact the line items reported in the primary financial statements. There is no impact on the profit or equity reported for any period presented as a result of these restatements.

### (d) Additional information

Additional disclosure has been included in the current year and accordingly comparative information has been provided as follows:

- As set out in notes 14 and 24, the amount of AVIF and DAC expected to be recovered or settled after more than 12 months;
- As set out in note 53(c)(v) and note 53(j)(iv), additional disclosure relating to the sensitivity to a 10% change to foreign exchange rates and a 0.5% increase in credit spreads.

These changes to comparative information relate solely to disclosures and do not impact the line items reported in the primary financial statements. There is no impact on the profit or equity reported for any period presented as a result of these additional disclosures.

**3 - Subsidiaries**

This note provides details of the acquisitions and disposals of subsidiaries that the Group has made during the year, together with details of businesses held for sale at the year end. The principal Group subsidiaries are listed in the performance review section

**(a) Acquisitions**

There have been no material acquisitions during 2012.

**(b) Disposal and remeasurement of subsidiaries, joint ventures and associates**

The (loss)/profit on the disposal and remeasurement of subsidiaries, joint ventures and associates comprises

	2012 fm	2011 fm	2010 fm
<b>Continuing operations</b>			
United Kingdom - RAC Limited (see (i) below)	(21)	532	—
United Kingdom-RBS Life and RBS Collective	—	—	128
Delta Lloyd associate (see (in) below)	(129)	—	—
Australia	—	23	—
Sri Lanka (see (iv) below)	—	12	—
Czech Republic, Hungary and Romania (see (ii) below)	7—	—	—
<b>Other small operations</b>			<b>35</b>
(Loss)/profit on disposal and remeasurement from continuing operations	(164)	565	163
<b>Loss on disposal and remeasurement from discontinued operations (see note 3c(i) below)</b>	<b>(2,359)</b>	<b>(32)</b>	<b>(4)</b>
Total (loss)/profit on disposal and remeasurement			(2,523) 533
	159		

No tax arises on the profits and losses on these disposals.

### 3 - Subsidiaries continued

#### (i) RAC Limited

The loss in respect of RAC Limited in 2012 arises from residual costs related to the sale of that company in September 2011.

#### (ii) Czech Republic, Hungary and Romania life business

On 31 July 2012, the Group sold its operations in the Czech Republic and Hungary and its Romania life assurance business to Metlife, Inc, for £37 million. Net assets disposed of were £32 million, comprising gross assets of £379 million and liabilities of £347 million, giving a profit on disposal of £3 million after transaction costs. Recycling currency translation reserves of £4 million to the income statement resulted in an overall profit on disposal of £7 million. The sale of our Romania pensions business is still subject to regulatory approval and is expected to complete in the next 12 months, so it has been classified as held for sale (see note 3c(v)).

#### (iii) Delta Lloyd associate

On 5 July 2012, the Group sold 37.2 million shares in Delta Lloyd for £313 million (net of transaction costs), reducing our holding at that date to 19.8% of Delta Lloyd's ordinary share capital, representing 18.6% of shareholder voting rights. As the Group no longer had significant influence over Delta Lloyd, the Group ceased to account for that company as an associate from 5 July 2012. From that date, our holding was classified as a financial investment, held at fair value through profit and loss. The loss on disposal is calculated as follows:

		2012 tm
<b>Cash consideration, net of transaction costs</b>	<b>313</b>	
<b>Fair value of financial investment holding at 5 July 2012</b>	<b>315</b>	
<b>Net Consideration</b>	<b>628</b>	
<b>Interest in associate</b>	<b>(595)</b>	
<b>Currency translation and investment valuation reserves recycled to income statement</b>	<b>(162)</b>	
<b>Loss on disposal</b>	<b>(129)</b>	

On 8 January 2013 the Group announced the sale of its remaining shareholding in Delta Lloyd, resulting in gross cash proceeds of £353 million.

#### (iv) Sri Lanka

On 4 December 2012, the Group sold its controlling 58.4% interest in Aviva NDB Holdings Lanka (Private) Limited ("Aviva NDB"), to AIA Group Limited for consideration of £31 million. Net assets of the business were £16 million (comprising gross assets of £205 million and liabilities of £189 million). After recycling of currency translation reserves of £3 million the profit on disposal amounted to £12 million.

#### (c) Assets and liabilities of operations classified as held for sale

The assets and liabilities of operations classified as held for sale as at 31 December 2012 are as follows:

		Other fin Total fm	Tot al C m
Assets		866	
Goodwill		917	
Acquired value of in-force and intangible assets	408		1
Interests in, and loans to, joint ventures and associates			1
Property and equipment Investment Property Loans			2
Financial investments	6		
Reinsurance assets	3,397		1
Deferred acquisition costs	31,212		
Other assets	644		
Cash and cash equivalents	1,46		34
	8		7 1
	76		2
	9		3
	54		1
	4		5
	18		2
	3		6
	8		
	3		
	126		
	2		
	1		
	2		
	5,203		
	239		
	70 97		
	373		
	183		
	491		
	126 2		
	18		
	3,397		
	36,415		
	883		
	1,538		

	38,448	6,388	44,836	426
Additional impairment to write down the disposal group to fair value less costs to sell	(2,233)		(2,233)	
<b>Total assets</b>	<b>36,215</b>	<b>6,388</b>	<b>42,603</b>	<b>426</b>
<b>Liabilities</b>				
Gross insurance liabilities	(31,153)			(344)
Gross liabilities for investment contracts	(2,197)			
Unallocated divisible surplus				
Provisions	(184)			(4)
Deferred tax liabilities	(672)			
Borrowings Other liabilities	(145)			
	(1,497)			(15)
	(3,294)			
	(1,857)			
	(55)	(3)		
	(8)			
	(346)			
	(34,447)			
	(4,054)			
	(55)			
	(187)			
	(680)			
	(145)			
	(1,843)			
<b>Total liabilities</b>	<b>(35,848)</b>	<b>(5,563)</b>	<b>(41,411)</b>	<b>(363)</b>
<b>Net assets</b>	<b>367</b>	<b>825</b>	<b>1,192</b>	<b>63</b>

<sup>1</sup> US 1 rip ccwTTprisos US long term buS\*ie\_ prpvO)Sey reported uTder the leading "United States" and associated internal asset fTanaqairwit cx\*aitons fre\*owJy reported under "Aviva Investors" in note 4 - segmental information

13  
1

Aviva 

Annual report on Form 20-F 2012

## Notes to the consolidated financial statements continued

### 3 - Subsidiaries continued

The businesses classified as held for sale comprise:

#### (i) US long term business

On 8 November 2012 the Group confirmed it was in discussions with external parties with respect to its US life operations, consisting of Aviva Life and Annuity Company and the associated internal asset management operations of Aviva Investors North America, Inc ("US Life") and these have been classified as held for sale. On 21 December 2012 the Group announced that it had agreed to sell US Life to Athene Holding Ltd for consideration of £1.0 billion including the shareholder loan (£1.1 billion including repayment of an external loan). There is uncertainty in the ultimate consideration, which depends on the development of statutory surplus between the announcement of sale and ultimate completion date. The transaction is expected to complete in 2013.

Following classification as held for sale, US Life has been re-measured to fair value less costs to sell resulting in an impairment loss of £2,359 million, recognised within "Loss on the disposal and re-measurement of subsidiaries and associates" in the income statement, as a component of the result of discontinued operations.

An impairment of £126 million has reduced the carrying value of property and equipment, investments in associates and prepayments within US Life to nil. The remaining impairment of £2,233 million reduces the value of the US Life disposal group so that the carrying value of this business is equal to its fair value less costs to sell of £367 million.

As described in Note 2a, the results of US Life for the year, as well as those for preceding years, have been classified as discontinued operations in the income statement

Other comprehensive income, net of tax from discontinued operations of £68 million includes £528 million fair value gains on available for sale financial investments, £(235) million fair value gains on available for sale financial investments transferred to the income statement on disposal, £(130) million foreign exchange losses, £12 million of impairment losses transferred to the income statement, and £(107) million aggregate shareholder tax effect.

On completion of the disposal the currency translation reserves and investment valuation reserves relating to the US Life operations, currently recognised within equity, will be recycled to the income statement.

#### (ii) Irish long-term business - Ark Life

Irish long-term business is carried out through a subsidiary, Aviva Life Holdings Ireland Limited ("ALHI"), which is 75% owned by Aviva and 25% owned by Allied Irish Bank ("AIB"). ALHI holds four subsidiaries, one of which is Ark Life Assurance Company Limited ("Ark Life") which carries out bancassurance business via a distribution agreement with AIB. The original distribution agreement was renewable in 2011 but, on 15 December 2011, AIB notified the Group that they did not wish to renew it and the existing shareholders' agreement governing ALHI was terminated. The termination of this agreement triggered the ability for both parties to exercise put and call options that will result in the unwind of the original structure such that the Ark Life business returns 100% to AIB and the Group will purchase the 25% minority stake in ALHI. The formal exercise of these options was approved on 17 January 2012 and, as a result, the Ark Life business became held for sale on that date. The exercise of the put options in January 2012 over AIB's non-controlling interest in ALHI led to our reclassifying this non-controlling interest from equity to financial liabilities as at 31 December 2011

The net impact of movements in expected disposal proceeds and financial liability was a charge to profit of £35 million, before exchange movements, recognised within net investment income. On 8 March 2013, Aviva completed the transaction with AIB having agreed net proceeds of €135 million

**(iii) Spanish long-term business - Aseval**

On 18 December 2012 Aviva reached a settlement with Bankia S A ("Bankia") to transfer the Group's entire holding in Aseval Aseguradora Valenciana, Sociedad Anónima de Seguros y Reaseguros ("Aseval"), a Spanish life assurance company, to Bankia. Aseval was classified as held for sale at this date. The transfer is expected to complete on or before 30 April 2013 with proceeds of £494 million. Aseval is included within the 'Italy, Spain and Other' operating segment at its carrying value.

**(iv) Russian long-term business**

During the year the Group entered into negotiations to dispose of Aviva Russia. On 27 February 2013 the Group announced the sale of the business to Blagosostoyanie for consideration of €35 million. The transaction is expected to complete in the first half of 2013. The business is included in the statement of financial position at its carrying value.

**(v) Other**

Other businesses classified as held for sale comprise joint ventures in Taiwan and Malaysia, details of which are given in note 15(a), and the Group's pensions business subsidiary in Romania.

#### 4 - Segmental information

The Group's results can be segmented, either by activity or by geography. Our primary reporting format is on market reporting lines, with supplementary information being given by business activity. This note provides segmental information on the consolidated income statement and consolidated statement of financial position.

##### (a) Operating segments

Following the announcement in April 2012 relating to the restructuring of the Group, the Group's operating segments were changed to align them with the new management structure. The revised segments are set out below. Results for prior years have been restated to facilitate comparison with this new structure.

##### United Kingdom & Ireland

The United Kingdom and Ireland comprises two operating segments - Life and General Insurance. The principal activities of our UK and Ireland Life operations are life insurance, long-term health and accident insurance, savings, pensions and annuity business and Health in the UK, whilst UK and Ireland General Insurance provides insurance cover to individuals and businesses, for risks associated mainly with motor vehicles, property and liability (such as employers' liability and professional indemnity liability) and medical expenses. UK & Ireland General Insurance business also includes the results of Ireland Health. For the period to its disposal on 30 September 2011, UK and Ireland General Insurance also included the RAC motor recovery business.

##### France

The principal activities of our French operations are long-term business and general insurance. The long-term business offers a range of long-term insurance and savings products, primarily for individuals, with a focus on the unit-linked market. The general insurance business predominantly sells personal and small commercial lines insurance products through agents and a direct insurer.

##### Canada

The principal activity of the Canadian operation is general insurance. In particular it provides personal and commercial lines insurance products through a range of distribution partners.

##### Italy, Spain and Other

These countries are not individually significant at a Group level, so have been aggregated into a single reporting segment in line with IFRS8. This segment includes our operations in Italy and Spain (including Aseval which is held for sale as at 31 December 2012). The principal activities of our Italian operations are long-term business and general insurance. The life business offers a range of long-term insurance and savings products, and the general insurance business provides motor and home insurance products to individuals, as well as small commercial risk insurance to businesses. The principal activity of the Spanish operation is the sale of long-term business, accident and health insurance and a selection of savings products. This segment also includes the results of our Czech, Hungarian and Romanian life businesses up until the date of their sale in July 2012 as well as our Reinsurance and Run Off businesses.

##### Higher growth markets

Activities reported in the higher growth markets operating segment include our businesses in Asia, Poland, Turkey and Russia. Our activities in Asia principally comprise our long-term business operations in China, India, Singapore, Hong Kong, South Korea, Vietnam and Indonesia as well as our life operations in Taiwan and Malaysia which are held for sale as at the balance sheet date and the results of Sri Lanka up until the date of disposal in December 2012. Higher growth also includes general insurance operations in Singapore, Indonesia, Poland and Turkey and long-term business in Poland, Turkey and Russia (which is held for sale at the year-end).

##### Aviva Investors

Aviva Investors operates in most of the markets in which the Group operates, in particular the UK, France and Canada and other international businesses, managing policyholders' and shareholders' invested funds, providing investment management services for institutional pension fund mandates and managing a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs. The internal asset management operations of Aviva Investors North America are being sold with the Group's US life operations and are classified as held for sale and as a discontinued operation in these financial statements.

##### Other Group activities

Investment return on centrally held assets and head office expenses, such as Group treasury and finance functions, together with certain taxes and financing costs arising on central borrowings are included in 'Other Group activities', along with central core structural borrowings and certain tax balances in the segmental statement of financial position. Also included here are consolidation and elimination adjustments and the Group's interest in Delta Lloyd, as an associate to 5 July 2012, and as a financial investment after that date.

##### Discontinued operations

In December 2012 the Group announced it had agreed to sell its US life operations (including the related internal asset management operations of Aviva Investors) and therefore it has been classified as a discontinued operation for presentation in the income statement and held for sale in the statement of financial position.

On 6 May 2011 the Group ceased to hold a majority of the shareholder voting rights in Delta Lloyd and therefore the results of Delta Lloyd up to 6 May 2011 are presented as discontinued operations for 2011 and prior years. After this date, the Group ceased to consolidate Delta Lloyd.

##### Measurement basis

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are on normal commercial terms and market conditions. The Group evaluates performance of operating segments on the basis of

- (i) profit or loss from operations before tax attributable to shareholders
- (ii) profit or loss from operations before tax attributable to shareholders, adjusted for non-operating items outside the segment management's control, including investment market performance and fiscal policy changes



operating profit/(loss) before tax  
 attributable to shareholders<sup>5</sup>  
 422

	(35)		
		6	
		2	
		0	
(56)		(	
		3	
1		4	
		2	
108		)	
		2	
13		7	
		8	
(7)			
12	144	(7) —	
		(7)	
		21	
			782
414		60	
			129
		128	
			2,359.7
		164	
(15)		461	
		523	
(1)		(107)	
(12)			2
9			
202			1
		842	
		257	
		2,523	
		468	
		523	
		(	
		1	
		0	
		7	
		)	239
		2,127	

1 Infrumnt losirt, and reversal of such losses, rrxortisc' directy «i other corrupt wns/v' income vneie Crul mllcn and ftrl mWlcn respectively  
 2 ->continued operators represent the operations of the United States Life business and related internal asset mrvwgemeni activities  
 3 Awva Investors adjusted operating profit includes 13 nulu profit reting to the Awva Investors Poolcil Pension busme-  
 A Other group aciniUn include Delia Lloyd as an associate up until S My 2017 and as a financial investment thereafter  
 S Adjusted operating profit is a non-GAAP measure as defined in the glossary





(12,735)	(5,176)	(4,241)			(2,014)	(3,950)		(926)	(542)	(910)	(30,494)		
(35)	806	267	297	(48)	186	(8,335)	(38,829)	37	(464)	(91)			
					36	(1,136)							
<b>Profit/(loss) before tax attributable to shareholders</b>	<b>186</b>	<b>806<sup>(8)</sup></b>	<b>267</b>	<b>297</b>	<b>3</b>	<b>(48)</b>	<b>178</b>	<b>36<sup>178</sup></b>	<b>(1,136)</b>	<b>551</b>	<b>(464)</b>	<b>87</b>	
Reclassification of corporate costs and unallocated interest					20		2			(25)	-		
Investment return variances and economic assumption changes	543		47	285				22	(23)		897		
Short term fluctuation in return				54		140			30				
on investments backing non-long-term business Economic assumption changes		(64)	62							74		266	
on general insurance and health business Impairment of goodwill, associates and joint ventures	1		86				1	15		217			
Amortisation and impairment of intangibles (Profit)/loss on the disposal of subsidiaries and associates	4			11		1		5				90	
Integration and restructuring costs	9		(37)			1						392	
Exceptional items	6		20			2							
Share of Delta Lloyd's non-operating items (before tax), as an associate	6	(528)	37	35						23			
Share of Delta Lloyd's tax expense, as an associate	46									93			
	22										116		
											(565)		
											261	57	
										(10)			
										)			
											(10)		
											34		
												719	1,616
										60			
											32		
											6		
												9	
												0	
										60			
											392		
												32	
												7	
												176	
												(533)	
												268	
												57	"
												(	
												1	
												0	
												)	
												3	
												4	
<b>Adjusted operating profit/(loss) before tax attributable to shareholders<sup>6</sup></b>	<b>977</b>	<b>50</b>	<b>471</b>	<b>254</b>	<b>334</b>	<b>229</b>	<b>53</b>	<b>(730)</b>	<b>2,089</b>	<b>414</b>	<b>2,503</b>		

Income tax losses, and reversal of such losses recognized directly in other comprehensive income were of 2 million and 1 million respectively. Discussed operations represent the operations of the United States Life Insurance and related asset management activities, and the results of Delta Lloyd up until Aviva investors adjusted capital rating includes of 3 million profit relating to the Aviva Investor Pooled Pension business.

Following a review of the classification of contracts issued by the Group's Italian long-term business, certain portfolios have been reclassified from participating impact on the result for any year presented as a result of this reclassification. Other group activities include Delta Lloyd as an associate. Adjusted operating profit is a non-GAAP measure as defined in the glossary.

io parnapanng invesimc-nt contracts fa all yea's presented  
There is no

## Notes to the consolidated financial statements continued

### 4 - Segmental information continued

#### a (iii) Segmental income statement for the year ended 31 December 2010

	United Kingdom & Ireland		Restated*						Discontinued Operations' total Cm
	France Em		Italy, Spain and Other Cm	Higher cost markets	Aviva investors <sup>1</sup>	Other Group activities <sup>2</sup> Cm	Restated* Continuing operations Cm		
Gross written premiums	5,002	6,040	—	27,19					
Premiums ceded to reinsurers Internal reinsurance revenue	(532) 37	(53) (8)	2	9,082					
Net written premiums Net change in provision for unearned premiums	7,068 (777) (4)	5,979 (24)	— (1,61)	36,274 1) (252)					
Net earned premiums	6,275	5,148	—	5	(5) -	339			
Fee and commission income	374	2,067	—	25,5					
	(19)	(93)		(72)	(3)				
	4,488	288	(16)	86					
				8,82					
		1,958		5					
		29		34,4					
		1,98		11					
		7 44		(75)					
		5,732		—		34,336			
		(66)		25,51		1,782			
		(1)		4 8,822					
		5,665		—					
		(34)		1,4					
		5,63		51 331					
		1 167							
		1,283							
		(90)							
		(3)							
		1,190							
		(12)							
		1,178							
		91							
Net investment income(Aexpense)	6,649	1	—						
Inter-segment revenue	11,38	1,26	65	26,9					
Share of (loss)/profit of joint ventures and associates Profit/(loss) on the disposal and remeasurement of subsidiaries and associates	7	9	36,118	813					
	127	555	16,746						
		36	5,247						
	128	33	21,993						
	4,776	9	(9)	141		131			
	403	17							
	6,10	1	147						
	3	14	67 214						
	2,61	7							
	0			(10)					
				163		159			
				(4)					
	25								
	2.03								
	1 220								
	1								
	5,79								
	8 587								
	(24)								

Segmental income	18,291	5,184	8,746	2,252	6,362	1,860	660	807	44,162	14,453	58,615				
Claims and benefits paid, net of recoveries from reinsurers	(8,704)	(3,230)	(4,175)	(1,391)	(3,879)	(861)	—	—	(22,240)	(6,912)	(29,152)				
Change in insurance liabilities, net of reinsurance	273					(502)		(2,837)	(3,692)	(6,529)	(9,212)	(177)			
Change in investment contract provisions				402	(2,394)	388	37	(230)	—						
Change in UDS							30	(9,389)	(33)	362		329			
Amortisation of acquired value of in-force business		(14)					(7)	(127)		(47)		(174)			
Impairment of goodwill and other intangibles, depreciation and other amortisation expense	(83)			(26)	(34)										
Other operating expenses	(1,463)			(701)	(605)	(10)	(10)	—	(208)	(93)	(301)	(385)	(1;200)		
Impairment losses on AVIF and tangible assets	(134)					(373)	(7,358)	(1,364)	(8,722)						
Inter-segment expenses	(194)	(43)	(2)	(1,779)	(852)	(6)	—	—	—	(3)	(204)	(207)			
Finance costs			(3)	(3)	(51)	(4)	—	(3)	(420)	(682)	(67)	(214)	(740)		
			(2)		(10)	(2)	(1,422)								
Segmental expenses	(17,070)	(4,836)	(8,359)			(2,029)	(6,138)		(1,692)	(628)	(1,620)				
(2,699)	(414)	(42,372)	(13,409)	(55,781)											
(3,695)	(2,930)														
(90)	34	1,221	348	387	223	224		32	(813)		1,044				
(8)	(18)	(387)													
		168													
		(7)													
(Loss) profit before tax	1,790														
Tax attributable to policyholders' returns	(394)														
	2,834														
103	(394)														
<b>Profit/(loss) before tax attributable to shareholders</b>	834	348	387	223	224	16	32	(813)	1,396	1,044	2,440				
Reclassification of corporate costs and unallocated interest	99	148		2	—	10	5	80	—	12	(266)				
Investment return variances and economic assumption changes	149	—					(10)	—			229	(1,020)			
Short term fluctuation in return on investments backing non-long-term business	—	10		(21)	(44)					227	199	44			
Economic assumption changes on general insurance and health business	—		61	—		9						61			
Impairment of goodwill, associates and joint ventures	4	—				31	1						23		
Amortisation and impairment of intangibles	70	7	—		21	(	5	5	—				(163)		
(Profit) loss on the disposal of subsidiaries and associates	(128)	(5)	(25)	(1)	(	1							216		
Integration and restructuring costs	51	48	8	20	6	1	28						(276)		
Exceptional items	(99)	(157)	—	10		5	(11)								
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—							(791)					
Share of Delta Lloyd's tax expense, as an associate	—	—	—												
<b>Adjusted operating profit/(loss) before tax attributable to shareholders'</b>	980	460	361	229	381	172	66			243			1		
													77		
													4	27	
													549		
														61	
														24	
														216	
										(3)	(159)	243	273		
										40					
										(19)					
														(825)	1,824

Impairment losses and reversal of such losses, recognised directly in equity

Discontinued operations represent the operations of the United States life assurance and related asset management activities and the results of Delta Lloyd Aviva Investors adjusted operating profit includes a 3 mm Bon profit relating to the Aviva Investors Pooled Pension business

Following a review of the distribution of contracts issued by the Group's Italian long-term business, certain portfolios have been reclassified from participating investment contracts for 2019 years presented here

Impact on the result for any year presented as a result of this reclassification Adjusted operating profit - a non-GAAP measure as defined in the glossary

726,255

## Notes to the consolidated financial statements continued

## 4 - Segmental information continued

a (iv) Segmental statement of financial position as at 31 December 2012

	Developed Markets			Developed Markets		Developed Markets		Developed Markets		Developed Markets	
	Life	GI	UrvtedlOn9dom»»etind Franc £m	United States £m	Italy	Spain	Canada	markets high £m	Aviva rrvestors £m	Other Group activities £m	
Goodwill	—	1,037	13	50	50	34	6	2	—	1,520	
Acquired value of in-force business and intangible assets	140	58	3	49	2	—	4	7	—	1,084	
Interests in, and loans to, joint ventures and associates	1,185	—	148	—	21	—	5	5	—	1,708	
Property and equipment	91	34	1,3	—	—	5	2	37	6	4	391
Investment property	7,650	8	220	—	83	14	1	—	—	720	10,81
Loans	23,193	29	—	—	3.76	21.9	1	4	—	70	5
Financial investments	90,064	3,127	60,001	—	6	00	1	—	—	3,70	24.53
Deferred acquisition costs	1,422	—	519	211	275	106	—	—	1.0	0	7
Other assets	16,883	4,122	11,304	—	1.05	2,82	3	—	—	—	189.0
Assets of operations classified as held for sale	3,490	—	—	36,187	—	8	—	—	—	—	78
<b>Total assets</b>	144,118	9,204	74,207	36,187	5,297	28,461	7,253	—	—	—	2,408
	8,554	315.689	—	—	—	—	—	—	—	—	—
Insurance liabilities											
Long term business and outstanding claims provisions	71,282	5,789	14,194	—	2,4	—	—	—	—	—	—
Unearned premiums	238	2,274	369	—	94	—	—	—	—	—	—
Other insurance liabilities	—	86	61	—	1,1	—	—	—	—	—	—
Liability for investment contracts	49,719	—	46,952	—	27	—	—	—	—	—	—
Unallocated divisible surplus	2,055	—	4,591	—	98	6,1	—	—	—	—	—
Net asset value attributable to unitholders	1,375	—	3,383	—	—	83	—	—	—	—	—
External borrowings	2,949	3	—	—	—	5,1	—	—	—	—	—
Other liabilities, including inter-segment liabilities	7,114	(2,545)	2,562	—	—	41	—	—	—	—	—
Liabilities of operations classified as held for sale	3,257	—	—	35,83	—	—	3,932	—	—	—	—
	—	—	—	—	467	—	—	—	—	—	—
	—	—	—	—	—	108,4	—	—	—	—	—
	—	—	—	—	—	02	—	—	—	—	—
	—	—	—	—	9,73	4,441	—	—	—	—	—
	—	—	—	—	0	248	—	—	—	—	—
	—	—	—	—	280	110,4	—	—	—	—	—
	—	—	—	—	2	94	—	—	—	—	—
	—	—	—	—	11.8	6.931	—	—	—	—	—
	—	—	—	—	93	11,14	—	—	—	—	—
	—	—	—	—	38	6	—	—	—	—	—
	—	—	—	—	205	8,194	—	—	—	—	—
	—	—	—	—	101	—	—	—	—	—	—
	—	—	—	—	—	13,0	—	—	—	—	—
	—	—	—	—	93	62	—	—	—	—	—
	—	—	—	—	1	41,4	—	—	—	—	—
	—	—	—	—	2,1	11	—	—	—	—	—
	—	—	—	—	88	—	—	—	—	—	—
	—	—	—	—	—	4,9	—	—	—	—	—
	—	—	—	—	—	13	—	—	—	—	—
	—	—	—	—	—	153	—	—	—	—	—
	—	—	—	—	—	1.47	—	—	—	—	—
	—	—	—	—	—	247	—	—	—	—	—
	—	—	—	—	—	34	—	—	—	—	—
	—	—	—	—	—	6	—	—	—	—	—
	—	—	—	—	—	11	—	—	—	—	—
	—	—	—	—	—	8	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	1.883	—	—	—	—	—
	—	—	—	—	—	25	—	—	—	—	—
	—	—	—	—	—	5	—	—	—	—	—
	—	—	—	—	—	1	—	—	—	—	—
	—	—	—	—	—	3	—	—	—	—	—

<b>Total liabilities'</b>	<b>137,989</b>	<b>5,607</b>	<b>72,112</b>	<b>35,835</b>	<b>4,186</b>	<b>25,368</b>	<b>5,825</b>	<b>2,151</b>	<b>15,256</b>
	<b>304,329</b>								
<b>Total equity</b>									<b>11 360</b>
<b>Total equity and liabilities</b>									<b>315,689</b>
Capital expenditure (excluding business combinations)	<b>63</b>	<b>42</b>	<b>176</b>	<b>29</b>	<b>2</b>	<b>15</b>	<b>24</b>	<b>—</b>	<b>377</b>

External borrowings by holding companies within the Group which are not allocated to operating companies are included in 'Other Group activities'.

## 4 - Segmental information continued

## a (v) Segmental statement of financial position as at 31 December 2011

	United Kingdom & Ireland		Other Markets					Group	Restated' £m	Restated' £m
	Li e £ m	G £ m	Restated- Italy, Spain United Canada and Other £m	Higher growth States Investors £m	Other Aviva activities' £m	Total £m markets	£m			
Goodwill	—	1,040		29		1				
Acquired value of in-force business and intangible assets	326	67	650	150	77	2				
Interests in, and loans to, joint ventures and associates	1,274	45		1,137	678	3				
Property and equipment	228	20		3		60				
Investment property	8,431	524				0				
Loans	23,440	3,2		884	182	1				
Financial investments	90,165	68		579	23,8	3				
Deferred acquisition costs	1,594	566		3,68	95	40				
Other assets	16,864									
Assets of operations classified as held for sale	142,322	9,358	69,689	38,983	5,336	28,168	6,699	2,700	9,121	
<b>Total assets</b>		3,828	80	1,118	2,640	2,021				
				68		2,818	510	11,638		
						28,116		3,078		
		155	113	216,058		4,755		4,459		
			6	43,394						
		152	3,067		426					
		50	30,61							
		1,24	3							
		6	1,950							
		949	1,752							
		55,0								
		74								
		207								
		11,8								
		56								
<b>Insurance liabilities</b>										
Long term business and outstanding claims provisions	72,51	—	—142,615							
Unearned premiums	3	—	—4,483							
Other insurance liabilities	350	—	—281							
Liability for investment contracts										
Unallocated surplus	48,45	2,137	—113,366							
Net asset value attributable to unitholders			—650							
External borrowings	6	—	5,693	10,352						
Other liabilities, including inter-segment liabilities	1,71	—	5,255	8,450	4,122	16,453	—363			
Liabilities of operations classified as held for sale	309									
	6,04	13,6								
	8	79	296	15						
	2,20	353	1	3						
	9,95	85	12,5							
		47,3	43	5						
		46	(1,4	1						
			35)							
	30,697	2,538	12,408	18,89						
	4,732									
	2,833	1,122	—100	1,05						
		—159								
	8,829	(3,280)	2,538	456	232					
	2,188									
<b>Total liabilities</b>	136,084	5,074	67,612	35,877	4,216	25,342	5,292	2,446	15,070	
	297,013									
<b>Total equity</b>									15,363	
<b>Total equity and liabilities</b>									312,376	
Capital expenditure (excluding business combinations)	55	79	2	1	20	—214				

1 Other group activities include Delta Lloyd as an associate

2 Following a review of the classification of contracts issued by the Group's Italian long-term business, certain portfolios have been reclassified from participating in insurance to participating in investment contracts for all years presented. There is no impact on the result for any year presented as a result of this reclassification.

**(b) Further analysis by products and services**

The Group's results can be further analysed by products and services which comprise long-term business, general insurance and health, fund management and other activities.

**Long-term business**

Our long-term business comprises life insurance, long-term health and accident insurance, savings, pensions and annuity business written by our life insurance subsidiaries, including managed pension fund business and our share of the other life and related business written in our associates and joint ventures, as well as lifetime mortgage business written in the UK.

**General insurance and health**

Our general insurance and health business provides insurance cover to individuals and to small and medium sized businesses, for risks associated mainly with motor vehicles, property and liability, -such as employers' liability and professional indemnity liability, and medical expenses.

**Fund management**

Our fund management business invests policyholders' and shareholders' funds, provides investment management services for institutional pension fund mandates and manages a range of retail investment products, including investment funds, unit trusts, OEICs and ISAs. Clients include Aviva Group businesses and third-party financial institutions, pension funds, public sector organisations, investment professionals and private investors

**Other**

Other includes the RAC non-insurance operations (up to the disposal date of 30 September 2011), service companies, head office expenses, such as Group treasury and finance functions, and certain financing costs and taxes not allocated to business segments

**Discontinued operations and Delta Lloyd**

In the products and services analysis, the results of US Life (including the related internal asset management business) for all periods presented and Delta Lloyd up to 6 May 2011 are presented as discontinued operations. Between 6 May 2011 and 5 July 2012, the Group's share of the results of its interest in Delta Lloyd as an associate and, from 5 July 2012 to the year-end, as a financial investment, are shown only within other activities within continuing operations



Notes to the consolidated financial statements  
continued

## 4 - Segmental information continued

## b (i) Segmental income statement - products and services for the year ended 31 December 2012

	Long-term business	General insurance and retail	£m	rdmax) rient fm	Fund Other <sup>1</sup> Total fm	fm
Gross written premiums <sup>1</sup>	13,209	—				
Premiums ceded to reinsurers	(930)	44	22.7			
	9,535	44				
	(641)	-				
		1)	(1.57			
Net written premiums	12,279	8,894				
Net change in provision for unearned premiums		(16)				
		21,173				
		(16)				
Net earned premiums Fee and commission income	12,27	—	21,157			
	9,632	245	1,273	331		
	8,878					
	65					
Net investment income(Aexpense)	12,911	331	245	22,430		
Inter-segment revenue	20,295	6	(18)	21,106		
Share of (loss)Vprofit of joint ventures and associates		12	—	127		
(Loss)Vprofit on the disposal and remeasurement of subsidiaries and associates	(27)	(6)	7	(254)	(277)	
	8,943			(137)	(164)	
	823	3				
	1					
	(21)					
<b>Segmental income</b>	33,173	9,746	467	(164)	43,222	
Claims and benefits paid, net of recoveries from reinsurers	(17,839)			(23,601)		
Change in insurance liabilities, net of reinsurance	(359)			(430)	(4,450)	
Change in investment contract provisions	(4,450)			(6,316)	(43)	
Change in unallocated divisible surplus	(6,316)					
Amortisation of acquired value of in-force business	(43)			(336)	(6,858)	
Impairment of goodwill and other intangibles, depreciation and other amortisation expense Other operating expenses	(236)			(65)		
Impairment losses on AVIF and tangible assets	(2,477)			(821)		
Inter-segment expenses Finance costs	(37)					
	(116)	(10)		(80)	(127)	
	(215)	(390)			(735)	
	(5,762)					
	(71)	(56)				
		(435)				
	(25)					
	(3,170)					
	(43)					
	(11)					
	(29)					
<b>Segmental expenses</b>	(32,088)	(9,111)	(456)	(1,321)		
	(42,976)					
Profit/(loss) before tax from continuing operations	1,08	635	11	(1,485)		
Tax attributable to policyholder returns	5					
	(221)					
	246					
	(221)					
<b>Profit(Aloss) before tax attributable to shareholders</b>	864	635	11	(1,485)	25	
Adjusted for: .....						
<b>Non-operating items from continuing operations (excluding Delta Lloyd as an associate)</b>	967	258	40	182	1.44	
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	523	7	
Share of Delta Lloyd's tax expense, as an associate	—	—	—	(107)	523	
<b>Adjusted operating profit/(loss) before tax attributable to shareholders' profits from continuing operations"</b>			1,831	8,987	1,888	
<b>Adjusted operating profitV(loss) before tax attributable to shareholders' profits from discontinued operations<sup>5</sup></b>			200	(165)	239	
			106	(903)	2,127	
<b>Adjusted operating profit/(loss) before tax attributable to shareholders' profits</b>					2,031	
		893				

Gross written premiums includes inward reinsurance premiums assumed from other companies amounting to £370 million, of which £130 million relates to property and liability insurance and £240 million relates to long-term business General insurance and health business segment includes gross written premiums of £1,164 million relating to health business The remaining business relates to property and liability insurance Other includes Delta Lloyd as an associate to 5 July 2012. head office expenses such as group treasury and finance functions, and certain financing costs and taxes not allocated to business segment Ad-uSU'd operating prof.- is a non-GAAP measure as defined in the glossary D'scontinued operations represent the operations of the United States Life business and related internal asset management activities

## Notes to the consolidated financial statements continued

### 4 - Segmental information continued

#### b (ii) Segmental income statement - products and services for the year ended 31 December 2011

	(restated* long-term Business	General reinsurance and rearm tm	Fund reinsurance tm	tm	Restate of Total tm
Gross written premiums'	16,505				
Premiums ceded to reinsurers	(960)				
	9,750				
	(588)				
	)				
	26,255				
	(1,548)				
	)				
Net written premiums	15,545	9,162		—	24,707
Net change in provision for unearned premiums		(236)		-	
		)			(236)
				)	
Net earned premiums Fee and commission income	15,54	—	24,471		
	5 705	333	1,465	373	
	8,92				
	6 54				
Net investment income(Aexpense) Inter-segment revenue		333			
		(199)			
Share of (loss/profit of joint venture and associates	16,25	25,936			
(Loss/Vprofit on the disposal and remeasurement of subsidiaries and associates	0	4,341	—		
	3,811	156	(111)		
		(123)	569		
	(10)	565			
	8,98				
	0 725				
	(28)				
	373 4				
	156				
	(2)				
	24				
<b>Segmental income</b>	<b>20,051</b>	<b>9,677</b>	<b>555</b>	<b>592</b>	<b>30,875</b>
Claims and benefits paid, net of recoveries from reinsurers	(18,435)		(24,380)		
Change in insurance liabilities, net of reinsurance Change in investment contract provisions Change in unallocated divisible surplus	(2,281)		(2,284)		
	1,478		1,478		
Amortisation of acquired value of in-force business on insurance contracts	2,721	(64)	2,721		
Impairment of goodwill and other intangibles, depreciation and other amortisation expense Other operating expenses Impairment losses on AVIF and tangible assets Inter-segment expenses Finance costs	(70)	(833)	(70)		
	(277)	(19)	(376)		
	(2,293)		(6,563)		
	(17)	(484)	(96)		
	(145)		(156)		
	(205)		(776)		
	(5,945)				
	) (3)				
	(19)				
	(2,994)				
	) (60)				
	(11)				
	(36)				
	(16)				
	)				
	(443)				
	)				
	(51)				

<b>Segmental expenses</b>	(19,524)	(9,068)	(510)	(1,400)
	(30,502)			
Profit/(loss) before tax from continuing operations	527 178	609	45	(808)
Tax attributable to policyholder returns	373 178			
Profit/(Loss) before tax attributable to shareholders from continuing operations	705	609	45	(808)
Adjusted for				551
Non-operating items from continuing operations (excluding Delta Lloyd as an associate)	1,221	326	16	(49)
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	(10)
Share of Delta Lloyd's tax expense, as an associate	—	—	—	34
<b>Adjusted operating profit/(loss) before tax attributable to shareholders' profits from continuing operations<sup>1</sup></b>	1,926	935	61	(833)
<b>Adjusted operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations<sup>2</sup></b>	382	1	49	(18)
<b>Adjusted operating profit/(loss) before tax attributable to shareholders' profits</b>	2,308	936	110	(851)
				2,503

1. Gross written premium includes inward re-invoice premiums assumed from other companies amounting to £226 million. of which £20 million relates to property and casualty insurance and £16 million relates to long-term business

2. General insurance and health business segment, includes gross written premiums of £1,107 million relating to health business. The remaining business relates to property and liability insurance

3. Other includes the RfIC up to the date of disposal. Delta Lloyd as, an associate from 6 May 2011, head office expenses, such as group treasury and finance functions, and certain other costs not allocated to business segments

4. Adjusted operating profit is a non-GAAP measure as defined in the glossary

5. Operations of the United States Life business and related internal asset management activities and the results of Delta Lloyd up until its incorporation in May 2011

6. Following a review of the classification of contracts issued by the Group's Italian long-term business, certain portfolios have been reclassified from participating insurance to participating investment contracts for all years presented. There is no impact on the results of any year presented as a result of this reclassification

**Notes to the consolidated financial statements  
continued****4 - Segmental information continued****b (iii) Segmental income statement - products and services for the year ended 31 December 2010**

	Restated*- Long-term Business £m	General trijorance and health £m	Fund management £m	Other fmf £m	Restate d* Total £m
Gross written premiums <sup>1</sup>	17,987				
Premiums ceded to reinsurers	(923)				
	9,205				
	(683)				
	)				
	27,192				
	(1,606)				
	)				
Net written premiums	17,064	8,522		—	25,586
Net change in provision for unearned premiums		(72)		—	(72)
				)	
Net earned premiums	17,06	—	25,514		
Fee and commission income	4,627	343	1,451	387	
	8,450				
	94				
	17,69				
Net investment income(Aexpense)	1				
Inter-segment revenue	15,17				
Share of (loss)/profit of joint venture and associates	5				
(Loss)/profit on the disposal and remeasurement of subsidiaries and associates	18				
	0				
	13				
	0				
	8,544				
	500				
	1				
	387				
	147				
	(5)				
	343				
	1,06				
	4				
	(3				
	4)				
	32				
	26,965				
	16,746				
	147				
	141				
	163				
<b>Segmental income</b>	<b>33,176</b>	<b>9,045</b>	<b>536</b>	<b>1,405</b>	<b>44,162</b>
Claims and benefits paid, net of recoveries from reinsurers	(16,231)		—		
Change in insurance liabilities, net of reinsurance Change in investment contract provisions Change in unallocated divisible surplus	(3,226)			(22,2	
	(9,212)		40)		
	362	(47)	—	(2,8	
Amortisation of acquired value of in-force business on insurance contracts			37)		
Impairment of goodwill and other intangibles, depreciation and other amortisation expense Other operating expenses Impairment losses on AVIF and tangible assets Inter-segment expenses	(121)	(10)	—	(9,2	
	(2,479)	(430)	12)	(50)	
	(1)		—	(£661)	
	(139)		62	1	
	(140)	(65)	—	(	
Finance costs	(6,009		47)	(429)	
	) 389				
				(208)	
				(7,358)	(3)
				(147)	(682)
	(27)				
	(2,788				
	) (3)				
	(8)				
	(48)				

<b>Segmental expenses</b>	(31,234)	(8,494)	(505)	(2,139)	(42,372)
Profit(Aloss) before tax from continuing operations	1,94	551	3	(734)	
Tax attributable to policyholder returns	2				
	(394)				
	)				
	1,79				
	0				
	(394)				
	)				
Profit(Aloss) before tax attributable to shareholders from continuing operations	1,548	551	31	(734)	1,396
Adjusted for:					
Non-operating items from continuing operations (excluding Delta Lloyd as an associate)	266	35433	(225)		428
Share of Delta Lloyd's non-operating items (before tax), as an associate	—	—	—	—	—
Share of Delta Lloyd's tax expense, as an associate	—	—	—	—	—
<b>Adjusted operating profit/(loss) before tax attributable to shareholders' profits from continuing operations<sup>1</sup></b>	<b>1,814</b>	<b>905</b>	<b>64</b>	<b>(959)</b>	<b>1,824</b>
<b>Adjusted operating profit/(loss) before tax attributable to shareholders' profits from discontinued operations<sup>1</sup></b>	<b>504</b>	<b>146</b>	<b>135</b>	<b>(59)</b>	<b>726</b>
<b>Adjusted operating profit/(loss) before tax attributable to shareholders' profits</b>	<b>2,318</b>	<b>1,051</b>	<b>199</b>	<b>(1,018)</b>	<b>2,550</b>

Gross written premiums includes inward reinsurance premium assumed from other companies amounting to €243 million, of which €113 million relates to property and casualty insurance and €133 million relates to long-term business. General insurance and health business segment includes gross written premiums of €942 million (retained) to health business. The remaining business relates to property and casualty insurance. Other includes the RAC, Delta Lloyd, head office expenses, such as group treasury and finance functions and certain financing costs and taxes not allocated to business segments. Adjusted operating profit is a non-GAAP measure as defined in the glossary.

Discontinued operations represent the operations of the United States life business and related internal asset management activities and the results of Delta Lloyd. Following a review of the classification of contracts issued by the Group's Italian long-term business, certain portfolios have been reclassified from participating insurance to participating investment contracts for all years presented. There is no impact on the result for any year presented as a result of this reclassification.

Aviva

## Notes to the consolidated financial statements continued

Annual report on Form 20-F 2012

## 4 - Segmental information continued

## b (iv) Segmental statement of financial position - products and services as at 31 December 2012

	Long-term business	General insurance and health Cm	Fund management Cm	Other Cm	Total Cm	
Goodwill				361,060	27	1,520
Acquired value of in-force business and intangible assets		799	146	56	83	1,084
Interests in, and loans to, joint ventures and associates		1,699	5	4	—	1,708
Property and equipment			253,94	5	39	391
Investment property			9,956,139	—	720	10,815
Loans				24,085,433	—	19
Financial investments				175,846,926	39	24,537
Deferred acquisition costs				1,615,939	14	189,071
Other assets				29,307,237	453	41,385
Assets of operations classified as held for sale		42,564	11	28	—	42,603
<b>Total assets</b>	<b>286,485</b>	<b>19,330</b>	<b>626</b>	<b>9,248</b>	<b>315,689</b>	
Gross insurance liabilities			98,086,150	005	—	113,091
Gross liabilities for investment contracts		110,494	—	—	—	110,494
Unallocated divisible surplus			6,931	—	—	6,931
Net asset value attributable to unitholders		4,963	—	—	6,183	11,146
External borrowings			3,034	—	5,160	8,194
Other liabilities, including inter-segment liabilities			8,778(2,661)	334	6,611	13,062
Liabilities of operations classified as held for sale		41,237	2	13	159	41,411
<b>Total liabilities</b>	<b>273,523</b>	<b>12,346</b>	<b>18,113</b>	<b>304,329</b>		
<b>Total equity :</b>					<b>11,360</b>	
<b>Total equity and liabilities</b>					<b>315,689</b>	

## b (v) Segmental statement of financial position - products and services as at 31 December 2011

	Restated' Business	General long-term insurance management £m	Other tm	Fund Total fm	Restated' fm
Goodwill		2,640	1,466,106	78	78
Acquired value of in-force business and intangible assets	1,742	145	44	90	2,021
Interests in, and loans to, joint ventures and associates	2,035	5	—	778	2,818
Property and equipment		395,34	16	65	510
Investment property		10,686	152	—	800
Loans		11,638	27,511,605	—	—
Financial investments		28,116			
Deferred acquisition costs		203,247,391	43	3,377	216,058
Other assets		3,755,986	14	—	4,755
Assets of operations classified as held for sale		31,023,671	717	495	5,159
	43,394		426	—	—
<b>Total assets</b>	<b>282,286</b>	<b>19,102</b>	<b>641</b>	<b>10,347</b>	<b>312,376</b>
Gross insurance liabilities		132,138,152	241	—	147,379
Gross liabilities for investment contracts	113,366	—	—	—	113,366
Unallocated divisible surplus	650	—	—	—	650
Net asset value attributable to unitholders	4,659	—	—	5,693	10,352
External borrowings		3,016	—	—	5,434
Other liabilities, including inter-segment liabilities		8,450			
Liabilities of operations classified as held for sale		12,430(3,170)	374	6,819	16,453
<b>Total liabilities</b>		<b>363</b>	<b>—</b>	<b>—</b>	<b>363</b>
				<b>266,622</b>	
<b>Total equity</b>	<b>12,071</b>	<b>374</b>	<b>17,946</b>	<b>297,013</b>	<b>15,363</b>
<b>Total equity and liabilities</b>					<b>312,376</b>

1 Other includes Delta Lloyd as an associate

2 Following a review of the classification of contracts issued by the Group's Italian long-term business, certain portfolios have been reclassified from participating insurance to participating investment contracts for all years presented. There is no impact on the result for any year presented as a result of this reclassification.

## Notes to the consolidated financial statements continued

### 5 - Details of income

This note gives further detail on the items appearing in the income section of the consolidated income statement.

Continuing operations	2012 fm	Restate d' 2011 fm	Restate d' 2010 £m
<b>Gross written premiums (note 4a and 4b)</b>			
Long-term:			
Insurance contracts	9,683	11,671	10,096
Participating investment contracts	4,834	7,891	9,535
General insurance and health	9,750	9,205	
	<b>22,744</b>		
Less: Premiums ceded to reinsurers (note 4a and 4b)	<b>(1,571)</b>		
Internal reinsurance revenue			
Gross change in provision for unearned premiums	(21)	5	
Reinsurers' share of change in provision for unearned premiums	(16)		
Net change in provision for unearned premiums	26,255		
	<u>(1,548)</u>		
	<u>(189)</u>		
	}		
	<u>(47)</u>		
	}		
	(236)		
	27,192		
	<u>(1,611)</u>		
	5		
	<u>(42)</u>		
	}		
	<u>(30)</u>		
	}		
	(72)		
<b>Net earned premiums</b>	<b>21,157</b>	<b>24,471</b>	<b>25,514</b>
<b>Fee and commission income</b>			
Fee income from investment contract business	46		
Fund management fee income Other fee income	1		
Reinsurance commissions receivable	33		
Other commission income Net change in deferred revenue	0		
	30		
	4		
	92		
	41		
	45		
	51		
	9		
	36		
	8		
	44		
	5		
	71		
	33		
	29		
	43		
	8		
	39		
	2		
	44		
	9		
	11		
	0		
	37		
	25		
	1,465		1,45
	<b>1,273</b>		
<b>Total revenue</b>	<b>22,430</b>	<b>25,936</b>	<b>26,965</b>
<b>Net investment income</b>			
Interest and similar income From financial instruments designated as trading and other than trading From AFS investments and financial instruments at amortised cost		Other income from investm	
Dividend income	<b>648</b>	690	778
	<b>(57)</b>	(39)	(22)
	<b>7</b>	8	41
	<b>(492)</b>	148	465
	<b>106</b>	807	1,262
	<b>(9)</b>	—	1
	<b>132</b>	(12)	(52)
	<b>(136)</b>	(105)	(100)

ents designated as trading Realised (losses/Vgains on disposals Unrealised gains and losses (policy J) (Losses/Vgains arising in the year	5,737	5,863
Losses/Agains) recognised in prior periods and now realised	<u>83</u>	<u>77</u>
	<b>5,820</b>	5,940
	<b>1,652</b>	1,322
Other income from investments designated as other than trading		
Realised gains on disposals Unrealised gains and losses (see policy J)		6,088 83
Gains/Oosses) arising in the year	6,171 1,627	
(Gains) recognised in prior periods and now realised	<u>(667)</u>	
		<u>(388)</u> 133
		<u>(349)</u> 200
Realised gains and losses on AFS investments (Gains)/losses recognised in prior periods as unrealised in equity	388	<u>(133)</u>
	<u>69</u>	67
	<u>(697) 667</u>	
Net income from investment properties Rent	<u>(30)</u>	
Expenses relating to these properties	<u>(697) (319)</u>	200
Realised gains on disposal		
Fair value (losses/Vgains on investment properties		1,729 1,296
		<u>(3,827)</u> 8,171
Realised (losses)/gains on loans		<u>        </u> (1,296)
Foreign exchange gains and losses on investments other than trading	<u>1,844</u>	
Other investment (expenses)		
	<b>14,239 (1.844)</b>	
	<b>14,239</b>	(3,827
	(1)	) (1)
	<u>12,395</u>	<u>(5,556) 6,875</u>
		8,171
<b>Net investment income</b>	<b>21,106</b>	4,341 16,746
Share of (loss/Vprofit after tax of joint ventures	<u>(38)</u>	
Share of (loss) after tax of associates	<u>(239)</u>	
Share of (loss/Vprofit after tax of joint ventures and associates	<u>(277)</u>	
(Loss/Vprofit on disposal of subsidiaries and associates (note 3b)	<u>(164)</u>	
	<u>(38)</u>	
	<u>        </u>	
	<u>(85)</u>	
	<u>        </u>	
	(12	
	3)	
	565	
	149	
	(8)	
	141	
	163	
<b>Income from continuing operations</b>	<b>43,095</b>	
<b>Income from discontinued operations</b>	<b>3,49</b>	
	<b>4</b>	
	30,719	
	7,800	
	44,01	
	5	
	14,38	
	6	
<b>Total income</b>	<b>46.589</b>	<b>38,519 58,401</b>

Following a review of the classification of contracts issued by the Group's Italian long-term business, certain portfolios have been reclassified from participating insurance to participating investment contracts for all years presented There is no impact on the result for any year presented as a result of this reclassification

14  
3

A.iva p/c

Annual report on Form 20-F 201 2

## Notes to the consolidated financial statements continued

### 6 - Details of expenses

This note gives further detail on the items appearing in the expenses section of the consolidated income statement

Continuing operations

#### Claims and benefits paid

Claims and benefits paid to policyholders on long-term business

£m 2012 Restated<sup>1</sup> 2011 Restated<sup>1</sup> 2010



Insurance contracts	12,382	12,250	11,591
Participating investment contracts	6,500	6,835	5,185
Non-participating investment contracts	33	38	39
Claims and benefits paid to policyholders on general insurance and health business	6,050	6,264	6,381
	24,965	25,387	23,196
Less: Claim recoveries from reinsurers			
Insurance contracts	(1,197)	(832)	(806)
Participating investment contracts	(167)	(175)	(150)
Claims and benefits paid, net of recoveries from reinsurers	23,601	24,380	22,240
<b>Change in insurance liabilities</b>			
Change in insurance liabilities	663	2,583	1,955
Change in reinsurance asset for insurance provisions	(233)	(299)	882
Change in insurance liabilities, net of reinsurance	430	2,284	2,837
<b>Change in investment contract provisions</b>			
Investment income allocated to investment contracts	3,178	(363)	3,772
Other changes in provisions			
Participating investment contracts (note 37)	759	(944)	5,493
Non-participating investment contracts	525	(174)	(53)
Change in reinsurance asset for investment contract provisions	(12)	3	—
Change in investment contract provisions	4,450	(1,478)	9,212
Change in unallocated divisible surplus (note 41)	6,316	(2,721)	(362)
<b>Fee and commission expense</b>			
Acquisition costs			
Commission expenses for insurance and participating investment contracts	2,393	2,476	2,222
Change in deferred acquisition costs for insurance and participating investment contracts	131	(2)	85
Deferrable costs for non-participating investment contracts	126	66	140
Other acquisition costs	970	1,113	1,058
Change in deferred acquisition costs for non-participating investment contracts	85	46	(29)
Investment income attributable to unitholders	456	252	1,586
Reinsurance commissions and other fee and commission expense	311	375	438
	4,472	4,326	5,500
Other expenses			
Other operating expenses			
Staff costs (note 8b)	1,122	1,160	1,148
Central costs and sharesave schemes	136	138	144
Depreciation (note 17)	42	54	63
Impairment of goodwill on subsidiaries (note 13)	109	160	3
Amortisation of acquired value of in-force business on insurance contracts (note 14)	43	70	47
Amortisation of intangible assets (note 14)	96	111	124
Impairment of acquired value of in-force business (note 14)	73	—	—
Impairment of intangible assets (note 14)	49	49	16
Integration and restructuring costs (see below)	461	261	216
Exceptional items	—	—	(286)
Other expenses	664	657	729
	2,795	2,660	2,204
Impairments			
Net impairment on loans	43	62	6
Net impairment on financial investments	—	2	(1)
Net impairment on receivables and other financial assets	3	31	(4)
Net impairment on non-financial assets	—	1	(1)
	46	96	--
Other net foreign exchange (gains)/losses	4	23	(88)
Finance costs (note 7)	735	776	682
Expenses from continuing operations	42,849	30,346	42,225
Expenses from discontinued operations	6,190	8,264	13,342
<b>Total expenses</b>	<b>49,039</b>	<b>38,610</b>	<b>55,567</b>

I Following a review of the classification of contracts issued by the Group's Luvin long-term business, certain portfolios have been reclassified from participating insurance to participating investment contracts for all years presented. This reclassification has no impact on the result for any year presented as a result of this reclassification.

## 6 - Details of expenses continued

### Integration and restructuring costs

Integration and restructuring costs from continuing operations are £461 million (2011: £261 million; 2010: £216 million). This includes restructuring and transformation activity that has been taken to align our business operations with our strategy, including the Group's Simplify programme (£165 million), Ireland transformation (£130 million) including the merger of our UK and Ireland businesses, £24 million in relation to the transformation of Aviva Investors and £25 million in respect of other restructuring activities. This also includes a cost of £117 million relating to preparing the business for the implementation of Solvency II.

## 7 - Finance costs

This note analyses the interest costs on our borrowings (which are described in note 45) and similar charges. Finance costs comprise:

	2012	2011	2010
Continuing operations	fm	fm	fm
Interest expense on core structural borrowings			
Subordinated debt			
294	302	290	
Long term senior debt			
19	19	19	
Commercial paper			
4	3	1	
	317	324	310~
Interest expense on operational borrowings			
Amounts owed to financial institutions	111	125	55
Securitised mortgage loan notes at fair value	90	88	88
	<u>201</u>	<u>213</u>	<u>143</u>
Interest on collateral received	27	33	20
Net finance charge on pension schemes (note 44e(iv))	82	87	127
Unwind of discount on GI reserves	21	24	22
Other similar charges	87	95	60
Total finance costs from continuing operations	735	776	682
Total finance costs from discontinued operations	21	284	740
Total finance costs	756	1,060	1,422

## 8 - Employee information

This note shows where our staff are employed throughout the world, excluding staff employed by our joint ventures and associates, and analyses the total staff costs.

### (a) Employee numbers

The number of persons employed by the Group, including directors under a service contract, was:

Continuing operations	At 31 December		Average for the year			2010	
	2012 number	2011 Number	2010 Number	2012 Number	2011 Number		
United Kingdom & Ireland	17,580	19,176	22,630	18,695	21,835	22,987	
France		4,272	4,347	4,414	4,261	4,380	4,340
Spain			570	578	581	570	580
Italy			641	618	594	641	606
Canada		3,758	3,599	3,532	3,729	3,552	3,685
Other		24	422	452	217	503	444
Developed markets	26,845	28,740	32,203	28,113	31,456	32,631	
Higher Growth markets	2,669	3,607	3,469	3,509	3,516	3,141	
Aviva Investors	1,056	1,152	1,386	1,134	1,179	1,285	
Group other	641	1,109	741	833	887	718	
Employees in continuing operations	31,211	34,608	37,799	33,639	37,038	37,775	
Employees in discontinued operations	1,911	1,954	7,343	1,941	3,802	7,566	
Total employee numbers	33,122	36,562	45,142	35,580	40,840	45,341	581

### (b) Staff costs

Continuing operation*	2012 Cm	2011 Cm	2010 Cm
Wages and salaries	1,324	1,421	1,415
Social security costs	205	219	207
Post-retirement obligations			
Defined benefit schemes (note 44d)	19	58	(219)
Defined contribution schemes (note 44d)	102	86	70
Profit sharing and incentive plans	112	126	118
Equity compensation plans (note 27d)	47	58	50
Termination benefits	41	21	12
Staff costs from continuing operations	1,850	1,989	1,653
Staff costs from discontinued operations	145	343	586
Total staff costs	1,995	2,332	2,239

Staff costs are charged within.

Continuing operations	2012 Cm	2011 Cm	2010 Cm
Acquisition costs	522	597	563
Claims handling expenses	158	222	235
Central costs and sharesave schemes	48	10	(6)
Other operating expenses	1,122	1,160	1,147
Exceptional items*	—	—	(286)
Staff costs from continuing operations	1,850	1,989	1,653
Staff costs from discontinued operations	145	343	586
Total staff costs	1,995	2,332	2,239

\* The credit disclosed in exceptional items in 2010 arose from the [286 million] gain on the closure of the [US] SCherrK-s to [un]turp accrual

**9 - Auditors' remuneration**

This note shows the total remuneration payable by the Group to our auditors. PricewaterhouseCoopers LLP (PwC) replaced Ernst & Young LLP (E&Y) as the Group's principal auditor for the 2012 financial year.

The total remuneration payable by the Group, excluding VAT and any overseas equivalent thereof, to its principal auditors and their associates is shown below.

	2012
Continuing operations £m	
Fees payable to PwC LLP and its associates for the statutory audit of the Aviva Group and Company financial statements	2.2
Fees payable to PwC LLP and its associates for other services	9.6
Audit of Group subsidiaries	11.8
Audit related assurance	2.3
Other assurance services	7.2
<b>Total audit and assurance fees</b>	<b>21.3</b>
Tax compliance services	0.4
Tax advisory services	0.1
Services relating to corporate finance transactions	0.3
Other non-audit services not covered above	7.7
<b>Fees payable to PwC LLP and its associates for services to Group companies classified as continuing operations</b>	<b>29.8</b>
Discontinued operations	
Fees payable to PwC LLP and its associates for Audit of Group subsidiaries	1.7
Fees payable to PwC LLP and its associates for other non-audit services to Group subsidiaries	0.3
<b>Total fees payable to PwC LLP and its associates for services to Group companies</b>	<b>31.8</b>
Continuing operations	2011
	£m
Fees payable to E&Y LLP and its associates for the statutory audit of the Aviva Group and Company financial statements	2.5
Fees payable to E&Y LLP and its associates for other services:	
Audit of Group subsidiaries	10.3
Additional fees related to the prior year audit of Group subsidiaries	0.9
<b>Total audit fees</b>	<b>13.7</b>
Audit related assurance	2.7
Other assurance services	5.6
<b>Total audit and assurance fees</b>	<b>22.0</b>
Tax compliance services	0.2
Other non audit services not covered above	2.0
<b>Fees payable to E&amp;Y LLP and its associates for services to Group companies classified as continuing operations</b>	<b>24.2</b>
Discontinued operations	
Fees payable to E&Y LLP and its associates for audit of Group subsidiaries	3.6
Fees payable to E&Y LLP and its associates for other assurance services to Group subsidiaries	0.5
Fees payable to E&Y LLP and its associates for other non-audit services to Group subsidiaries	0.2
<b>Total fees payable to E&amp;Y LLP and its associates for services to Group companies</b>	<b>28.5</b>

## Notes to the consolidated financial statements continued

## 9 - Auditors' remuneration continued

	2010 Cm
Continuing operations	
Fees payable to ESY LLP and its associates for the statutory audit of the Aviva Group and Company financial statements	1 8
Fees payable to E&Y LLP and its associates for other services.	
Audit of Group subsidiaries	8.7
Additional fees related to the prior year audit of Group subsidiaries	0.6
Total audit fees	11.1
Audit related assurance	2.5
Other assurance services	4.3
Total audit and assurance fees	17.9
Tax advisory services	0.1
Services relating to corporate finance transactions	0.5
Other non audit services not covered above	0.2
<b>Fees payable to E&amp;Y LLP and its associates for services to Group companies classified as continuing operations</b>	<b>18.7</b>
Discontinued operations	
Fees payable to E&Y LLP and its associates for audit of Group subsidiaries	5.0
Fees payable to E&Y LLP and its associates for other assurance services to Group subsidiaries	0.9
Fees payable to E&Y LLP and its associates for other non-audit services to Group subsidiaries	0.9
Total fees payable to E&Y LLP and its associates for services to Group companies*	25.5

\*In accordance with the requirements of the 2010 statute, during 2010 the Group paid E&Y CO 1 million for the audit of the Group's financial statements.

The tables above reflect the disclosure requirements of SI2011/2198 - The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) (Amendment) Regulations 2011. Comparatives for 2011 have been adjusted accordingly.

In addition to the fees for 2012 shown above, during 2012 the Group paid PwC £0.2 million in relation to the audit of Group occupational pension schemes and paid E&Y £1.0 million in relation to the 2011 audit of group subsidiaries.

Fees payable for the audit of the Group's subsidiaries include fees for the statutory audit of the subsidiaries, both inside and outside the UK, and for the work performed by the principal auditors in respect of the subsidiaries for the purpose of the consolidated financial statements of the Group.

Audit related assurance comprises services in relation to statutory and regulatory filings. These include audit services for the audit of FSA returns in the UK and review of interim financial information under the Listing Rules of the UK Listing Authority.

Fees for other assurance services comprise non-statutory assurance work which is customarily performed by the external auditor, including the audit of the Group's MCEV reporting. Although embedded value is a primary management reporting basis and our disclosures require a full audit, the relevant fees are not classified as being for statutory audit.

As noted above PwC replaced E&Y as the group's principal auditor for the 2012 year. Prior to 2012, PwC was a significant provider of consulting services to the Group. The level of 2012 fees for non-audit services therefore includes fees billed in the year relating to projects that commenced prior to PwC's appointment as auditor. All of these services are in compliance with applicable UK, US and IFAC independence rules. We do not expect PwC's non-audit fees to continue at this level in the future.

Other assurance services in 2012 payable to PwC LLP includes fees relating to the audit of the Group's MCEV reporting of £1.3 million, £1.8 million for examination of the Group Individual Capital Assessment and Economic Capital, and £3.4 million associated with assurance services to prepare the businesses for Solvency II implementation.

Other assurance services in 2011 payable to E&Y LLP includes fees relating to the audit of the Group's MCEV reporting of £1.8 million (2010: £1.8 million); £0.5 million (2010: £0.4 million) for assurance services in connection with the Group's Financial Reporting Control Framework; £1.6 million (2010: £1.1 million) for examination of the Group's Individual Capital Assessment (ICA) and Economic Capital and £1.7 million (2010: £1.0 million) for other services.

The 2012 fees payable to PwC LLP for other non-audit services for continuing operations of £7.7 million includes advice to our European businesses in relation to the risk management aspects of Solvency II (£1.9 million), £1.9 million relating to four regulatory advice engagements, £0.7 million relating to restructuring at Aviva Investors, £0.3 million for risk training, £0.3 million supporting an industry-wide competition review, £0.3 million for an additional claims reserves review and £2.3 million for other services. The 2012 fees for tax compliance services of £0.4 million includes fees for one engagement in Higher Growth markets of £0.3 million, and fees for corporate finance transactions of £0.3 million relates to an engagement for an Aviva Investors property fund.

The 2011 fees payable to E&Y LLP for other non-audit services of £2.0 million (2010: £0.2 million) includes £0.9 million relating to two risk management effectiveness reviews.

Details of the Group's process for safeguarding and supporting the independence and objectivity of the external auditors are given in the Audit Committee report.

**10-Tax**

This note analyses the tax charge/(credit) for the year and explains the factors that affect it.

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

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

	201 2 fm		201 0 fm
<b>Current tax</b>			
For this year	<b>516</b>		
Prior year adjustments	<b>(47)</b>		
	535		
	(10)		
	)		
	578		
	(49)		
	)		
<b>Total current tax from continuing operations</b>	<b>469</b>	525	529
<b>Deferred tax</b>			
Origination and reversal of temporary differences	(52)	(599)	<b>244</b>
Changes in tax rates or tax laws Write-down of deferred tax assets	(12)	(28) 43	<b>(35)</b>
	58		<b>) 1</b>
<b>Total deferred tax from continuing operations</b>	<b>(21)</b>	<b>(569)</b>	<b>210</b>
<b>Total tax charged/(credited) to income statement from continuing operations Total tax charged/(credited) to income statement from discontinued operations</b>	<b>448</b>	<b>(44)</b>	<b>73</b>
	<b>152</b>	<b>(107)</b>	<b>9</b>
			<b>20</b>
			<b>3</b>
<b>Total tax charged/(credited) to income statement</b>	<b>600</b>	<b>(151)</b>	<b>942</b>

(ii) The Group, as a proxy for policyholders in the UK, Ireland and Singapore, is required to record taxes on investment income and gains each year. Accordingly, the tax benefit or expense attributable to UK, Irish and Singapore life insurance policyholder returns is included in the tax charge/(credit). The tax charge attributable to policyholders' returns included in the charge above is £221 million (2011: £178 million credit; 2010: £394 million charge).

(in) The tax charge/(credit) can be analysed as follows.

	201 2 fm	201 1 fm	201 0 f m
UK tax	<b>(34)</b>		
Overseas tax	<b>634</b>		
	(30)		
	4)		
	153		
	44		
	7		
	49		
	5		
	<b>600</b>		<b>942</b>
		<b>(151)</b>	

(iv) Unrecognised tax losses and temporary differences of previous years were used to reduce the current tax expense and deferred tax expense by £7 million and £11 million (2011: £25 million and £108 million; 2010: £34 million and £88 million), respectively.

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

	201 1 fm	201 0 f m
<u>Long-term business technical provisions and other insurance items</u>	<b>(1,868)</b>	
<u>Deferred acquisition costs</u> <u>Unrealised gains</u> <u>Losses on investments</u>	<b>254</b>	175
<u>Pensions and other post-retirement obligations</u> <u>Unused losses and tax credits</u> <u>Subsidiaries, associates and joint ventures</u> <u>Intangibles and additional value of in-force long-term business</u> <u>Provisions and other temporary differences</u>	<b>2,312</b>	23
	<b>(7) (30)</b>	20 2
	<b>(12)</b>	<b>(51)</b>
<b>Deferred tax (credited)/charged to income statement from continuing operations</b>	<b>(670)</b>	<b>(177)</b>
	(21)	) 210
	916 (3)	
	(1,265	
	) 6 22	
	1	
	<b>(10)</b>	
	<b>(236)</b>	
	<b>(569)</b>	



joint ventures	75	—	75	(41)	—	(41)	(4)	—	(4)
Other	—	—	(4)	3	—	3	(22)	12	(10)
<b>Total tax charged/(credited) to income statement</b>	<b>379</b>	<b>221</b>	<b>600</b>	<b>27</b>	<b>(178)</b>	<b>(151)</b>	<b>548</b>	<b>394</b>	<b>942</b>

The tax charge/(credit) attributable to policyholders' returns is removed from the Group's total (loss)/profit before tax in arriving at the Group's (loss)/profit before tax attributable to shareholders' profits. As the net of tax profits attributable to with-profit and unit-linked policyholders is zero, the Group's pre-tax profit/(loss) attributable to policyholders is an amount equal and opposite to the tax charge/(credit) attributable to policyholders included in the total tax charge/(credit). The difference between the policyholder tax charge/(credit) and the impact of this item in the tax reconciliation can be explained as follows:

	2012 fm	2011 fm	2010 fm
Tax attributable to policyholder returns	221	(178)	394
UK corporation tax at a rate of 24.5% (2011 26.5%; 2010 28%) in respect of the policyholder tax deduction	(54)	47	(110)
Other life insurance regime impacts	—	—	(12)
Different local basis of tax of overseas profits	3	2	—
Different basis of tax - policyholders per tax reconciliation	170	(129)	272

The UK corporation tax rate reduced to 24% from 1 April 2012. A subsequent reduction in the UK corporation tax rate to 23% was substantively enacted on 3 July 2012 and will apply from 1 April 2013. The substantively enacted rate of 23% has been used in the calculation of the UK's deferred tax assets and liabilities.

As confirmed in the 2013 Budget, the rate is expected to reduce further to 21% from 1 April 2014 and then to 20% from 1 April 2015. The aggregate impact of the reduction in rate from 23% to 20% would reduce the deferred tax assets and liabilities and increase IFRS net assets by approximately £47 million and will be recognised when the relevant legislation is substantively enacted.

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



## 11 - (Loss)/earnings per share

This note shows how we calculate (loss)earnings per share, based both on the present shares in issue (the basic (loss)/earnings per share) and the potential future shares in issue, including conversion of share options granted to employees (the diluted earnings per share).

(a) Basic (loss)/earnings per share

(i) The (loss)/profit attributable to ordinary shareholders is:

Continuing operations

Profit/(loss) before tax attributable to shareholders' profits	(82)	585	1,396
Share of Delta Lloyd's tax expense as an associate	107	(34)	—
Profit/(loss) before tax	25	551	1,396
Tax attributable to shareholders' profit/(loss)	(227)	(134)	(345)
Profit/(loss) for the year	(202)	417	1,051
Amount attributable to non-controlling interests	(168)	(41)	(117)
Cumulative preference dividends for the year	(17)	(17)	(17)
Coupon payments in respect of direct capital instruments (DCI) and fixed rate tier 1 notes (net of tax)		(55)	(43)
Profit/(loss) attributable to ordinary shareholders from continuing operations	(442)	316	875
Profit/(loss) attributable to ordinary shareholders from discontinued operations	(2,848)	(151)	529
Profit/(loss) attributable to ordinary shareholders	(3,290)	165	1,404

(ii) The calculation of basic (loss)earnings per share uses a weighted average of 2,910 million (2011: 2,845 million; 2010: 2,784 million) ordinary shares in issue, after deducting shares owned by the employee share trusts. The actual number of shares in issue at 31 December 2012 was 2,946 million (2011: 2,906 million; 2010: 2,820 million) and 2,936 million (2011: 2,892 million; 2010: 2,812 million) excluding shares owned by the employee share trusts.

(b) Diluted earnings per share

(i) Diluted, earnings per share is calculated as follows:

	2012			2011		
	Total	Weighted average number of shares million	Per share	Total	Weighted average number of shares million	Per share
(Loss)/profit attributable to ordinary shareholders	(442)	2,910	(15.2)	316	2,845	11.1
Dilutive effect of share awards and options	—	44	—	—	50	(0.2)
<b>Diluted (loss)/earnings per share from continuing operations<sup>1</sup></b>	<b>(442)</b>	<b>2,954</b>	<b>(15.2)</b>	<b>316</b>	<b>2,895</b>	<b>10.9</b>
(Loss)/profit attributable to ordinary shareholders	(2,848)	2,910	(97.9)	(151)	2,845	(5.3)
Dilutive effect of share awards and options	—	44	—	—	50	—
<b>Diluted (loss)/earnings per share from discontinued operations<sup>1</sup></b>	<b>(2,848)</b>	<b>2,954</b>	<b>(97.9)</b>	<b>(151)</b>	<b>2,895</b>	<b>(5.3)</b>
<b>Diluted (loss)/earnings per share<sup>1</sup></b>	<b>(3,290)</b>	<b>2,954</b>	<b>(113.1)</b>	<b>165</b>	<b>2,895</b>	<b>5.7</b>

<sup>1</sup> Leases have an anti-dilutive effect. Therefore the basic and diluted earnings for 2012 and the diluted earnings for 2011, have remained the same.

## 12 - Dividends and appropriations

This note analyses the total dividends and other appropriations we paid during the year. The table below does not include the final dividend proposed after the year end because it is not accrued in these financial statements. The impact of shares issued in lieu of dividends is shown separately in note 33.

											2012	2011	2010
											fm	£m	fm
Ordinary dividends declared and charged to equity in the year													
Final 2011	-	16.00	pence	per	share,	paid	on	17	May	2012			
465													
Final 2010	-	16	00	pence	per	share,	paid	on	17	May	2011		
											451		
Final 2009	-	15.00	pence	per	share,	paid	on	17	May	2010			
											415		
Interim 2012	-	10	00	pence	per	share,	paid	on	16	November	2012		
292													
Interim 2011	-	10.00	pence	per	share,	paid	on	17	November	2011			
											287		
<u>Interim 2010 - 09 50 pence per share, paid on 17 November 2010</u>													
											266		
											757	738	681
Preference 17	dividends	declared	and	charged	to	equity	in	the	year	17			
Coupon 73	payments	on	direct	capital	instruments	and	fixed	rate	tier	1	notes	59	
											847	813	757

Subsequent to 31 December 2012, the directors proposed a final dividend for 2012 of 9.0 pence per ordinary share (2011: 16.0 pence; 2010: 16.0 pence), amounting to £265 million (2011: £465 million; 2010: £451 million) in total. Subject to approval by shareholders at the AGM, the dividend will be paid on 17 May 2013 and will be accounted for as an appropriation of retained earnings in the year ending 31 December 2013.

*Interest payments on the direct capital instruments issued in November 2004 and the fixed rate tier 1 notes issued in May 2012 are treated as an appropriation of retained profits and, accordingly, are accounted for when paid. Tax relief is obtained at a rate of 24.5% (2011:26.5%; 2010: 28.0%).*

### 13 - Goodwill

This note analyses the changes to the carrying amount of goodwill during the year, and details the results of our impairment testing on both goodwill and intangible assets with indefinite lives.

#### (a) Carrying amount

	2012	2011
	£m	£m
<b>Gross amount</b>		
At 1 January	2,850	3,671
Acquisitions and additions	1	13
Disposals	(13)	(284)
Deconsolidation of Delta Lloyd	—	(542)
Foreign exchange rate movements	(64)	(8)
<b>At 31 December</b>	<b>2,774</b>	<b>2,850</b>
<b>Accumulated impairment</b>		
At 1 January	(210)	(280)
Impairment losses charged to expenses	(891)	(160)
Disposals	10	—
Deconsolidation of Delta Lloyd	—	226
Foreign exchange rate movements	20	4
<b>At 31 December</b>	<b>(1,071)</b>	<b>(210)</b>
Carrying amount at 1 January	2,640	3,391
Carrying amount at 31 December	1,703	2,640
Less: Assets classified as held for sale	(183)	—
Carrying amount at 31 December	1,520	2,640

Goodwill on acquisitions and additions arose on the acquisition of a small long-term insurance business in Spain and a small general insurance business in Canada.

Goodwill impairment charges of £891 million have been recognised as expenses. Together with impairment charges of £9 million recognised in respect of goodwill within interests in joint ventures (note 15), and impairment charges of £147 million recognised in respect of goodwill within interests in associates (note 16) the goodwill write down for the year was £1,047 million. After a reversal of a previously recognised impairment of the Delta Lloyd associate of £205 million (note 16) the total charge for impairment of goodwill, joint ventures and associates for the year was £842 million.

Goodwill disposed of during the year relates to the Group's Sri Lanka subsidiary (see note 3(b)).

Goodwill classified as held for sale consists of £180 million relating to Aseval, a Spanish long-term business, and £3 million relating to the Russian long-term business (see note 3(c)).

#### (b) Goodwill allocation and impairment testing

A summary of the goodwill and intangibles with indefinite useful lives allocated to cash-generating units is presented below.

	Carrying amount of		Carrying amount of intangibles with indefinite useful lives		(detailed in note 14) Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
United Kingdom - general insurance and health Ireland - general insurance and health France - long-term business Italy Long-term business	<b>12</b>	<b>5</b>			<b>924</b>	<b>924</b>
General insurance and health Spain - long-term business United States Long-term business	<b>4</b>	<b>0</b>			<b>112</b>	<b>116</b>
Fund management Canada Other developed markets Higher growth markets	<b>1</b>		<b>5</b>	<b>5</b>	<b>51</b>	<b>52</b>
	<b>2</b>	<b>71</b>			<b>35</b>	<b>64</b>
					<b>37</b>	<b>44</b>
	<b>35</b>				<b>450</b>	<b>542</b>
	<b>37</b>				<b>—</b>	<b>800</b>
	<b>15</b>				<b>27</b>	<b>29</b>
	<b>0</b>				<b>50</b>	<b>50</b>
	<b>2</b>				<b>68</b>	<b>71</b>
	<b>7</b>					
	<b>5</b>					
	<b>0</b>					
	<b>68</b>					
	<b>92</b>					
	<b>4</b>					
	<b>11</b>					
	<b>6</b>					
	<b>64</b>					
	<b>44</b>					
	<b>54</b>					
	<b>2</b>					
	<b>80</b>					
	<b>0</b>					
	<b>2</b>					
	<b>9</b>					
	<b>1,70</b>	<b>2,640</b>	<b>51</b>	<b>52</b>	<b>1,754</b>	<b>2,692</b>

Goodwill in all business units is tested for impairment by comparing the carrying value of the cash generating unit to which the goodwill relates to the recoverable value of that cash generating unit. The recoverable amount is the value in use of the cash generating unit unless otherwise stated

### Long-term business

Value in use is calculated as an actuarially determined appraisal value, based on the embedded value of the business calculated in accordance with market consistent embedded value ('MCEV') principles, together with the present value of expected profits from future new business. If the embedded value of the business tested is sufficient to demonstrate goodwill recoverability on its own, then it is not necessary to estimate the present value of expected profits from future new business.

If required, the present value of expected profits arising from future new business written over a given period is calculated on an MCEV basis, using profit projections based on the most recent three year business plans approved by management. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the relevant cash

15  
3

### 13 - Goodwill continued

generating unit. The underlying assumptions of these projections include market share, customer numbers, mortality, morbidity and persistency.

Future new business profits for the remainder of the given period beyond the initial three years are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to management estimates, past experience and relevant available market statistics.

Expected profits from future new business are discounted using a risk adjusted discount rate. The discount rate is a combination of a risk-free rate and a risk margin to make prudent allowance for the risk that experience in future years for new business may differ from that assumed.

See results of impairment testing for US long-term cash generating unit. For other businesses classified as held for sale the recoverable amount was assessed based on the fair value less costs to sell of the business, based on the expected net disposal proceeds of the businesses.

#### Key Assumptions

	2011	2011	2012	Embedder value basis 2011	Future new business profits r/rwth rate %	Future new business prtrrs discount rate %	2011	2012
Italy long-term business (3S)					MCEV	MCEV	106	108
Spain long-term business (MCEV)	0.0	3.0	7.9			5.3		

#### General insurance, health, fund management and other businesses

Value in use is calculated as the discounted value of expected future profits of each business. The calculation uses cash flow projections based on business plans approved by management covering a three-year period. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates for the relevant cash generating unit. The underlying assumptions of these projections include market share, customer numbers, premium rate and fee income changes, claims inflation and commission rates.

Cash flows beyond that three-year period are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to past experience and relevant available market statistics. Future profits are discounted using a risk adjusted discount rate.

#### Key assumptions

	2012	2011	2012	2011
United Kingdom general insurance and health	1.3	1.3	8.0	8.2
Ireland general insurance and health	2.0-3.0	2.0	10.6	13.7
Italy general insurance and health	2.0-3.0	0-30	9.0-11.4	9.2-10.3
United States (fund management)	3.0	0	17.0	17.0

#### France - indefinite life intangible asset

The recoverable amount of the indefinite life intangible asset has been assessed based on the fair value less costs to sell of the cash-generating unit to which it relates. The fair value less costs to sell was determined based on the quoted market value of the share of interest in the subsidiary to which it relates.

#### Results of impairment testing

Following the impairment business review conducted during the year the US long-term cash generating unit was tested for impairment and the Directors concluded that the goodwill associated with this cash generating unit was no longer recoverable. As a result, an impairment of £782 million was recognised during the period, reducing the carrying value of goodwill to nil. Subsequently, the US business was classified as held for sale and recorded at its fair value less costs to sell (see Note 3).

Management concluded that the goodwill associated with the Spanish long-term cash generating unit, excluding Aseval which is held for sale, is no longer fully recoverable. An impairment of £76 million has been recognised reducing the carrying value of this cash generating unit to its recoverable amount as a result of a reduction to management's estimates for future profitability due to current economic circumstances.

Similarly, as a result of the test of the Italian long-term and general businesses, impairments of £27 million and £6 million respectively have been recognised.

Other than the CGUs noted above, the recoverable amount exceeds the carrying value of the cash generating units including goodwill.

## Notes to the consolidated financial statements continued

**14 - Acquired value of in-force business (AVIF) and intangible assets**

This note shows the movements in cost and amortisation of the in-force business and intangible assets acquired when we have purchased subsidiaries

	AVIF on insurance contracts	AVIF on investment contracts	Other intangible assets with finite useful life	Total
	£m	£m	£m	£m
Gross amount				
At 1 January 2011	2,724	308		3,224
Additions				
Acquisition of subsidiaries				
Disposals				(204)
Movement in shadow adjustment	(123)			(123)
Deconsolidation of Delta Lloyd	(126)			(252)
Foreign exchange rate movements	(11)	(9)		(20)
	1,842			1,842
	151			151
	3			3
	(63)			(63)
	(158)			(158)
	(10)			(10)
	5,197			5,197
	151			151
	3			3
	(267)			(267)
	(123)			(123)
	(284)			(284)
	(32)			(32)
At 31 December 2011	2,464	299	117	2,880
Additions				4,645
Acquisition of subsidiaries				5
Disposals	(160)	(5)		(165)
Movement in shadow adjustment	45			45
Transfers from property and equipment			43	43
Foreign exchange rate movements	(88)	(6)		(94)
At 31 December 2012	2,261	288	299	2,848
	1,765			1,765
	143			143
	2			2
	(134)			(134)
	3			3
	(42)			(42)
	1,737			1,737
<b>Accumulated amortisation</b>				
At 1 January 2011	(1,362)			(1,362)
Amortisation for the year	(271)			(532)
Disposals				
Deconsolidation of Delta Lloyd	98			98
Foreign exchange rate movements	(113)			(113)
	(45)			(45)
	(663)			(663)
	(125)			(125)
	25			25
	117			117
	(4)			(4)
	(2,138)			(2,138)
	(441)			(441)
	25			25
	215			215
	(1)			(1)
At 31 December 2012	1,737	288	299	2,324
Amortisation for the year	(441)			(441)
Disposals				

Foreign exchange rate movements	(1,535)	—			
	(226)		(2,3)		
	154 60	40)			
	(155)	—	(3)		
	(20)	53)			
	5 5	—	21		
	(650)	8			
	(107)	—			
	59	81			
	16				
<b>At 31 December 2012</b>	<b>(1,547)</b>	<b>(165)</b>	<b>(682)</b>	<b>—</b>	<b>(2,394)</b>
<b>Accumulated Impairment</b>					
At 1 January 2011	(108)			(69)	
Impairment losses charged to expenses (note 6)	(7)				
Reversal of impairment losses					
Disposals					
Deconsolidation of Delta Lloyd	(1)			1	
Foreign exchange rate movements					
	(76)				
	)				
	(50)				
	) 2				
	9				
	10				
	(253)				
	)				
	(57)				
	2 14				
	10				
At 31 December 2011			(39)		
Impairment losses charged to expenses (note 6)					
Disposals	(114)		(105)		
<b>Foreign exchange rate movements</b>	<b>(34)</b>		<b>(152)</b>	<b>70 2</b>	
	3 1		(39)	(185)	
<b>At 31 December 2012</b>	<b>(144)</b>		<b>(65)</b>	<b>(284)</b>	
			-	(225)	
			)		
			—	73	
			2	5	
			<b>(63)</b>	<b>(431)</b>	
<b>Carrying amount</b>					
At 1 January 2011	1.2S	19	1.10	2,806	
At 31 December 2011	4	5	3	2,021	
	815	14	1,01		
		4	0		
			254		
			5		
			2		
<b>At 31 December 2012</b>	<b>570</b>	<b>84</b>	<b>870</b>	<b>5</b>	<b>1,57</b>
Less: Assets classified as held for sale	(443)	(39)	(9)	- (491)	
	127	)	861	5	1,08

1 On insurance and participating investment contracts  
2 On non-participating investment contracts

- (a) Intangible assets with indefinite useful lives comprise the value of the Union Financiere de France Banque distribution channel, where the existing lives of the assets and their competitive position in, and the stability of, their respective markets support this classification. Impairment testing of these intangibles is covered in note 13(b).
- (b) Other intangible assets with finite useful lives consist primarily of the value of bancassurance and other distribution agreements. Acquisitions of intangible assets with finite lives relate to Canadian broker businesses. Disposals include the derecognition of exhausted assets which are fully amortised or impaired with nil carrying value. Impairment losses on intangible assets with finite lives of £152 million arise from impairments of capitalised software in US long-term operations, UK long-term operations and UK general insurance operations of £102 million, £25 million and £22 million respectively, and £3 million in relation to other businesses. Impairment tests were conducted as described in note 13(b).

Excluding assets classified as held for sale, AVIF on insurance and investment contracts is generally recoverable in more than one year. Of the total AVIF of £172 million (£127 million on insurance contracts, £45 million on investment contracts), £131 million (2011: £713 million) is expected to be recovered more than one year after the statement of financial position date.

## Notes to the consolidated financial statements continued

**15- Interests in, and loans to, joint ventures**

In several business units, Group companies and other parties jointly control certain entities. This note analyses these interests and describes the principal joint ventures in which we are involved.

(a) Carrying amount

(i) The movements in the carrying amount comprised:

	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m	Intangibles £m	Interests £m	2012 Goodwill and equity Loans Total £m
At 1 January		187	1,446	375	2,008	1471,465	100 1,712
Share of results before tax		(19)		(19)		(14)	(14)
Share of tax		(4)		(4)		(3)	(3)
Share of results after tax		(23)		(23)		(17)	(17)
Impairment of goodwill		(9)		(9)	(15)		(15)
Amortisation of intangibles <sup>1</sup>		(6)		(6)	(6)		(6)
Share of profit/loss after tax		(15)	(23)	(38)	(21)	(17)	(38) <sup>a</sup>
Acquisitions							12
		12					
Additions		89	4	93		59	18 77
Reclassification to subsidiary		(107)		(107)			(282) (282)
Reduction in Group interest						(1)	(1)
Disposals			(41)		(41)		(37) —
		(37)					
Share of gains taken to other comprehensive income		21		21		7	— 7
Loans repaid				(12)	(12)		— (17)
		(17)					
Dividend received		(5)		(5)			— —
Foreign exchange rate movements		(4)		(4)	(19)	(4)	6 (17)
At 31 December	132	1,395	92	1,619	147	1,465	100 1,712
Less Amounts classified as held for sale	(54)	(72)		(126)		(12)	— (12)
		781,323		921,493	147	1,453	100 1,700

<sup>1</sup> Comprises amortisation of Aviv on insurance contracts of £3 million 2011 and other intangibles of £3 million 2011 (£m)

During 2010, the Group's Taiwan joint venture, First-Aviva Life Insurance Co., Ltd., was classified as held for sale following the decision of management to seek to dispose of the business. A sale of this business was not completed in 2012 and management have reviewed its classification as held for sale and determined that the classification remains appropriate. The disposal is expected to be completed within 12 months of the balance sheet date.

During 2012, the Group's Malaysian joint ventures, CIMB Aviva Assurance Berhad and CIMB Aviva Takaful Berhad, were classified as held for sale following the decision of management to seek to dispose of the businesses. On 17 January 2013 agreement was reached to sell Aviva's interests in these businesses to Sun Life Assurance Company of Canada. Upon receipt of regulatory approval the parties will work to close the proposed transaction during the first half of 2013. The expected proceeds of this transaction are £152 million. These businesses have been included in the statement of financial position at their carrying value.

Additions and disposals relate to the increase and reduction of investments in property management undertakings. The Group's principal interests in property management joint ventures are listed below.

(n) The balances at 31 December comprised

	Goodwill and intangibles £m	Equity interests £m	Loans £m	Total £m	Goodwill and intangibles £m	Tota
Property management undertakings		1,050	92			100
Long-term business undertakings	132	339			147	
General insurance undertakings		6				
<b>Total</b>	<b>132</b>	<b>1,395</b>	<b>92</b>		<b>147</b>	<b>100</b>
		1,142				
		471				
		6				
		1,619				
		1,145				
		315				
		5				
		1,465				
		1,245				
		462				
		5				
		1,712				

The loans are not secured and no guarantees were received in respect thereof. They are interest-bearing and are repayable on termination of the relevant partnership.

(b) Property management undertakings

The principal joint ventures are as follows:



Company	GP held	proprcten
Airport Property Partnership		50 00%
The Ashtenne Industrial Fund Limited Partnership		67 70%
The Mall Limited Partnership		50.00%
Paddington Central IV Unit Trust		50 00%
Queensgate Limited Partnership		50.00%
Quercus Healthcare Property Partnership Limited		50.00%
The Southgate Limited Partnership	R.P held	50 00%
		43 66%
		50 52%
		50 00%
		50 00%
		29 33%
		50 00%

All the above entities perform property ownership and management activities, and are incorporated and operate in the UK All these investments are held by subsidiary entities

## 15 - Interests in, and loans to, joint ventures continued

(c) Long-term business undertakings

The principal joint ventures are as follows:

Company	Proportion held	Country of incorporation and operation
Aviva-COFCO Life Insurance Co. Limited	50.00%	China
AvivaSA Emeklilik ve Hayat A.S.	49.83%	Turkey
CIMB Aviva Assurance Berhad	49.00%	Malaysia
Aviva Takaful Berhad First-Aviva Life Insurance Co., Ltd.	49.00%	Malaysia
Vietinbank Aviva Life Insurance Limited	49.99%	Taiwan
Woori Aviva Life insurance Co. Ltd	47.31%	Vietnam
		Korea

All investments in the above companies are unlisted and are held by subsidiaries, except for the shares in Aviva-COFCO Life Insurance Co. Limited which are held by the Company. The Group's share of net assets of that company is £141 million (2011: £150 million) which have a fair value of £141 million (2011: £150 million).

(d) Impairment testing

Joint ventures are tested for impairment by comparing the carrying value of the cash generating unit to which the goodwill relates to the recoverable value of that cash generating unit.

The recoverable amount of long-term business undertakings is the value in use of the joint venture. This is calculated according to the methodology for the calculation of the value in use of long-term business cash generating units for the impairment testing of goodwill, as set out in note 13(b).

The recoverable amount for joint ventures classified as held for sale (CIMB Aviva Assurance Berhad, CIMB Aviva Takaful Berhad & First-Aviva Life Insurance Co., Ltd.) is the fair value less costs to sell for each entity, based on the expected net disposal proceeds. The recoverable amount of property management undertakings is the fair value less costs to sell of the joint venture, measured in accordance with the Groups accounting policy for Investment Property (See Accounting Policy P)

### Key Assumptions for the calculation of value in use for long-term business undertakings

All interests in joint ventures have been tested for impairment but only the material items are detailed below.

	Embedded value basis		Future new business profits growth rate	Future new business profits discount rate
	2012	2011		
Aviva-COFCO Life Insurance Co. Limited	MCEV	MCEV	n/a <sup>1</sup>	n/a <sup>1</sup>
AvivaSA Emeklilik ve Hayat A.S.	MCEV	MCEV	18.0	1
Woori Aviva Life insurance Co Ltd	MCEV	MCEV	9.2	2.8
			4.0	13.0
			n/a	3.6
			4.0	
			4.0	

<sup>1</sup> Proportion of future new business not required as MCEV exceeds carrying value

### Results of impairment testing

Following the impairment test of Woori Aviva Life Insurance Co. Ltd an impairment of £9 million has been recognised fully impairing the goodwill to £nil, reflecting local economic conditions.

(e) Additional information

Summarised aggregate financial information on the Group's interests in its joint ventures is as follows:

	2012 £m	2011 £m
Income, including unrealised gains/(losses) on investments	808	763
Expenses	(827)	(777)
Share of results before tax	(19)	(14)
Long-term assets	1,831	2,731
Current assets	2,534	1,676
Share of total assets	4,407	4,365
Long-term liabilities	(1,778)	(1,634)
Current liabilities	(1,234)	(1,266)
Share of total liabilities	(3,012)	(2,900)

The joint ventures have no significant contingent liabilities to which the Group is exposed. The Group has capital commitments to property management joint ventures of £157 million (207 / £258 million).

## Notes to the consolidated financial statements continued

**16 - Interests in, and loans to, associates**

This note analyses our interests in entities which we do not control but where we have significant influence, (a) Carrying amount

	2012			2011			Total
	Goodwill and intangibles £m	Equity interests £m	Equity interests £m	Goodwill and intangibles £m	Equity interests £m	Equity interests £m	
At 1 January	—	563	115	1,003	1,118	80	
Share of results before tax	—	196	—	(295)	(295)	—	
Share of tax	—	(36)	(36)	(2)	(2)	—	
Share of results after tax	—	(297)	(297)	—	160	160	
Impairment - see notes (i) and (ii) below	(147)	205	58	—	(217)	(217)	
Share of loss after tax	(147)	(92)	(239)	—	(57)	(57)	
Acquisitions	—	—	—	—	1,116	1,116	
Additions - see note (m) below	32	—	32	35	—	35	
Reduction in Group interest	—	(601)	(601)	—	(3)	(3)	
Share of losses taken to other comprehensive income	—	(7)	(7)	—	(143)	(143)	
Dividends received	—	(43)	(43)	—	(71)	(71)	
Deconsolidation of Delta Lloyd	—	—	—	—	(359)	(359)	
Foreign exchange rate movements	—	(45)	(45)	—	(43)	(43)	
Movements in carrying amount	(115)	(788)	(903)	35	440	475	
At 31 December	—	215	215	115	1,003		

The Group had no loans to associates as at 31 December 2012 (2011 £nil).

**(i) Disposal of Delta Lloyd**

On 5 July 2012, the Group sold 37.2 million shares in Delta Lloyd for £313 million (net of costs), reducing the Group's holding to 19.8% of Delta Lloyd's ordinary share capital, representing 18.6% of shareholder voting rights. As the Group no longer has significant influence over Delta Lloyd, the Group ceased to account for that company as an associate from 5 July 2012. From that date, our holding was classified as a financial investment, held at fair value through profit and loss.

Prior to sale, the Group's share of Delta Lloyd's net asset value declined to a value below its quoted market value and therefore the impairment recognised in 2011 to reduce the carrying value of the associate to the quoted market value was redundant and no longer required. The amount previously recognised as an impairment of £205 million has therefore been reversed during the current period, through the Group's share of loss after tax of associates, after exchange movements on the opening balance of £12 million.

**(ii) Impairment testing**

Following the business review, management have determined that the goodwill in Aviva Life Insurance Company India Limited is fully impaired. An impairment of £147 million has been recognised in respect of this associate, reducing its goodwill to nil.

The recoverable amount of property management undertakings is the fair value less costs to sell of the joint venture, measured in accordance with the Group's accounting policy for Investment Property (See: Accounting Policy P).

**(iii) Additions**

Additions in 2012 relate to Aviva Life Insurance Company India Limited.

**(b) Principal associates**

The Group's principal associates are as follows:

Company operation	Type of business	Proportion held	Country of incorporation and
Aviva Life Insurance Company India Limited	Insurance	26.00%	India
SCPI Logipierre 1	Property management	44.46%	France

SCPI Selectipierre 2	Property management	22.16%	France
SCPI Uifrance Immobilier	Property management	20.40%	France

All investments in principal associates are held by

subsidiaries (c) Additional information

Summarised aggregate financial information on the Group's interests in its associates is as follows:

				2012 Total	2011 Total	£m
Share	of				revenues	
1,990					2,244	
Share	of	results	before		tax	
(295)					196	
Share	of				assets	
458					25,957	
<u>Share of liabilities</u>				(243)	<u>(24,954)</u>	
Share	of		net		assets	
215					1,003	

The Group's share of associated companies' contingent liabilities amounted to £nil million at 31 December 2012 (2011: £ 173 million).

## Notes to the consolidated financial statements continued

**17 - Property and equipment**

This note analyses our property and equipment, which are primarily properties occupied by Group companies, properties under construction and computer equipment.

	Properties under construction fm	Owner - occupied properties fm	Motor vehicle equipment fm	Other assets fm	Total fm
<b>Cost or valuation</b>					
At 1 January 2011	1	9	72		
Additions	2		3		
Disposals	6	1	38		
Transfers from/(to) investment property (note 18)	4	(3)	(66)		
Fair value gains	5				
Deconsolidation of Delta Lloyd Foreign exchange rate movements					
	32		(63)		
	(29)				
	) 1		(2)		
	440				
			409		
	(44)		20		
	(1)		(51)		
	(184)				
	) 4				
			(128)		
			) (3)		
			1,707		
			104		
			(164)		
			(1) 32		
			(404)		
At 31 December 2011		247			
Additions	175		1,274		
Disposals	16		(4)		
Transfers (to) investment property (note 18)		20	234		
Fair value gains	(111)	(41)	(104)		
Transfer to intangible assets (note 14)	(6)	-			
Foreign exchange rate movements			(1)		
	215	43)			
	171	-			
	(13)	9)			
	(32)	-			
	(3)	3)			
		(7)	(8)		
	(1)				
	630				
	27				
	(46)				
	)				
	(3)				
<b>At 31 December 2012</b>	<b>74</b>	<b>337</b>		<b>608</b>	<b>219</b>
<b>Depreciation and impairment</b>					<b>1,241</b>
At 1 January 2011			(7)	(640)	(310)
Charge for the year			(1)	(36)	(24)
Disposals			2	52	35
Deconsolidation of Delta Lloyd			-	54	108
Impairment losses charged to restructuring costs					162
Foreign exchange rate movements			1 (1)		
At 31 December 2011			(5)	(567)	(764)
Charge for the year			)	)	(46)
Disposals			1	(28)	60
Impairment charge (see below)				38	(106)
Foreign exchange rate movements				(5) 3	8
	2			(192)	
	(91)			)	
	(1)			(19)	
				20	
				(10)	
				6	

At 31 December 2012 - (92) (2) (559) (195) (848)

**Carrying amount**

At 31 December 2011

175	215	2	63	55	510		
<b>At 31 December 2012</b>		<b>74</b>	<b>245</b>	<b>1</b>	<b>49</b>	<b>24</b>	<b>393</b>
Less: Assets classified as held for sale			(2)	—	—	—	(2)
		<b>74</b>	<b>243</b>	<b>1</b>	<b>49</b>	<b>24</b>	<b>391</b>

Fair value losses of £3 million (2011: £2 million gains) have been charged to other comprehensive income, with the net reversal of losses previously charged to the income statement now being credited there.

Owner-occupied properties are stated at their revalued amounts, as assessed by qualified external valuers. These values are assessed in accordance with the relevant parts of the current RICS Appraisal and Valuation Standards in the UK, and with current local valuation practices in other countries. This assessment, on the basis of Existing Use Value and in accordance with UK Valuations Standards ("Red book"), 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.

Similar considerations apply to properties under construction, where an estimate is made of valuation when complete, adjusted for anticipated costs to completion, profit and risk, reflecting market conditions at the valuation date

The £106 million impairment loss charged to the income statement mainly relates to Aviva USA's property and equipment, the carrying value of which has been reduced to nil as set out in note 3c(i)

If owner-occupied properties were stated on a historical cost basis, the carrying amount would be £275 million (2011: £189 million)

The Group has no material finance leases for property and equipment

15  
9

Aviv » r\*

Annual report on Form 20-F 2012

**Notes to the consolidated financial statements continued**

**18 - Investment property**

This note gives details of the properties we hold for long-term rental yields or capital appreciation.

	fm	2011			2012			
		Freehold fm	Leasehold fm	Total tm	Freehold tm	Leasehold tm	Total tm	
Carrying value								
At 1 January				9,848	1,790	11,638	11,241	1,823
Additions					536	194	730	1,107
Capitalised expenditure on existing properties				1038	111	52	9	61
Fair value (losses) / gains				(416)	(76)	(492)	92	6
Disposals					(940)	(207)	(1,147)	(694)
Transfers (to/from property and equipment (note 17))				89	54	143	1	1
Deconsolidation of Delta Lloyd					—	—	(2,015)	(116)
Foreign exchange rate movements					(145)	(5)	(150)	64
<b>At 31 December</b>		<b>9,075</b>	<b>1,758</b>	<b>10,833</b>	<b>9,848</b>	<b>1,790</b>	<b>11,638</b>	<b>—</b>
Less Assets classified as held for sale		(18)	—	(18)	—	—	—	—
	7	~	~	~	~	~	~	~
				9,057	1,758	10,815	9,848	11,638

Investment property in the UK is valued at least annually by external chartered surveyors at open market values in accordance with the guidance issued by The Royal Institution of Chartered Surveyors or using internal valuations and estimates during the intervening period. Outside the UK, valuations are produced by local qualified staff of the Group or external qualified professional valuers in the countries concerned. In the event of a material change in market conditions between the valuation date and balance sheet date, adjustments are made to reflect any material changes in fair value. Values are calculated using a discounted cash flow approach and are based on current rental income plus anticipated uplifts at the next rent review, lease expiry, or break option taking into consideration lease incentives and assuming no future growth in the estimated rental value of the property. This uplift and the discount rate are derived from rates implied by recent market transactions on similar properties.

The fair value of investment properties leased to third parties under operating leases at 31 December 2012 was £10,822 million (2011: £11,552 million). Future contractual aggregate minimum lease rentals receivable under the non-cancellable portion of these leases are given in note 49(b)(i).

**19 - Fair value methodology**

This note explains the methodology for valuing our financial assets and liabilities carried at fair value, and provides an analysis of these according to a 'fair value hierarchy', determined by the market observability of valuation inputs

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

For financial assets and liabilities carried at fair value, we have 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 spreads, loss severities, credit risks, current property values and default rates).
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Examples of these are securities measured using discounted cash flow models based on market observable swap yields, and listed debt or equity securities in a market that is inactive. Valuations, whether sourced from internal models or third parties include 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

## 19 - Fair value methodology continued

### 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 business unit considers that market participants would use in pricing the asset or liability. Examples are certain private equity investments and private placements.

The majority of the Group's financial assets and certain financial liabilities are valued based on quoted market information or observable market data. A small percentage (5.5%) of total financial assets recorded at fair value are based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible.

Third-party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third-party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

#### (b) Fair value hierarchy analysis

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

2012	Fair value hierarchy					Statement of financial position Amortised cost £m	as held position for sale? Total fm £m
	Level 1 fm	Level 2 fm	Level 3 fm	Subtotal fair value fm	less- Assets of operations classified Subtotal fair value fm		
Financial investments and loans (notes 20 & 22)							
Loans	—	18,973	18,973	8,961	(3,397)	24,537	
Fixed maturity securities	107,953	43,588	10,082	161,623	—	128,006	
Equity securities	33,074	230	473	33,777	—	32,529	
Other investments (including derivatives)	21,704	5,510	2,879	30,093	—	28,543	
<b>Total</b>	<b>162,731</b>	<b>68,301</b>	<b>13,434</b>	<b>244,466</b>	<b>8,961</b>	<b>213,615</b>	
Financial Liabilities							
Non-participating investment contracts	45,032	825	442	46,299	1,400	43,741	
Borrowings (note 45)	—	1,332	—	1,332	7,007	8,194	
Derivative liabilities (note 46)	132	1,570	501	1,761	—	1,653	
<b>Total</b>	<b>45,164</b>	<b>3,727</b>	<b>501</b>	<b>49,392</b>	<b>8,407</b>	<b>53,588</b>	

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

For the year to 31 December 2012, transfers of financial assets from fair value hierarchy Level 1 to Level 2 amounted to £1.3 billion (2011: £2.2 billion), and £0.3 billion (2011: £9 million) from Level 2 to Level 1. The transfers from Level 1 to Level 2 arose primarily in France (£1.0 billion) and the UK (£0.3 billion) as a result of changes in the level of activity and environment in the markets from which prices are sourced.

For the year to 31 December 2012, there were no transfers of financial liabilities between fair value hierarchy levels (2011: no transfers)

2012	Fair value hierarchy					Statement of financial position Amortised cost £m	Less Assets of operations classified as held for sale fm	Statement of financial position Total fm
	Level 1 fm	Level 2 fm	Level 3 fm	Subtotal fair value fm	less- Assets of operations classified Subtotal fair value fm			
Financial investments and loans (notes 20 & 22)								
Loans	—	18,973	18,973	8,961	(3,397)	24,537		
Fixed maturity securities	107,953	43,588	10,082	161,623	—	128,006		
Equity securities	33,074	230	473	33,777	—	32,529		
Other investments (including derivatives)	21,704	5,510	2,879	30,093	—	28,543		
<b>Total</b>	<b>162,731</b>	<b>68,301</b>	<b>13,434</b>	<b>244,466</b>	<b>8,961</b>	<b>213,615</b>		
Financial Liabilities								
Non-participating investment contracts (note 37)	42,520	1,219	248	1,669	1,332	8,450		
Borrowings (note 45)	—	1,332	—	1,332	7,007	8,194		
Derivative liabilities (note 46)	132	1,570	501	1,761	—	1,653		
<b>Total</b>	<b>42,652</b>	<b>3,727</b>	<b>501</b>	<b>45,659</b>	<b>8,450</b>	<b>53,588</b>		



**Total**

42,969

3.885

292 47,146

8,813

55,959

## Notes to the consolidated financial statements continued

**19 - Fair value methodology continued****(c) Further information on Level 3 financial instruments**

(i) The table below shows movements in the Level 3 financial assets and liabilities measured at fair value.

	2012											local fm
	maturity sfKurtbes	Equity securities fm	Other investments fm	Fixed Investments Total fm	Financial KattMrcies fm	fiendai maturity Total fm	Equity securities Em	Equity securities fm	Other investments fm	Financial risestments fm	Financial NabrJries Total fm	
<b>Total funds</b>												
Balance at 1 January	7,940	483	2,945	11,368	18	292	8,709	2,668	208			
Total net (losses)/gains recognised in the income statement	934	7				(4)	(466)	114				
Total net gains/(losses) recognised in other comprehensive income	113	—	17				33	(10)				
<b>Purchases</b>	<b>1,826</b>	<b>27</b>	<b>6</b>	<b>1</b>	<b>23</b>		876	680	30	46		
Issuances	—	—						1				
Disposals	(767)	(29)					(96)	(58)				
Transfers into Level 3	443	2			959		0	2				
Transfers out of Level 3	(149)	(3)		130	2,499	1	167	119				
Deconsolidation of Delta Lloyd	—	—		(755)	(1,551)	56	(23)	(24)				
<b>Foreign exchange rate movements</b>	<b>(258)</b>	<b>(14)</b>		<b>501</b>	<b>(12)</b>	<b>(164)</b>						
						184	(1)	12,349				
							(18)					
							4	(387)				
				(37)								
				(309)	(12)		972	23	1,641			
							(35)	(1,554)				
								292				
								(261)				
							85	(519)				
							(12)	6				
							(3)					
							(518)					
							(12)					
<b>Balance at 31 December</b>	<b>10,0</b>	<b>473</b>		<b>2,879</b>	<b>501</b>	<b>7,940</b>	<b>483</b>	<b>2,945</b>	<b>11,368</b>	<b>292</b>		
Less' Amounts classified as held for sale	(12)	—				(396)						
	<b>9,96</b>	<b>473</b>		<b>2,483</b>	<b>501</b>	<b>7,940</b>	<b>483</b>	<b>2,945</b>	<b>11,368</b>	<b>292</b>		

Total net gains recognised in the income statement in the year in respect of Level 3 financial investments amounted to £959 million (2011: £387 million net losses). Included in this balance are £1,030 million net gains (2011: £354 million net losses) attributable to assets still held at the end of the year

The Group assesses the fair value hierarchy of its financial investments biannually at 30 June and 31 December. Transfers between fair value hierarchy levels are deemed to have occurred at the assessment date

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

- Changes in the market observability of valuation inputs.
- Changes in the market observability of inputs used to validate valuations.
- Significant differences between third-party prices used for valuations and validation prices either sourced from third parties or internal models.

The transfers into and out of Level 3 in 2012 were predominantly in our business in France and related principally to changes in the market liquidity of certain debt securities resulting in changes to the availability of observable market inputs.

Of the £959 million net gains (2011: £387 million net losses) recognised in the income statement during the year, a £968 million gain (2011: £390 million losses) is recognised in net investment income and £9 million losses (2011: £3 million gains) relates to impairments and is included in other expenses

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

- Structured bond-type products held by our business in France amounting to £8.6 billion (2011: £6.1 billion), for which there is no active market. These bonds are valued either using third-party counterparty or broker quotes. These bonds are validated against internal or third-party models. These bonds have been classified as Level 3 because either (i) the third-party models included a significant unobservable liquidity adjustment or (ii) differences between the valuation provided by the counterparty and broker quotes and the validation model were sufficiently significant to result in a Level 3 classification. At 31 December 2012, the values reported in respect of these products were the lower of counterparty and broker quotes and modelled valuations
- Notes issued by loan partnerships held by our UK Life business amounting to £1.0 billion (2011: £7.2 billion), for which there is no active market. These are valued using counterparty quotes which are corroborated against index information obtained for similar asset classes, taking into further consideration the quality of the underlying loan portfolio, leverage structure, credit rating, illiquidity margins, market spreads and duration
- Private equity investment funds amounting to £1.3 billion (2011: £1.5 billion), of which £1.1 billion (2011: £0.9 billion) is held by our UK business. In valuing our interest in these funds, we rely on investment valuation reports received from the fund manager, making adjustments for items such as subsequent draw-downs and distributions between the date of the report and the balance sheet date and the fund manager's carried interest. In addition, an indexation adjustment is made to reflect changes in appropriate equity market indices between the valuation report date and balance sheet date

- External hedge funds held principally by businesses in the UK, the US and France amounting to £1.3 billion (2077; £ 1.3 billion). Valuations received from fund managers are based on net asset values. However, insufficient information is provided on the underlying fund assets to support a classification other than Level 3
- Certain strategic interests in banking partners held by our Italian business amounting to £0.3 billion (2071: £0.3 billion). Valuations are based on third-party independent appraisals, or where internally modelled, transactions in similar entities, discounted cash flow techniques and valuation multiples, using public and internal management information.
- Other Level 3 investments amount to £0.9 billion (2071: £1.0 billion) and relate to a diverse range of different types of securities held by a number of businesses throughout the Group

## 19 - Fair value methodology continued

(iii) Where possible, the Group tests the sensitivity of the fair values of Level 3 investments to changes in unobservable inputs to reasonable alternatives. 99% (2011: 99%) of valuations for Level 3 investments are sourced from independent third parties and, where appropriate, validated against internally-modelled valuations, third-party models or broker quotes. Where third-party pricing sources are unwilling to provide a sensitivity analysis for their valuations, the Group undertakes, where feasible, sensitivity analysis on the following basis:

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

On the basis of the methodology outlined above, the Group is able to perform sensitivity analysis for £12.3 billion of the Group's Level 3 investments. For these Level 3 investments, changing unobservable valuation inputs to a reasonable alternative would result in a change in fair value in the range of £558 million positive impact and £623 million adverse impact

Of the £1.1 billion Level 3 investments for which sensitivity analysis is not provided, £0.8 billion relates to investments held in unit-linked and participating funds mainly in France where investment risk is predominantly borne by policyholders and therefore shareholder profit before tax is insensitive to reasonable changes in fair value of these investments. The remaining £0.3 billion of Level 3 investments are held to back non-linked shareholder business and it is estimated that a 10% change in valuation of these investments would reduce shareholder profit before tax by £30 million.

## 20 - Loans

This note analyses the loans our Group companies have made, the majority of which are

### mortgage loans, (a) Carrying amounts

The carrying amounts of loans at 31 December 2012 and 2011 were as follows:

	At fair value			At fair value through profit or loss other than trading		Total
	loss than trading	other	At amortised cost	profit or loss other than trading	At amortised cost	Total
	£m	£m	£m	£m	£m	£m
Policy loans						2,154
Loans to banks						19,239
UK securitised mortgage loans (see note 21)	2,218					4,968
Non-securitised mortgage loans	83					176
Loans to brokers and other intermediaries						1,309
Other loans						4,250
						3,211
						1,890
						102
						1,311
						4,250
						2,218
						19,968
						4,890
						102
						2,154
						16,329
						1,465
						4,988
						8
						2,905
						96
						176
						1,468
						4,988

### Tota

Less: Amounts classified as held for

				9,630	28,116
(56)	18,973	8,961	27,934	18,486	
)	(3,341)	(3,397)			
	5,620	24,537	18,486	9,630	
	28,116				

Loans to banks include cash collateral received under stock lending arrangements (see note 22(d)). The obligation to repay this collateral is included in payables and other financial liabilities (note 46).

Of the above loans, £19,179 million (2011: £21,626 million) are due to be recovered in more than one year after the statement of financial position date.

#### Loans at fair value

Fair values have been calculated by discounting the future cash flows using appropriate current interest rates for each portfolio of mortgages. Further details of the fair value methodology are given in note 19

The change in fair value of these loans during the year, attributable to a change in credit risk, was £491 million loss (2011: £555 million loss). The cumulative change attributable to changes in credit risk to 31 December 2012 was £2,665 million loss (2011: £2,174 million loss).

Non-securitised mortgage loans include £4.1 billion (2011: £3.7 billion) relating to UK primary healthcare and PFI businesses which are secured against General Practitioner premises, other primary health-related premises or other emergency services related premises. For all such loans, government support is provided through either direct funding or reimbursement of rental payments to the tenants to meet income service and provide for the debt to be reduced substantially over the term of the loan. Although the loan principal is not government-guaranteed, the nature of these businesses and premises provides considerable comfort of an ongoing business model and low risk of default.

16  
3

Aiva plc  
Annual report on Form 20-F 2012

### Notes to the consolidated financial statements continued

## 20 - Loans continued

### Loans at amortised cost

The fair value of these loans at 31 December 2012 was £8,735 million (2011: £9,532

million). (b) Analysis of loans carried at amortised cost

	2012			2011				
	Amortised Cost Cm	Carrying Value Cm	Impairment Cm	Amortised Cost fm	Carrying Value tm	Impairment tm		
Policy loans		1,309	—	1,309	1,463	—	1,463	
Loans to banks		4,250	—	4,250	4,988	—	4,988	
Non-securitised mortgage loans		3,335	(124)	3,212	2,905	(90)	2,905	
Loans to brokers and other intermediaries		89	—	89	96	—	96	
Other loans	106	(4)	102	180	176	(4)	176	
Total		9,089	(128)	8,961	9,630	(94)	9,630	

The movements in the impairment provisions on these loans for the years ended 31 December 2011 and 2012 were as follows:

At 1 January 2011	During the year	At 31 December 2011	At 1 January 2012	During the year	At 31 December 2012
(94)	(66)	(141)	(128)	(66)	(94)
Increase					
Write back following sale or recovery in value of Delta Lloyd movements					
Write back following sale or recovery in value of Delta Lloyd movements					
Deconsolidation of Delta Lloyd movements					
Foreign exchange rate movements					
At 31 December 2011		(141)	At 31 December 2011		(141)
(128)		(94)	(128)		(94)

### (c) Collateral

The Group holds collateral in respect of loans where it is considered appropriate in order to reduce the risk of non-recovery. This collateral generally takes the form of liens or charges over properties and, in the case of policy loans, the underlying policy for the majority of the loan balances above. In all other situations, the collateral must be in a readily realisable form, such as listed

securities, and is held in segregated accounts. Transfer of title for the collateral received always occurs in such cases, although no market risk or benefit is taken. In the event of a default, the Group is able to sell or repledge the collateral.

*The amount of collateral received with respect to loans which the Group is permitted to sell or repledge in the absence of default was £4,560 million (2011: £4,601 million). No collateral was actually sold or repledged in the absence of default during the year (2017: £nil).*

**21 - Securitised mortgages and related assets**

The Group, in our UK Life business has loans receivable, secured by mortgages, which have then been securitised through nonrecourse borrowings. This note gives details of the relevant transactions

**(a) Description of current arrangements**

In a UK long-term business subsidiary, Aviva Equity Release UK Limited (AER), the beneficial interest in certain portfolios of lifetime mortgages has been transferred to five special purpose securitisation companies (the ERF companies), in return for initial consideration and, at later dates, deferred consideration. The deferred consideration represents receipts accrued within the ERF companies after meeting all their obligations to the note holders, loan providers and other third parties in the priority of payments. The purchases of the mortgages were funded by the issue of fixed and floating rate notes by the ERF companies.

All the shares in the ERF companies are held by independent companies, whose shares are held on trust. Although AER does not own, directly or indirectly, any of the share capital of the ERF companies or their parent companies, it retains control of the majority of the residual or ownership risks and rewards related to the assets of the securitisation companies, and they have therefore been treated as subsidiaries in the consolidated financial statements. AER has no right to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where AER is in breach of warranty or loans are substituted in order to effect a further advance.

AER has purchased subordinated notes and granted subordinated loans to some of the ERF companies. In addition, Group companies have invested in loan notes issued by the ERF companies. These have been eliminated on consolidation through offset against the borrowings of the ERF companies in the consolidated statement of financial position.

In all of the above transactions, the Company and its subsidiaries are not obliged to support any losses that may be suffered by the note holders and do not intend to provide such support. Additionally, the notes were issued on the basis that note holders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective special purpose securitisation companies, including funds due from customers in respect of the securitised loans, are sufficient and that note holders have no recourse whatsoever to other companies in the Aviva Group.

**(b) Carrying values**

The following table summarises the securitisation arrangements'

	Securitized assets	Securitized borrowings	Securitized assets fm	Securitized borrowings fm
Securitized mortgage loans				
At fair value (note 20)	2,21		2,154	
Other securitisation assets/liabilities)	8		191	
			2,345	
	(1,515)			
	(1,054)		(1,48	
	2,569	(2,569)	6)	
			(85	
			9)	
			(2,345)	

Loan notes held by third parties are as follows:

	2012	2011
Total loan notes issued, as		fm
1,515		above
Less: Loan notes held by Group		1,486
(183)		companies
Loan notes held by third parties (note 45(c)(i))	1,332	(180)
	1,306	





<b>Total financial investments</b>	1,590	193,447	30,456	225,493	1,713	185,044	29,648	216,405
Less assets classified as held for sale								
Fixed maturity securities	—	(4,236)	(29,381)	(33,617)		(93)		(93)
Equity securities	—	(1,187)	(61)	(1,248)		(37)		(37)
Other investments	—	(1,072)	(478)	(1,550)		(217)		(217)
	—	(6,495)	(29,920)	(36,415)		(347)		(347)
	<b>1,590</b>	<b>186,952</b>	<b>536</b>	<b>189,078</b>	<b>1,713</b>	<b>184,697</b>	<b>29,648</b>	<b>216,058</b>

Of the above total, £129,448 million (2011: £154,116 million) is due to be recovered in more than one year after the statement of financial position date.

Other debt securities of £8,829 million (2011: £7,539 million) primarily include residential and commercial mortgage-backed securities, as well as other structured credit securities

## 22 - 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:

	Cost/ amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m	Fair value £m	Cost/ amortised cost £m	Unrealised gains £m	Unrealised losses and impairments £m	Fair value £m	£m
Fixed maturity securities		147,220	16,433	(2,030)	161,623	147,537	12,395	(6,587)	153,345
Equity securities 30,898	5,043	(2,164)	33,777	33,055	3,637	(4,009)	32,683		
Other investments									
Unit trusts and specialised investment vehicles	25,966	1,647	(857)	26,756	27,416	74	(230)		
Derivatives financial instruments	27,260	1,201	518	(129)	1,590	1,228	336	(66)	
Deposits with credit institutions	1,498	739	—	—	739	427	—	—	
Minority holdings in property management undertakings	427	599	123	(138)	584	639	124	(146)	617
Other long-term investments	434	20	(30)	424	652	19	(96)	575	
	<u>207,057</u>	<u>23,784</u>	<u>(5,348)</u>	<u>225,493</u>	<u>210,954</u>	<u>16,585</u>	<u>(11,134)</u>	<u>216,405</u>	
These are further analysed as follows									
At fair value through profit or loss		180,006	20,202	(5,171)	195,037	183,959	13,555	(10,757)	
Available for sale	27,051	3,582	(177)	30,456	26,995	3,030	(377)	29,648	
	<u>207,057</u>	<u>23,784</u>	<u>(5,348)</u>	<u>225,493</u>	<u>210,954</u>	<u>16,585</u>	<u>(11,134)</u>	<u>216,405</u>	

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

Gains and losses on financial investments from continuing operations classified as at fair value through profit or loss recognised in the income statement in the year were a net gain of £12,365 million (2011: £5,487 million net loss). Of this, £30 million net loss (2011: £69 million net gain) related to financial investments designated as trading and £12,395 million net gain (2011: £5,556 million net loss) related to investments designated as other than trading.

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes foreign exchange movements on the translation of unrealised gains and losses on financial investments held by foreign subsidiaries, which are recognised in other comprehensive income, as well as transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

Total impairments of financial investments classified as AFS in the income statement in the year were £14 million (2011: £27 million). The total accumulated impairment provision for financial investments classified as available-for-sale included in the table above within unrealised losses and impairments was £97 million (2011: £138 million). Movements in this AFS provision are shown in section (c) below.

(c) Impairment of financial investments

The movements in impairment provisions on available-for-sale financial investments for the years ended 31 December 2011 and 2012 were as follows:

	Fixed maturity securities Cm	Equity securities Cm	Other Investments Cm	Total Cm	Fixed maturity securities Cm	Equity securities Cm	Other Investments Cm	Total Cm	Cm
At 1 January	(126)	(5)			(151)	(7)	(983)		
Charge for the year taken to the income statement			(2)			-			
Write back following sale or reimbursement	(12)		(7)	(138)	(19)				
Write back following recovery in value			(14)			21)			
Deconsolidation of Delta Lloyd	49			49	28				
Foreign exchange rate movements					16	8		2	
					(825)				
					(2)				
								8	
								3	
								8	
<b>At 31 December</b>	<b>(84)</b>	<b>(4)</b>	<b>(9)</b>	<b>(97)</b>	<b>(126)</b>	<b>(5)</b>	<b>(7)</b>	<b>(138)</b>	

## (d) Financial investment arrangements

### (i) Stock lending arrangements

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

### Non-cash collateral received

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

In certain markets, the Group or the Group's appointed stock lending managers obtain legal ownership of the collateral received and can re-pledge it as collateral elsewhere or sell outright in the absence of default. The carrying amount of financial assets received

167

Aviva

Notes to the consolidated financial statements continued

Annual tepo.fi on Form 20-F 201 2

## 22 - Financial investments continued

in this manner at 31 December 2012 was £16,043 million (2011: £20,053 million). The value of collateral that was actually sold in the absence of default was £nil (2011: £ 150 million).

### Cash collateral received

In addition to the above, the Group has received cash collateral under stock lending arrangements that has been recognised in the statement of financial position with a corresponding obligation for its return. The latter balance is included in note 46.

### (ii) Other arrangements

In carrying on its bulk purchase annuity business, the Group's UK Life operation is required to place certain investments in trust on behalf of the policyholders. Amounts become payable from the trust funds to the trustees if the Group were to be in breach of its payment obligations in respect of policyholder benefits. At 31 December 2012 £1,208 million (2011 £1,044 million) of financial investments were restricted in this way.

Certain financial investments are also required to be deposited under local laws in various overseas countries as security for the holders of policies issued in those countries. Other investments are pledged as security collateral for bank letters of credit

### (e) Non UK Government Debt Securities (gross of non-controlling interests)

The following is a summary of non UK government debt by issuer as at 31 December 2012 analysed by policyholder, participating and shareholder funds

Non UK Government Debt Securities	2012		2011		Policyholder		Participating		Shmhokler Total		
	f m	f m	f m	f m	f m	f m	f m	f m	£m	2012 2011 f	
Austria	14	28	634	512	123	58	771	598			
Belgium	45	30	1,342	1,029	172	176	1,559	1,235			
France	189	215	9,072	7,529	1,944	1,634	11,205	9,378			
Germany	217	239	2,389	1,751	957	792	3,563	2,782			
Greece	—	—	—	46	—	2	—	48			
Ireland	34	33	363	378	26	216	423	627			
Italy	263	273	8,517	9,670	617	1,056	9,397	10,999			
Netherlands	65	63	1,193	1,284	228	136	1,486	1,483			
Poland	672	509	1,012	720	445	329	2,129	1,558			
Portugal	—	—	257	204	—	8	257	212			
Spain	36	46	1,317	1,046	854	639	2,207	1,731			
European Supranational debt	136	114	2,928	2,376	1,470	856	4,534	3,346			
Other European countries	235	125	634	410	421	91	1,290	626			
Europe	1,906	1,675	29,658	26,955	7,257	5,993	38,821	34,623			
Canada	18	18		195	195	2,517		2,342			
2,730 2,555											
United States	131	129	40	66	1,665	1,631	1,836				
1,826											
North America	149	147		235	261	4,182		3,973			
4,566 4,381											
Singapore				7	8	453	309	276	211	736	528
Sri Lanka				2	21	2	2	—	139	4	162
Other	604	391	1,252	1,262	393	227	2,249	1,880			
Asia Pacific and other			613420	1,707	1,573	669	577	2,989	2,570		
Total	2,668	2,242	31,600	28,789	12,108	10,543					
46,376 41,574											
Less: assets of operations classified as held for sale	197	34	556	9	2,274	19	3,027				
62											
Total (excluding assets held for sale)	2,471	2,208	31,044	28,780	9,834	10,524					
43,349 41,512											

At 31 December 2012, the Group's total government (non-UK) debt securities stood at £46.4 billion (2011: £41.6 billion), an increase of £4.8 billion. The significant majority of these holdings are within our participating funds where the risk to our shareholders is governed by the nature and extent of our participation within those funds

Our direct shareholder asset exposure to government (non-UK) debt securities amounts to £12.1 billion (2011: £10.5 billion). The primary exposures, relative to total shareholder (non-UK) government debt exposure, are to French (16%), German (8%), Spanish (7%) and Italian (5%) (non-UK) government debt securities.

The participating funds exposure to (non-UK) government debt amounts to £31.6 billion (2011: £28.8 billion), an increase of £2.8 billion. The primary exposures, relative to total (non-UK) government debt exposures included within our participating funds,

are to the (non-UK) government debt securities of France (29%), Italy (27%), Germany (8%), Belgium (4%), Spain (4%), Netherlands (4%) and Poland (3%).

## Notes to the consolidated financial statements continued

## 22 - Financial investments continued

## (f) Exposure to worldwide banks - debt securities

Direct shareholder and participating fund assets exposures to worldwide bank debt securities (net of non-controlling interests, excluding policyholder assets)

	Shareholder assets			Participating assets		fund
	Total debt	subordinated debt	fbn	Total senior debt	Total subordinated debt	
Austria				0.3		— 0.3
France	0.1	—	0.1	3.5	0.5	0.8 4.3 1.0
Germany	0.1	0.1	0.2	0.1	0.5	
Ireland		0.1	0.2	0.6	0.3	1.9 0.4 2.2
Italy	0.1	0.4	0.1	0.1	1.1	0.1 0.1 1.2
Netherlands		0.2	0.9	1.3	1.0	1.0 0.3 2.2 1.1
Portugal	0.8	0.8	2.1	1.0	2.0	2.8
Spain	1.3	0.6	0.1			0.1
United Kingdom			0.5			1.2
United States			0.8			0.1
Other			0.4			0.8
<b>Total</b>	<b>4.2</b>	<b>2.3</b>	<b>6.5</b>	<b>11.7</b>	<b>3.9</b>	<b>15.6</b>
Less: assets of operations classified as held for sale	1.	1.0	2.3	0.1	0.1	0.2
<b>Total (excluding assets held for sale)</b>	<b>2.9</b>	<b>1.</b>	<b>4.2</b>	<b>11.6</b>	<b>3.8</b>	<b>15.4</b>
2011	3.7	2.	59	10.6	3.6	14.2
Total						

Net of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £6.5 billion. The majority of our holding (65%) is in senior debt. The primary exposures are to US (32%) and UK (20%) banks. Net of non-controlling interests, our direct shareholder asset exposure to worldwide bank equity securities is £0.2 billion. Our holdings include strategic holdings in Italian banks of £148 million.

Net of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £15.6 billion. The majority of the exposure (75%) is in senior debt. Participating funds are the most exposed to French (28%), UK (14%) and Dutch (14%) banks.

Direct shareholder and participating fund assets exposures to worldwide bank debt securities (gross of non-controlling interests, excluding policyholder assets)

	Shareholder assets			Participating assets		fund
	Total debt	subordinated debt	fbn	Total senior debt	Total subordinated debt	
Austria				4.		
France	0.	0.		9		
Germany	1	1		0		
Ireland	0.	0.		1.		
Italy	1	2		0		
Netherlands		0.				
Portugal	0.	1		0.7		
Spain	2	0.		2.3		
United Kingdom	0.	3		0.1		
United States	4	0.		1.7		
Other		6		2.4		
	1.2					
	0.8	1.3		— 0.3		
	1.4	1.4		0.9		
	0.7	2.2		0.5		
		1.1				
			0.2			
		0.3				
	0.	4.0		0.3		
	1	0.5		0.2		
	0.		1.3			
	1	0.5		0.1		
	0.	2.0		0.9		
	1	0.1				
	0.	1.5				
	2	1.1				
		1.1				
	0.1	2.2				
	0.6					
	0.8					
	0.4					
<b>Total</b>	<b>4.9</b>	<b>2.4</b>	<b>7.3</b>	<b>13.3</b>	<b>4.4</b>	<b>17.7</b>

Less' assets of operations classified as held for sale	1.4	1.	2.5	0.2	0.1	0.3
<b>Total (excluding assets held for sale)</b>	<b>3.5</b>	<b>1.</b>	<b>4.8</b>	<b>13.1</b>	<b>4.3</b>	<b>17.4</b>
2011	4.3	2.	66	12.0	3.9	15.9
Total						

Gross of non-controlling interests, our direct shareholder assets exposure to worldwide bank debt securities is £7.3 billion. The majority of our holding (67%) is in senior debt. The primary exposures are to US (30%) and UK (19%) banks. Gross of non-controlling interests, our direct shareholder asset exposure to worldwide bank equity securities is £0.4 billion. Our holdings include strategic holdings in Italian banks of £289 million.

Gross of non-controlling interests, the participating fund exposures to worldwide bank debt securities, where the risk to our shareholders is governed by the nature and extent of our participation within those funds, is £17.7 billion. The majority of the exposure (75%) is in senior debt. Participating funds are the most exposed to French (28%), UK (14%) and Dutch (13%) banks

16  
9

Avi « P<sup>1</sup> »  
Annual report on Form 20-F 2012

### Notes to the consolidated financial statements continued

## 23 - Receivables

This note analyses our total receivables.

	2012 £m	2011 £m
Amounts owed by contract holders	1,693	1,838
Amounts owed by intermediaries	1,398	1,139
Deposits with ceding undertakings	1,395	1,426
Amounts due from reinsurers	367	339
Amounts due from brokers for investment sales	444	270
Amounts receivable for cash collateral pledged	241	26
Amounts due from government, social security and taxes	521	467
Corporate owned life insurance	162	156
Dividends receivable	6	109
Finance lease receivables	141	200
Other receivables	1,662	1,978
<b>Total</b>	<b>8,030</b>	<b>7,948</b>
Less: Amounts classified as held for sale	(413)	(11)
	7,617	7,937
Expected to be recovered in less than one year	7,525	7,713
Expected to be recovered in more than one year	92	224
	7,617	7,937

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

## 24 - Deferred acquisition costs, other assets, prepayments and accrued income

(a) Deferred acquisition costs and other assets - carrying amount. The carrying amount comprises:

	2012 £m	2011 £m
Deferred acquisition costs in respect of		
Insurance contracts - Long-term business		2,733
2,122		939
Insurance contracts - General insurance and health business		986
Participating investment contracts - Long-term business		30
		21
Non-participating investment contracts - Long-term business		936
		1,024
Retail fund management business		14
14		14
Total deferred acquisition costs		4,041
4,778		
Surpluses in the staff pension schemes (note 44) (e) (vn)		1,670
1,257		
<b>Other assets</b>		<b>56</b>
<b>Total</b>		<b>5,354</b>
Less: Amounts classified as held for sale		(6,467)
(1,555)		(23)

Deferrable acquisition costs (DAC) on long-term business are generally recoverable in more than one year whereas such costs on general insurance and health business are generally recoverable within one year. Of the above total, £1,351 million (2011: £3,148 million) is expected to be recovered more than one year after the statement of financial position date; the reduction in this amount reflects that the DAC balance for the US is included in amounts classified as held for sale at 31 December 2012. For long-term business where amortisation of the DAC balance depends on projected profits, the amount expected to be recovered is estimated and actual experience will differ

Surpluses in the staff pension schemes are recoverable more than one year after the statement of financial position date.

## 24- Deferred acquisition costs, other assets, prepayments and accrued income continued

(b) Deferred acquisition costs - movements in the year

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

	2012				2011			
	Long-term business	General insurance and health business	Retail fund management business	Total	Long-term business	General insurance and health business	Retail fund management business	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Carrying amount at 1 January	3,778	986	14	4,778	4,261	1,141	14	5,416
Acquisition costs deferred during the year	841	2,221	4	3,066	1,012	2,414	5	3,431
Amortisation		(804)	(2,257)	(4)(3,065)	(735)	(2,467)	(5)	(3,207)
Impact of assumption changes	(201)	—	—	(201)	(48)	—	—	(48)
Effect of portfolio transfers, acquisitions and disposals	(15)	(1)	—	(16)	—	(18)	—	(18)
Foreign exchange rate movements	(89)	(10)	—	(99)	(3)	(5)	—	(8)
Shadow adjustment	(422)	—	—	(422)	(593)	—	—	(593)
Deconsolidation of Delta Lloyd	—	—	—	—	(116)	(79)	—	(195)
Carrying amount at 31 December	3,088	939	14	4,041	3,778	986	14	4,778
<b>Less: Amounts classified as held for sale</b>	<b>(1,538)</b>	<b>—</b>	<b>—</b>	<b>(1,538)</b>	<b>(23)</b>	<b>—</b>	<b>—</b>	<b>(23)</b>
	1,550	939	14	2,503	3,755	986	14	4,755

The balance of deferred acquisition costs for long-term business decreased by £0.7 billion in 2012, reflecting the impact of assumption changes and shadow adjustment in the US.

Where amortisation of the DAC balance depends on projected profits, changes to economic conditions may lead to a movement in the DAC balance and a corresponding impact on profit. It is estimated that the movement in the DAC balance would reduce profit by £30 million (2011: £145 million) if market yields on fixed income investments were to increase by 1% and increase profit by £50 million (2011: £170 million) if yields were to reduce by 1%. The reduction in sensitivities for 2012 reflects that the US business is held for sale and carried at fair value less cost to sell.

The shadow adjustments relate to deferred acquisition costs on business in the US backed by investments classified as AFS. As explained in accounting policy K, unrealised gains and losses on the AFS investments and the shadow adjustments above are both recognised directly in other comprehensive income.

### (c) Other assets

Other assets include £3 million (2011: £6 million) that is expected to be recovered more than one year after the statement of financial position date.

### (d) Prepayments and accrued income

Prepayments and accrued income of £3,104 million including assets classified as held for sale (2011: £3,235 million), includes £108 million (2011: £90 million) that is expected to be recovered more than one year after the statement of financial position date.

## 25 - Assets held to cover linked liabilities

Certain unit-linked products have been classified as investment contracts, while some are included within the definition of an insurance contract. The assets backing these unit-linked liabilities are included within the relevant balances in the consolidated statement of financial position, while the liabilities are included within insurance and investment contract provisions. This note analyses the carrying values of assets backing these liabilities.

	2012		2011	
	£m	£m	£m	£m
Loans		605		917
Debt securities		16,472		15,295
Equity securities		22,500		20,602
Reinsurance assets		1,576		1,454
Cash and cash equivalents		4,305		3,980
Other		28,512		28,119
		73,970		70,367
Less Assets classified as held for sale		(3,048)		—
		70,922		70,367



## 26 - Ordinary share capital

This note gives details of Aviva pic's ordinary share capital and shows the movements during the

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

	2012 £m	2011 £m
The allotted, called up and fully paid share capital of the Company at 31 December 2012 was. 2,945,972,261 (2011 2,905,712,938)ordinary shares of 25 pence each	736.	726

(b) During 2012, a total of 40,259,323 ordinary shares of 25 pence each were allotted and issued by the Company as follows:

	Number of shares	Share Capital £m	Share Premium £m	Number of shares	Share Capital £m	Share Premium £m
At 1 January 2012	2,905,712,938	726	1,173	2,820,148,642	705	1,194
Shares issued under the Group's Employee and Executive Share Option Schemes			3,335,566	1		1
Shares issued in lieu of dividends	36,923,757	9	(9)	1,574,706	21	—
	(21)					
At 31 December 2012		2,945,972,261		1,165,290,5,712,938	726	1,173

Ordinary shares in issue in the Company rank pari passu with any new ordinary shares issued in the Company. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

The issue of shares in lieu of cash dividends is considered a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

## 27 - Group's share plans

This note describes the Group's various equity compensation plans, and shows how the Group values the options and awards of shares in the Company.

### (a) Description of the plans

The Group maintains a number of active share option and award plans and schemes (the Group's Share Plans). These are as follows.

#### (i) Savings-related options

These are options granted under the HMRC-approved Save As You Earn (SAYE) share option schemes in the UK and Irish Revenue-approved SAYE share option scheme in Ireland. Options are normally exercisable during the six-month period following either the third, fifth or seventh anniversary of the start of the relevant savings contract. Options granted in 2012 are normally exercisable following the third or fifth anniversary

#### (ii) Executive share options

These are options granted on various dates until 2004 under the Aviva Executive Share Option Plan and in 2010, under the Aviva Executive Share Option Plan 2005. Options granted between 2001 and 2004 were subject to the satisfaction of conditions relating to both the Company's Return on Equity (ROE) and its relative Total Shareholder Return (TSR). The performance was measured over a three-year performance period and the options are normally exercisable between the third and tenth anniversary of their grant. The options granted in 2010 are described in the Directors' Remuneration Report

#### (iii) Long-term incentive plan awards

These awards have been made under the Aviva Long Term Incentive Plan 2005 and Aviva Long Term Incentive Plan 2011, and are described in section (b) below and in the Directors' Remuneration Report.

#### (iv) Annual bonus plan awards

These awards have been made under the Aviva Annual Bonus Plan 2005 and Aviva Annual Bonus Plan 2011, and are described in section (b) below and in the Directors' Remuneration Report

#### (v) One Aviva, twice the value bonus plan awards

These are conditional awards granted under the Aviva Annual Bonus Plan 2005 between 2008 and 2010, and are described in section

(b) below and in the Directors' Remuneration Report.

#### (vi) Recruitment and retention share award plan awards

These are conditional awards granted under the Aviva Recruitment and Retention Share Award Plan in relation to the recruitment or retention of senior managers excluding Executive Directors. The awards vest in tranches on various dates and vesting is conditional upon the participant being employed by the Group on the vesting date and not having served notice of resignation. If a participant's employment is terminated due to resignation or dismissal, any tranche of the award which has vested within the 12 months prior to the termination date will be subject to clawback and any unvested tranches of the award will lapse in full. No new Aviva pic ordinary shares will be issued or transferred from treasury to satisfy vested awards under this plan

**27 - Group's share plans continued**

**(vii) CFO recruitment share awards plan awards**

The following awards were granted to Patrick Regan under the CFO Recruitment Share Awards Plan following his recruitment in 2010: the Replacement Restricted Share Award (RRSA), the Bonus Replacement Deferred Share Award (BRDSA) and the One Aviva Twice the Value (OATTV) Award. The RRSA was awarded to compensate Mr Regan for the loss of share awards granted by his previous employer and the BRDSA was awarded to compensate Mr Regan for the loss of bonus from his previous employer. The awards are described in section (b) below and in the Directors' Remuneration Report. No further awards will be made under this plan.

**(viii) Conditional share award granted to Trevor Matthews**

A conditional share award was awarded to Trevor Matthews as compensation for the loss of share awards granted by his previous employer. The awards are described in section (b) below and in the Directors' Remuneration Report.

**(b) Outstanding options and awards**

**(i) Share options**

At 31 December 2012, options to subscribe for ordinary shares of 25 pence each in the Company were outstanding as follows.

Aviva Related Option Scheme	Savings Share Option Scheme	Option price P	Number of shares normally exercisable	Option price P	Number of shares normally exercisable			
			49	13,22	201	31	2,337,8	2012, 2014 or 2016
			1	8	2	6	54	
			59	39,61	201	31	2,421,0	2013, 2015 or 2017
			3	5	3	0	83	
			56	139,9	2012 or 2014	26	10,302,920	2014, 2016 or 2018
			3	60	2014	8	920	2015 or 2017
			41	502,2	2013 or 2015	26	5,892,8	or 2017
			0	99	2015	6	28	

Aviva Ireland Savings Related Share Option Scheme (On euros)	Number of shares normally exercisable	Option price	Number of shares normally exercisable	Option price		
	83	32,13	2012 or 2013	37	140,0	2013 or 2015
	0	0	2012 or 2014	4	85	2014 or 2016
	50	49,38	2014	30	507,2	2015 or 2017
	9	7		4	54	
	36	362,0		33	268,0	
	0	66		6	03	

Aviva Executive Share Option	Number of shares	Weighted average exercise price P
	51	533,707
	2	361,010
	52	1,308,78
	6	1
	38	2006 to 2013
	6	2007 to 2014
		2013

The following table summarises information about options outstanding at 31 December 2012:

Range of exercise	Number of options	Weighted average contractual life	Weighted average exercise price P
	£2 66 -f		
	4.29	£4	

30 - £5 89 £5	287
90-£10 35	77
24,092,560	524.5
1,080,035	5
39,615	593.0
	0

The comparative figures as at 31 December 2011 were:

Range of exercise	Outstanding options	Number Weighted average remaining contractual life Years	Weighted average exercise price P
£2.68 - £4	303.		
29 £4 30 -	84		
£5 89	524.		
£5.90-£10	03		
35	593.		
27,743,09	00		
3			
2,052,537			
278,354			

**27 - Group's share plans continued****(ii) Share awards**

At 31 December 2012, awards issued under the Company's executive incentive plans over ordinary shares of 25 pence each in the Company were outstanding as follows

Plan Name	Number of shares	Vesting period
Aviva Long Term Incentive Plan 2005	5,458,500	2010 to 2012
Aviva Long Term Incentive Plan	7,391,026	2011 to 2013
	11,321,800	2012 to 2014
One AvM, twice the value bonus plan	1,422,544	2010 to 2012
Aviva Annual Bonus Plan 2005	2,762,731	2010 to 2012
Aviva Annual Bonus Plan	2,496,279	2011 to 2013
	4,476,090	2012 to 2014
CFO Recruitment Share Awards Plan	Award type	Number of shares
	RRS	2
	A	013
	BRDS	2010 to
	A	2012
	OATT	2010 to
	V	2012
	85,197	
	43,231	
	55,051	
Conditional Share Award granted to Trevor Matthews	435,814	2013 and 2014
Recruitment and Retention Share Award Plan	Number of shares	Vesting period
	19,481	2013
	166,921	2013 and 2014
	39,122	2013, 2014 and 2015
	78,167	2015

The vesting of awards under the Aviva Long Term Incentive Plan 2005, the Aviva Long Term Incentive Plan 2011, the OATTV bonus plan and the OATTV Award under the CFO Recruitment Share Awards Plan is subject to the attainment of performance conditions as described in the Directors' Remuneration Report. Shares which do not vest will lapse

**(iii) Shares to satisfy awards and options**

Since July 2008, it has been the Company's practice to satisfy all awards and options using shares purchased in the market and held by employee trusts except where local regulations make it necessary to issue new shares. Further details are given in note 28.

**(c) Movements in the year**

A summary of the status of the option plans as at 31 December 2011 and 2012, and changes during the years ended on those dates, is shown below.

	Weighted average exercise price	Number of options	2011 Weighted average exercise price
Outstanding at 1 January			30,073,984
Granted during the year	Forfeited during the year	Cancelled during the year	Expired during the year
Exercised during the year			6,236,944

(2,862,952) (2,187,371)  
(3,282,095) (2,766,300)

321.55	27,256,640	367	51
269.02	13,486,990	268	00
315.24	(182,907)	353	26
337.96	(1,089,738)	347.58	
300.34	)	320	36
432.85	(7,142,132)	539.48	
	)		
	(2,254,869		
	)		
Outstanding at 31 December	25,212,210	298.40	30,073,984 321.55
Exercisable at 31 December	1,943,130	424.99	3,460,979 471.26

## 27 - Group's share plans continued

(d) Expense charged to the income statement

The total expense recognised for the year arising from equity compensation plans was as follows:

	2012 £m	2011 2010 £m £m
Equity-settled expense	42	48 41
Cash-settled expense	5	10 9
Total (note 8b)	47	58 50

(e) Fair value of options and awards granted after 7 November 2002

The weighted average fair values of options and awards granted during the year, estimated by using the Binomial option pricing model, were £0.70 and £2.61 (2011: £0.99 and £4.20) respectively

### (i) Share options

The fair value of the options was estimated on the date of grant, based on the following weighted average assumptions.

Weighted average assumption	2012	2011
Share price	326p	312p
Exercise price	Expected	266p
Expected volatility	41%	58%
Expected life	3.71 years	3.64 years
Expected dividend yield	7.98%	6.40%
Risk-free interest rate	0.37%	0.89%

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the option prior to its date of grant. The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the options. 2,862,952 options granted after 7 November 2002 were exercised during the year (2011: 182,907)

### (ii) Share awards

The fair value of the awards was estimated on the date of grant based on the following weighted average assumptions:

Weighted average assumption	2012	2011
Share price	331.54p	435.70p
Expected volatility <sup>1</sup>	37%	66%
Expected volatility of comparator companies' share price <sup>2</sup>	38%	65%
Correlation between Aviva and competitors' share price <sup>2</sup>		63% 57%
Expected life	3.00 years	3.00 years
Expected dividend yield <sup>2</sup>	n/a	n/a
Risk-free interest rate <sup>1</sup>	0.42%	1.79%

<sup>1</sup> For awards with market-based performance conditions

<sup>2</sup> The long term incentive plan awards granted in 2011 and 2012 include additional shares being provided to employees equal to dividend rights before vesting. As a result no dividend yield assumption is required for these awards

The expected volatility used was based on the historical volatility of the share price over a period equivalent to the expected life of the share award prior to its date of grant. The risk-free interest rate was based on the yields available on UK government bonds as at the date of grant. The bonds chosen were those with a similar remaining term to the expected life of the share awards.

## 28 - Shares held by employee trusts

We satisfy awards and options granted under the Group's share plans primarily through shares purchased in the market and held by employee share trusts. This note gives details of the shares held in these trusts. Movements in the carrying value of shares held by employee trusts comprise:

Cost debited to shareholders' funds						
At 1 January						
Acquired in the year	13,284,476	43	8,415,487	32	17,979,232	6
Distributed in the year	10,269,904	33	9,396,602	29	3,500,000	8
	(13,500,865)	(44)	(4,527,613)	(18)	(13,063,745)	1
	)	)	)	)	)	4
						(50)
Balance at 31 December	10,053,515	32	13,284,476	43	8,415,487	32

The shares are owned by employee share trusts with an undertaking to satisfy awards of shares in the Company under the Company's share plans and schemes. Details of the features of the plans can be found in the Directors' Remuneration Report and in note 27.

These shares were purchased in the market and are carried at cost. At 31 December 2012, they had an aggregate nominal value of £2,513,379 (2011: £3,321,119) and a market value of £37,499,611 (2011: £39,959,704). The trustees have waived their rights to dividends on the shares held in the trusts.

## Notes to the consolidated financial statements continued

**29 - Preference share capital**

This note gives details of Aviva plc's preference share capital.  
The preference share capital of the Company at 31 December 2012 was

	2012 £ m	2011
Issued and paid up		
100,000,000 8.375% cumulative irredeemable preference shares of £1 each	100	100
100,000,000 8.75% cumulative irredeemable preference shares of £1 each	100	100
	200	200~

Under its articles of association, the Company may issue and allot Sterling New Preference Shares and Euro New Preference Shares, which, if issued and allotted, would rank, as to payment of a dividend and capital, ahead of the Company's ordinary share capital but behind the cumulative irredeemable preference shares currently in issue. The issued preference shares are non-voting except where their dividends are in arrears, on a winding up or where their rights are altered.

On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares. The Company does not have a contractual obligation to deliver cash or other financial assets to the preference shareholders and therefore the directors may make dividend payments at their discretion.

**30 - Direct capital instruments and fixed rate tier 1 notes**

Notional fm							2012 amount fm	2011
5	9021	%	£500	million	direct	capital	instrument	
500							500	
4	7291	%	€700	million	direct	capital	instrument	
							490	490
							990	990
Issued May 2012								
8 25% US \$650 million fixed rate tier 1 notes								
392								
							1,382	990

The euro and sterling direct capital instruments (the DCIs) were issued on 25 November 2004 and qualify as Innovative Tier 1 capital, as defined by the Financial Services Authority in GENPRU Annex 1 'Capital Resources'. They have no fixed redemption date but the Company may, at its sole option, redeem all (but not part) of the euro and sterling DCIs at their principal amounts on 28 November 2014 and 27 July 2020 respectively, at which dates the interest rates change to variable rates, or on any respective coupon payment date thereafter. In the case of the sterling DCI this variable rate will be the six month sterling deposit rate plus margin while the euro DCI variable rate will be the three month euro deposit rate plus margin.

The fixed rate tier 1 notes (the FxdRNs) were issued on 3 May 2012 and also qualify as Innovative Tier 1 capital. The FxdRNs are perpetual but are subject to a mandatory exchange into non-cumulative preference shares in the Company after 99 years. The Company may, at its sole option, redeem all (but not part) of the FxdRNs at their principal amounts on 3 November 2017, or on any respective coupon payment date thereafter.

On the occurrence of a Capital Disqualification Event as defined in the terms and conditions of the issue for both the DCIs and FxdRNs, the Company may at its sole option substitute at any time not less than all of the DCIs or FxdRNs for, or vary the terms of the DCIs so that they become, Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities.

In addition, on the occurrence of a Substitution Event as defined in the terms and conditions of the issue for the DCIs, the Company may at its sole option substitute not less than all of the DCIs for fully paid non-cumulative preference shares in the Company. These preference shares can only be redeemed on 28 November 2014 in the case of the euro DCIs and on 27 July 2020 in the case of the sterling DCIs, or in each case on any dividend payment date thereafter. For the FxdRNs, having given the required notice, the Company has the right to substitute not less than all of the notes for fully paid non-cumulative preference shares at any time. These preference shares can only be redeemed on 3 November 2017, or on any dividend payment date thereafter. The Company has the right to choose whether or not to pay any dividend on the new shares, and any such dividend payment will be non-cumulative.

The Company has the option to defer coupon payments on the DCIs or FxdRNs on any relevant payment date. In relation to the DCIs, deferred coupons shall be satisfied only in the following circumstances, all of which occur at the sole option of the Company:

- Redemption; or
- Substitution by, or variation so they become, alternative Qualifying Tier 1 Securities or Qualifying Upper Tier 2 Securities; or
- Substitution by preference shares

In relation to the FxdRNs, deferred coupons may be satisfied at any time, at the sole option of the Company. The Company is required to satisfy deferred coupons on the FxdRNs only in the following circumstances:

- Redemption, or
- \* Substitution by preference shares

No interest will accrue on any deferred coupon. Deferred coupons will be satisfied by the issue and sale of ordinary shares in the Company at their prevailing market value, to a sum as near as practicable to (and at least equal to) the relevant deferred coupons. In the event of any coupon deferral, the Company will not declare or pay any dividend on its ordinary or preference share capital. These instruments have been treated as equity. Please refer to accounting policy AD.

### 31 - Merger reserve

This note describes the use of the merger reserve.

Prior to 1 January 2004, certain significant business combinations were accounted for using the 'pooling of interests method' (or merger accounting), which treats the merged groups as if they had been combined throughout the current and comparative accounting periods. Merger accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the Parent Company for the acquisition of the shares of the subsidiary and the subsidiary's own share capital and share premium account.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 1985 and, from 1 October 2009, the Companies Act 2006.

The balance on the reserve of £3,271 million (2011: £3,271 million) has arisen through the mergers of Commercial Union, General Accident and Norwich Union companies, forming Aviva pic in 2000, together with the acquisition of RAC pic ("RAC") in 2005. Because RAC ownership was immediately transferred from Aviva pic to a subsidiary company, this reserve is unaffected by the disposal of RAC in 2011.

### 32 - Other reserves

This note gives details of the various reserves forming part of the Group's consolidated equity and shows the movements during the year net of non-controlling interests:

	Currency translation reserve (see accounting policy O)	77	Investment valuation reserve (see accounting policy S)	(117)	(589)	Equity compensation reserve (see accounting policy AA)	
<b>Balance at 1 January 2010</b>							1,829
Arising in the year: Fair value gains/losses	2,224		163				
Fair value gains/(losses) transferred to profit on disposals			579				554
Transfer to profit on disposal of subsidiary			(123)				(123)
Share of fair value changes in joint ventures and associates taken to other comprehensive income (note 15a & 16a)	(2)			(771)			(2)
Impairment losses on assets previously revalued directly through other comprehensive income now taken to income statement		8	(15)				(15)
Reserves credit for equity compensation plans							136
Shares issued under equity compensation plans (note 33)		3	136				41
Transfer to non-controlling interests following Delta Lloyd IPO							(51)
Foreign exchange rate movements	(3)	(41)				41	(4) 37
Aggregate tax effect - shareholders' tax	5	2	(D)			(51)	(157)
							2,245
<b>Balance at 1 January 2011</b>	2,183						
Arising in the year: Fair value gains			(166)				426
Fair value gains transferred to profit on disposals				78	99		(189)
Transfer to profit on disposal of subsidiary	(3)	6	573				(3) (6)
Fair value gains transferred to retained earnings on disposals (note 33)				(693)			(85)
Share of fair value changes in joint ventures and associates taken to other comprehensive income (note 15a & 16a)			424				21 48
Impairment losses on assets previously revalued directly through other comprehensive income now taken to income statement		1	(189)				(61)
Reserves credit for equity compensation plans							(2)
Shares issued under equity compensation plans (note 33)							(144)
Transfer to profit on deconsolidation of Delta Lloyd	(485)		(8)				(88)
Transfer to retained earnings on deconsolidation of Delta Lloyd						48	1,562
Foreign exchange rate movements	(174)	9	(6)			(61)	
Aggregate tax effect - shareholders' tax							551
							(234)
<b>Balance at 31 December 2011</b>	1,530	2	21				187
Arising in the year: Fair value gains							
Fair value gains transferred to profit on disposals							14
Transfer to profit on disposal of subsidiaries, joint ventures and associates	91		(115)	30			
Share of fair value changes in joint ventures and associates taken to other comprehensive income (note 15a & 16a)		1			86		12
Impairment losses on assets previously revalued directly through other comprehensive income now taken to income statement		79	(98)	(663)			42
Reserves credit for equity compensation plans							(68)
Shares issued under equity compensation plans (note 33)		(3)	530				(293)
Foreign exchange rate movements	(367)	18	554 (234)				(98)
Aggregate tax effect - shareholders' tax			96				1,675
<b>Balance at 31 December 2012</b>	1,272		14			42	
Owner occupied properties reserve (see accounting policy O)			12			(68)	
				74			
	104	1					60



Included in the above are £1.0 billion of currency translation and investment valuation reserves at 31 December 2012 relating to discontinued operations

### 33 - Retained earnings

This note analyses the movements in the consolidated retained earnings during the year

	2012 Cm	2011 £m fm	2010 fm
Balance at 1 January	5,954	5,411	3,425.
(Loss) profit for the year attributable to equity shareholders	(3,218)	225	1,463
Actuarial (losses) gains on pension schemes (note 44 (e) (iv))	(830)	1,002	1,033
Other pension scheme movements	—	(22)	(18)
Dividends and appropriations (note 12)	(847)	(813)	(757)
Shares issued in lieu of dividends	127	307	209
Shares issued under equity compensation plans (note 32)	67	61	51
Shares distributed by employee trusts (note 28)	(36)	(18)	(50)
Fair value gains realised from reserves (note 32)	—	6.	—
Effect of deconsolidation of Delta Lloyd	—	2	—
Transfer to minority interest following Delta Lloyd IPO	—	—	(4)
Share of other comprehensive income of joint ventures and associates	—	(51)	—
<b>Aggregate tax effect</b>	<b>172</b>	<b>(156)</b>	<b>59</b>
Balance at 31 December	1,389	5,954	5,411

The shares issued in lieu of dividends are in respect of the transfer to retained earnings from the ordinary dividend account, arising from the treatment of these shares explained in note 26(b)

The Group's regulated subsidiaries are required to hold sufficient capital to meet acceptable solvency levels based on applicable local regulations. Their ability to transfer retained earnings to the UK parent companies is therefore restricted to the extent these earnings form part of local regulatory capital.

### 34 - Non-controlling interests

This note gives details of the Group's non-controlling interests and shows the movements during the year. Non-controlling

interests at 31 December comprised:

	2012 fm	2011 fm	2010 fm
Equity shares in subsidiaries		424	
Share of earnings	480	2,055	
Share of other reserves	257	643	1,057
	<b>1,324</b>	<b>1,280</b>	<b>3,489</b>
Preference shares in General Accident pic		250	250
Preference shares in other subsidiaries		—	2
Total		1,530	3,741

Movements in the year comprised:

	2011 fm	2010 fm
<b>Balance at 1 January</b>	<b>1,530</b>	<b>3,540</b>
(Loss) profit for the year attributable to non-controlling interests	168	(165)
Non-controlling interests share of movements in other reserves	1	(16)
Foreign exchange rate movements	(37)	14
Total comprehensive income attributable to non-controlling interests	132	(167)
Capital contributions from non-controlling interests	20	68
Increase in non-controlling interests following Delta Lloyd IPO	—	—
Non-controlling interests share of dividends declared in the year	(102)	(126)
Non-controlling interest in acquired subsidiaries	—	(187)
Changes in non-controlling interests in existing subsidiaries	—	3
Reclassification to financial liabilities (see below)	—	3,741
Effect of deconsolidation of Delta Lloyd	—	(11)
	—	(205)
	—	(1,770)
	—	( )
<b>Balance at 31 December</b>	<b>1,574</b>	<b>1,530</b>

As explained in note 3, the minority shareholder in an Irish subsidiary has an option requiring the Group to purchase its shares. As a result of this obligation, the Group has reclassified this non-controlling interest to financial liabilities in the consolidated statement of financial position. This option was exercised on 17 January 2012, with completion expected in 2013.

Notes to the consolidated financial statements continued

### 35 - Contract liabilities and associated reinsurance

The following notes explain how the Group calculates its liabilities to policyholders for insurance and investment products it has sold to them. Notes 36 and 37 cover these liabilities, and note 38 details the financial guarantees and options given for some of these products. Note 39 details the reinsurance recoverables on these liabilities while note 40 shows the effects of changes in the assumptions.

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

	Grass Reinsurance provisions assets £m £m		Restated <sup>1</sup> Gross reinsurance assets £m		Restated <sup>1</sup> assets Net £m £m	
Long-term business Insurance contracts						
Participating investment contracts	(131,190)	4,291	(126,899)	131,171	3,747	(127,424)
Non-participating investment contracts	(66,849)	3	(66,846)	(67,707)	—	(67,707)
	(47,699)	1,678	(46,021)	(45,659)		1,626
	(44,033)					
	5,373	(239,164)				
Outstanding claims provisions						
Long-term business General insurance and health		<b>(1,342)</b>	<b>(7,711)</b>			
	<b>(9,053)</b>	<b>993</b>		(9,410)	1,100	(8,310)
Provisions for claims incurred but not reported	<b>(2,843)</b>	<b>354</b>		(2,646)	395	(2,251)
(245,738) 5,972 (239,766) (244,537)		<b>(8,060)</b>	<b>(2,489)</b>			
	<b>93</b>	<b>(1,249)</b>	<b>(1,311)</b>	126	<b>(1,185)</b>	
	<b>900</b>	<b>(6,811)</b>	<b>(8,099)</b>	974	<b>(7,125)</b>	
Provision for unearned premiums						
Provision arising from liability adequacy tests						
<b>Totals</b>				<b>(257,634)</b>	<b>7,319</b>	<b>(250,315)</b>
Less: Amounts classified as held for sale				<b>(256,593)</b>	<b>6,868</b>	<b>(249,725)</b>
				<b>(4,441)</b>	<b>248</b>	<b>(4,193)</b>
				<b>(11)</b>	<b>(13)</b>	<b>(13)</b>
				<b>(262.0)</b>	<b>(13)</b>	<b>7,113</b>
	<b>86</b>	7,567		(254,519)		(253,976)
	(261,089)	(883)		37,618		
	344					
	(223,585)			6,684	(216,901)	(260,745)
	7,112	(253,633)				

<sup>1</sup> Following a review of the classification of contracts issued by the Group's Italian long-term business, there has been a reallocation from parurrtatq insurance kabinjesat 31 December 2011 to panipjirig investment contract liabilities of £2.722 million

### 36 - insurance liabilities

This note analyses the Group insurance contract liabilities by type of product and describes how the Group calculates these liabilities and the assumptions the Group used.

(a) Carrying amount

Insurance liabilities at 31 December comprise

	General Long-term insurance business and health £m £m		Total £m	Restated <sup>1</sup> Long-term business £m General insurance and health £m		Restate d <sup>1</sup> Total £m	
Long-term business							
provisions Participating	<b>49,47</b>	—	<b>49,473</b>	52,87		52,8	
Unit-linked non-participating	<b>3</b>	—	<b>9,936</b>	2		72	
Other non-participating	<b>9,936</b>	—	<b>71,781</b>	10,16		10,1	
	<b>71.78</b>	—		131,190		68	
	<b>1</b>					68,1	
	<b>131,190</b>		131,171			31	
						131,171	
Outstanding claims provisions	<b>1,342</b>	<b>7,71</b>		1,311			
Provision for claims incurred but not reported	<b>1</b>	<b>2,84</b>					
		<b>3</b>					
		<b>9,053</b>					
		<b>2,843</b>					
		8,09					
		9					
		2,64					
		6					
		9,410					
		2,646					
	<b>1,342</b>	<b>10,554</b>	<b>11,896</b>	1,311	10,745	12,056	
Provision for unearned premiums	—	—	—		<b>4,44</b>	<b>4,483</b>	
Provision arising from liability adequacy tests		<b>4,44</b>			<b>1 11</b>	<b>13</b>	
Other technical provisions	<b>1</b>		<b>11</b>		4,483		
					13		
<b>Total</b>	132,532	15,006	147,538	132,482	15,241	147,723	

Less' Amounts classified as held for sale	(34.44	(1)	(34	-	(344)
	98,086	15,005	113,091		132,138
	15,241	147,379			

1 Following a review of the classification of contracts issued by the Group's run long-term business, there has been a reallocation (rem participating insurance liabilities at 31 December 2011 to participating investment contract liabilities of £2,722 million)

17  
9

Aviva» i\*  
Anp.-jal (eporl on Fotm 20-F 2012

## Notes to the consolidated financial statements continued

### 36 - Insurance liabilities continued

(b) Long-term business liabilities

#### (i) Business description

The Group underwrites long-term business in a number of countries as follows:

- In the UK mainly in:
  - New With-Profits sub-fund (NWPSF) of Aviva Life & Pensions UK (UKLAP), where the with-profit policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance. Any surplus or deficit emerging in NWPSF that is not distributed as bonus will be transferred from this sub-fund to the Reattributed Inherited Estate External Support Account (RIEESA) (see below).
  - Old With-Profits sub-fund (OWPSF), With-Profits sub-fund (WPSF) and Provident Mutual sub-fund (PMSF) of UKLAP, where the with-profit policyholders are entitled to at least 90% of the distributed profits, the shareholders receiving the balance
  - 'Non-profit' funds of Aviva Annuity UK and UKLAP, where shareholders are entitled to 100% of the distributed profits. Shareholder profits on unitised with-profit business written by WPSF and on stakeholder unitised with-profit business are derived from management fees and policy charges, and emerge in the non-profit funds.
  - The RIEESA of UKLAP, which is a non-profit fund where shareholders are entitled to 100% of the distributed profits, but these cannot be distributed until the 'lock-in' criteria set by the Reattribution Scheme have been met. RIEESA will be used to write non-profit business and also to provide capital support to NWPSF
- In France, where the majority of policyholders' benefits are determined by investment performance, subject to certain guarantees, and shareholders' profits are derived largely from management fees. In addition, a substantial number of policies participate in investment returns, with the balance being attributable to shareholders.
- In the US, there are two main types of business - protection products and accumulation products. Protection products include interest-sensitive whole life, term life, universal life and indexed life insurance policies. The accumulation product segment includes traditional fixed and indexed deferred annuities for individuals and funding agreements for business customers. In addition, there are two closed blocks of participating contracts arising from demutualisations of subsidiary companies. All products are classified as insurance contracts except for the funding agreements and term certain immediate annuities, which are classified as non-participating investment contracts.
- In other operations in Europe and Asia, a range of long-term insurance and savings products are written.

#### (ii) Group practice

The long-term business provision is calculated separately for each of the Group's life operations. The provisions for overseas subsidiaries have generally been included on the basis of local regulatory requirements, modified where necessary to reflect the requirements of the Companies Act 2006.

Material judgement is required in calculating the provisions and is exercised particularly through the choice of assumptions where discretion is permitted. In turn, the assumptions used depend on the circumstances prevailing in each of the life operations. Provisions are most sensitive to assumptions regarding discount rates and mortality/morbidity rates. Where discount rate assumptions are based on current market yields on fixed interest securities, allowance is made for default risk implicit in the yields on the underlying assets.

In 2010, a test case was taken to the European Court of Justice to rule on 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 was issued on 1 March 2011 and required gender equality for pricing from 21 December 2012. The impact of the ruling on existing long-term business provisions in our UK and European businesses is not considered to be material.

Bonuses paid during the year are reflected in claims paid, whereas those allocated as part of the bonus declaration are included in the movements in the long-term business provision.

For UK with-profit life funds falling within the scope of the FSA realistic capital regime, and hence FRS 27, an amount may be recognised for the present value of future profits (PVFP) on non-participating business written in a with-profit fund where the determination of the realistic value of liabilities in that with-profit fund takes account, directly or indirectly, of this value. For our UK with-profit funds, no adjustment for this value is made to the participating insurance and investment contract liabilities or the unallocated divisible surplus.

### (iii) Methodology and assumptions

There are two main methods of actuarial valuation of liabilities arising under long-term insurance contracts - the net premium method and the gross premium method - both of which involve the discounting of projected premiums and claims.

Under the net premium method, the premium taken into account in calculating the provision is determined actuarially, based on the valuation assumptions regarding discount rates, mortality and disability. The difference between this premium and the actual premium payable provides a margin for expenses. This method does not allow for voluntary early termination of the contract by the policyholder, and so no assumption is required for persistency.

The gross premium method uses the amount of contractual premiums payable and includes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. These assumptions can vary by contract type and reflect current and expected future experience.

## 36 - Insurance liabilities continued

### (a) UK

#### With-profit business

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

For a small proportion of business, a prospective valuation approach is used, including allowance for anticipated future regular and final bonuses.

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

- Maturity Guarantees;
- Guaranteed Annuity Options;
- GMP underpin on Section 32 transfers; and
- Expected payments under Mortgage Endowment Promise.

In the Provident Mutual and With-Profits sub-funds in UKLAP, this is offset by the expected cost of charges to WPBR to be made in respect of guarantees.

The cost of future policy-related liabilities is determined using a market-consistent approach and, in the main, this is based on a stochastic model calibrated to market conditions at the end of the reporting period. Non-market-related assumptions (for example, persistency, mortality and expenses) are based on experience, adjusted to take into account future trends.

The principal assumptions underlying the cost of future policy-related liabilities are as follows:

#### Future investment return

A 'risk-free' rate equal to the spot yield on UK swaps was used. This replaced the use of a spot yield on UK government securities plus a margin of 0.1%, which was used at 31 December 2011. The rates vary according to the outstanding term of the policy, with a typical rate as at 31 December 2012 of 1.92% (2011: 2.20%) for a policy with ten years outstanding.

#### Volatility of investment return

Volatility assumptions are set with reference to implied volatility data on traded market instruments, where available, or on a best estimate basis where not.

VolatrSty	2012	2011
Equity returns	26.3%	26.4%
Property returns	15.0%	15.0%
Fixed interest yields	17.1%	18.0%

The equity volatility used depends on term, money-ness and region. The figure shown is for a sample UK equity, at the money, with a ten-year term. Fixed interest yield volatility is also dependent on term and money-ness. The figure shown is for a ten-year swap option with ten-year term, currently at the money.

#### Future regular bonuses

Annual bonus assumptions for 2012 have been set consistently with the year-end 2011 declaration. Future annual bonus rates reflect the principles and practices of the fund. In particular, the level is set with regard to the projected margin for final bonus and the change from one year to the next is limited to a level consistent with past practice.

#### Mortality

Mortality assumptions for with-profit business are set with regard to recent Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

Mortality table used

Assurances, pure endowments and deferred annuities before vesting Pensions business after vesting and pensions annuities in payment

Nil or AxxOO adjusted

Nil or AxxOO adjusted

PCMA00/PCFA00 adjusted plus allowance for future mortality improvement  
PC MA00/PC FA00 adjusted plus allowance for future mortality improvement

2012 \_\_\_\_\_ 2011

**Non-profit business**

The valuation of non-profit business is based on regulatory requirements, adjusted to remove certain regulatory reserves and margins in assumptions, notably for annuity business. Conventional non-profit contracts, including those written in the with-profit funds, are valued using gross premium methods which discount projected future cash flows. The cash flows are calculated using the amount of contractual premiums payable, together with explicit assumptions for investment returns, inflation, discount rates, mortality, morbidity, persistency and future expenses. These assumptions vary by contract type and reflect current and expected future experience.

For unit-linked and some unitised with-profit business, the provisions are valued by adding a prospective non-unit reserve to the bid value of units. The prospective non-unit reserve is calculated by projecting the future non-unit cash flows on the assumption that future premiums cease, unless it is more onerous to assume that they continue. Where appropriate, allowance for persistency is based on actual experience.

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

### 36 - Insurance liabilities continued

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

Valuation discount rates for business in the non-profit funds are as follows:

Valuation discount rates			
<b>Assurances</b>			
Life conventional non-profit		2.6% to 4.1%	2.2% to 4.3%
Pensions conventional non-profit Annuities		2.1%	
Conventional immediate and deferred annuities		2.5%	
Non-unit reserves on Unit Linked business Life		2.2%	
Pensions Income		3.1%	
Protection Active lives		(0.7)%	
Claims in payment - level		1.8% to 2.2%	2.2% to 2.7%
Claims in payment - index linked			2.4% 3.6% (1.0)%
1.8%	1.8% to 1.9%	2.6%	
2.2%			

The above valuation discount rates are after reduction for investment expenses and credit risk. For conventional immediate annuity business the allowance for credit risk comprises long-term assumptions for default and downgrades, which vary by the credit ratings for bonds and mortgages, and short-term supplementary allowances for higher expected defaults during the current economic conditions. The credit risk allowance made for corporate bonds and commercial mortgages, including healthcare mortgages, held by Aviva Annuity UK Limited equated to 56 bps and 89 bps respectively at 31 December 2012 (2011: 60 bps and 69 bps respectively). For corporate bonds, the allowance represented 30% of the average credit spread for the portfolio (2011: 26%). The total valuation allowance held by Aviva Annuity UK Limited in respect of corporate bonds and mortgages, including healthcare mortgages, was £1.8 billion (2011: £1.6 billion) over the remaining term of the UK Life corporate bond and commercial mortgage portfolio. Total liabilities for annuity business were £30 billion at 31 December 2012 (2011: £27 billion).

Mortality assumptions for non-profit business are set with regard to recent Company experience and general industry trends. The mortality tables used in the valuation are summarised below:

#### Mortality tables used

##### Assurances

Non-profit

AM00/AF00 or TM00/TFO0  
AM00/AF00 or TM00/TFO0 adjusted for smoker status and  
**adjusted for smoker status and**  
**age/sex specific factors**

age/sex  
specific  
factors

Pure endowments and deferred annuities before vesting

**AM00/AF00 adjusted**

##### Annuities in payment

Pensions business

**PCMA00/PCFA00 adjusted plus**  
**allowance for future mortality**  
**improvement**

PCMA00/PCFA00 adjusted plus  
allowance for future mortality  
improvement

General annuity business

**IML00/IFL00 adjusted plus**  
**allowance for future mortality**  
**improvement**

IML00/IFL00 adjusted plus  
allowance for future mortality  
improvement

For pensions annuity business in 2012, the underlying mortality assumptions for Males are 100.5% of PCMA00 with base year 2000, improvements based on CML\_2011 with a long-term improvement rate of 1.5% and an addition of 0.5% to all future annual improvements, for Females the underlying mortality assumptions are 95.5% of PCFA00 with base year 2000, improvements based on CML2011 with a long-term improvement rate of 1.0% and an addition of 0.5% to all future annual improvements. Year-specific adjustments are made to allow for selection effects due to the development of the Enhanced Annuity market.

#### (b) France

The majority of reserves arise from single premium savings products and are based on the accumulated fund values, adjusted to maintain consistency with the value of the assets backing the policyholder liabilities. For traditional business the net premium method is used for prospective valuations, in accordance with local regulation, where the valuation assumptions depend on the date of issue of the contract. The valuation discount rate also depends on the original duration of the contract and mortality rates are based on industry tables

	Valuation rates	discount	Mortality tables used
Life assurances			2012and2011
Annuities			
0% to 4.5%			TD73-77, TD88-90, TH00-02JF OO-02 TGF05/TG H05
0% to 4.5%			

### 36 - Insurance liabilities continued

#### (c) United States

For the major part of our US business, insurance liabilities are measured in accordance with US GAAP as at the date of acquisition.

The liability for future policy benefits for traditional life insurance is computed using the net level method, based on guaranteed interest and mortality rates as used in calculating cash surrender values. Reserve interest assumptions ranged from 2.00% to 7.50% in 2012 (2011: 2.00% to 7.50%). The weighted average interest rate for all traditional life policy reserves in 2012 was 4.50% (2011: 4.50%).

Future policy benefit reserves for universal life insurance, deferred annuity products and funding agreements are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. For the indexed products, the liability held is calculated based on the option budget method and is equal to the host contract and the calculated value of the derivative. The value of the derivative is based on the present value of the difference between the projected fund value and the underlying fund guarantee. The range of interest crediting rates for deferred annuity products, the largest component of the US business, excluding sales inducement payouts, was 1.00% to 5.20% in 2012 (2011: 1.00% to 5.20%). An additional liability is established for universal life contracts with death or other insurance benefit features, which is determined using an equally weighted range of scenarios with respect to investment returns, policyholder lapses, benefit election rates, premium payout patterns and mortality. The additional liability represents the present value of future expected benefits based on current product assumptions.

The indexed life and annuity products guarantee the return of principal to the customer, and credit interest based on certain indices. A portion of the premium from each customer is invested in fixed income securities and is intended to cover the minimum guaranteed value. A further portion of the premium is used to purchase derivatives to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. Both the derivatives and the options embedded in the policy are valued at their fair value.

Deferred income reserves are established for fees charged for insurance benefit features which are assessed in a manner that is expected to result in higher profits in earlier years, followed by lower profits or losses in subsequent years. The excess charges are deferred and amortised using the same assumptions and factors used to amortise deferred acquisition costs. Deferred income reserves of £85 million in respect of insurance contracts in the United States are included under Other liabilities - Deferred income in note 47. Shadow adjustments may be made to deferred acquisition costs, acquired value of in-force business, deferred income reserves and contract liabilities. The shadow adjustments are recognised directly in other comprehensive income so that unrealised gains or losses on investments that are recognised directly in other comprehensive income affect the measurement of the liability, or related assets, in the same way as realised gains or losses.

#### (d) Other countries

In all other countries, local generally accepted interest rates and published standard mortality tables are used for different categories of business as appropriate. The tables are based on relevant experience and show mortality rates, by age, for specific groupings of people.

#### (iv) Movements

The following movements have occurred in the long-term business provisions during the year:

	Restated <sup>1</sup> 2012 2011
	£m £m
<b>Carrying amount at 1 January</b>	<b>131,171 157,988</b>
Provisions in respect of new business	8,631
Expected change in existing business provisions	(8,362)
Variance between actual and expected experience	943
Impact of other operating assumption changes	(718)
Impact of economic assumption changes	1,726
Other movements	<del>2,091</del>
Change in liability recognised as an expense	(214)
Effect of portfolio transfers, acquisitions and disposals	(1,878)
Deconsolidation of Delta Lloyd	10,894 (8,541)
Foreign exchange rate movements	(2,279) (61) 5,663
	(623)
	5,053 (6)
	(32,159) 295
<b>Carrying amount at 31 December</b>	<b>131,190 131,171</b>

<sup>1</sup> Following a review of the classification of contracts issued on 10 June 2012, the Group's Italian long-term business there has been a reclassification from participating insurance liabilities at 31 December 2011 to participating investment contract liabilities of £2,722 million.

The variance between actual and expected experience of £0.9 billion in 2012 was primarily due to the impact of favourable investment returns on liabilities for unit-linked insurance contracts. For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of insurance liabilities. The £1.7 billion impact of economic assumption changes reflects reductions in valuation interest rates, primarily in respect of immediate annuity and participating insurance contracts in the UK. The £0.7 billion impact of operating assumption changes mainly relates to mortality assumption in the UK, with the net impact reduced by movements in corresponding reinsurance assets. For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 40, together with the impact of movements in related non-financial assets.



**36 - Insurance liabilities continued****(c) General insurance and health liabilities****(i) Provisions for outstanding claims**

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

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

The Group only establishes loss reserves for losses that have already occurred. The Group therefore does not establish catastrophe equalisation reserves that defer a share of income in respect of certain lines of business from years in which a catastrophe does not occur to future periods in which catastrophes may occur. When calculating reserves, the Group takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability.

The table below shows the split of total general insurance and health outstanding claim provisions and IBNR provisions, gross of reinsurance, by major line of business

	A* at 31 December 2012		As at 31 December 2011	
	Outstanding provisions	IBNR provisions	Total claim provisions	Total claim provisions
Motor	1,40	21	4,788	1 19
Property	8	2	1,620	59
Liability	2,00	1,39	3,397	482
Creditor	3 54	4	67	995
Other	509	13	682	155
<b>3,73</b>	<b>1,05</b>	<b>17</b>	<b>3,960</b>	<b>1,32</b>
<b>7</b>	<b>1</b>	<b>3</b>	<b>1,392</b>	<b>638</b>
	<b>7,71</b>	<b>2,843</b>	<b>10,554</b>	<b>8,099</b>
				<b>2,646</b>
				<b>10,745</b>

**(ii) Discounting**

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

Class	- Mean term of natalities
Reinsured London Market	2.0%
business Latent claims	0.33% to 3.35%
Structured settlements	2.60%
	2i20,% 0.75%
	to 3.25% 2
	70%
	<u>11 &gt; years. 6</u>
	<u>to, 15 years.</u>
	<u>33 years</u>
	<u>. 13 years 7 to,</u>
	<u>16 years 31</u>
	<u>years</u>

The gross outstanding claims provision before discounting was £11,004 million (2011: £11,420 million). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims reserves is based on the relevant swap curve in the relevant currency having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table above. The duration of the claims span over 35 years, with the average duration being between 6 and 15 years depending on the geographical region Any change in discount rates between the start and the end of the accounting period is reflected below adjusted operating profit as an economic assumption change.

During 2012, the Group has seen a levelling off in the number of new bodily injury claims settled by periodic payment orders (PPOs) or structured settlements, which are reserved for on a discounted basis

**(iii) Assumptions**

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claim technicians apply their experience and knowledge to the circumstances of individual claims They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim Claims above certain limits are referred to senior claims handlers for authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of individual large or unusual claims may be adjusted, subject to internal reserve committee approval, to allow for uncertainty regarding, for example, the outcome of a court case The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios Historical

claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

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

### 36 - Insurance liabilities continued

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

As noted in section in section (b)(ii) - Group Practice, an area of judgement is the impact of a European Court of Justice ruling in March 2011 on gender equality for the pricing of insurance products. At 31 December 2012, the impact of the ruling on existing general business provisions was not considered to be material.

The following explicit assumptions are made which could materially impact the level of booked net reserves:

#### ***UK mesothelioma claims***

The level of uncertainty associated with latent claims is considerable due to the relatively small number of claims and the long-tail nature of the liabilities UK mesothelioma claims account for a large proportion of the Group's latent claims. The key assumptions underlying the estimation of these claims include claim numbers, the base average cost per claim, future inflation in the average cost of claims and legal fees.

The best estimate of the liabilities reflects the latest available market information and studies. Many different scenarios can be derived by flexing these key assumptions and applying different combinations of the different assumptions. An upper and lower scenario can be derived by making reasonably likely changes to these assumptions, resulting in an estimate £240 million greater than the best estimate, or £65 million lower than the best estimate. These scenarios do not, however, constitute an upper or lower bound on these liabilities.

#### ***Interest rates used to discount latent claim liabilities***

The discount rates used in determining our latent claim liabilities are based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement of latent claims. The range of discount rates used is shown in section (n) above and depends on the duration of the claim and the reporting date. At 31 December 2012, it is estimated that a 1 % fall in the discount rates used would increase net claim reserves by approximately £95 million, excluding the offsetting effect on asset values as assets are not hypothecated across classes of business. The impact of a 1 % fall in interest rates across all assets and liabilities of our general insurance and health businesses is shown in note 53

#### ***Allowance for risk and uncertainty***

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated by each business unit in accordance with the requirements of the Group non-life reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Group non-life reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across both business units and reporting periods

Changes to claims development patterns can materially impact the results of actuarial projection techniques. However, allowance for the inherent uncertainty in the assumptions underlying reserving projections is automatically allowed for in the explicit allowance for risk and uncertainty included when setting booked reserves.

Lump sum payments in settlement of bodily injury claims decided by the UK courts are calculated in accordance with the Ogden Tables. The Ogden Tables contain a discount rate that is set by the Lord Chancellor and that is applied when calculating the present value of loss of earnings for claims settlement purposes. The process for setting this discount rate is currently under review. The timing of the conclusion of this review is unclear and it is still uncertain whether or by how much the rate will change. However an allowance has been included in provisions for a reduction in the Ogden discount rates. A reduction in the Ogden discount rates will increase lump sum payments to UK bodily injury claimants.

### 36 - Insurance liabilities continued

#### (iv) Movements

The following changes have occurred in the general insurance and health claims provisions during the year:

	2012 £m	2011 £m
Carrying amount at 1 January	10,745	12,263
Impact of changes in assumptions	<b>61</b>	<b>149</b>
Claim losses and expenses incurred in the current year	<b>6,291</b>	6,520
Decrease in estimated claim losses and expenses incurred in prior years	<b>(199)</b>	(140)
Exceptional strengthening of general insurance latent claims provisions	—	45
<b>6,153</b>	<b>6,574</b>	
Incurred claims losses and expenses Less	<b>(3,243)</b>	(3,393)
Payments made on claims incurred in the current year	<b>(3,104)</b>	(3,514)
Payments made on claims incurred in prior years	<b>297</b>	313
Recoveries on claim payments		
Claims payments made in the year, net of recoveries	(6,050)	(6,594)
Unwind of discounting		35
Other movements in the claims provisions		47
		2 (12)
Changes in claims reserve recognised as an expense	140	
Effect of portfolio transfers, acquisitions and disposals	(171)	
Deconsolidation of Delta Lloyd	)	
Foreign exchange rate movements		
Other movements	(158)	
<b>Carrying amount at 31 December</b>		<b>15</b>
	(1,445)	(87) (D)
	10,554	10,745

The effect of changes in the main assumptions is given in note 40

#### (d) Loss development tables (i) Description of tables

The tables that follow present the development of claim payments and the estimated ultimate cost of claims for the accident years 2003 to 2012. 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 2003, by the end of 2012 £5,727 million had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £6,385 million was re-estimated to be £5,791 million at 31 December 2012.

The original estimates will be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity.

The Group aims to maintain strong reserves in respect of its general insurance and health business in order to protect against adverse future claims experience and development. As claims develop and the ultimate cost of claims become more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as shown in the loss development tables and movements table (c)(iv) above. However, in order to maintain overall reserve adequacy, the Group establishes strong reserves in respect of the current accident year (2012) where the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims

Key elements of the movement in prior accident year general insurance and health net provisions during 2012 were

- £47 million release from UK & Ireland, including Group reinsurance business, due to favourable development in Group reinsurance, health and across a number of lines of business in Ireland.
- £51 million release from Europe mainly due to favourable development of personal motor and commercial property claims in France.
- £122 million release from Canada mainly due to continued favourable experience on motor, following the legislative changes in Ontario.

Key elements of the release from prior accident year general insurance and health net provisions during 2011 were<sup>1</sup>

- £42 million strengthening from UK & Ireland, including Group reinsurance business, mainly due to unfavourable development on commercial motor, commercial liability and December 2010 freeze claims in the UK offset by favourable development of personal and commercial motor claims in Ireland
- £6 million release from Europe mainly due to favourable development of personal and commercial motor claims in France offset by adverse development in Italy and Delta Lloyd.
- £92 million release from Canada mainly due to favourable experience on motor, following the legislative changes in Ontario, and commercial liability.

## Notes to the consolidated financial statements continued

## 36 - Insurance liabilities continued

## (ii) Gross figures

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

Accident year	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
	£m	£m	£m	fm	fm	fm	fm	fm	£m	fm
Gross cumulative claim payments	All poor years 2003 fm fm									
At end of accident year	(2,819)	(2,971)	(3,345)	(4,393)	(4,915)	(3,780)	(3,502)	(3,420)	(3,055)	
One year later	(4,190)	(4,561)	(5,011)	(5,525)	(6,676)	(7,350)	(5,464)	(5,466)	(4,765)	
Two years later	(4,613)	(4,981)	(5,449)	(5,971)	(7,191)	(7,828)	(6,102)	(5,875)		
Three years later	(4,972)	(5,263)	(5,784)	(6,272)	(7,513)	(8,304)	(6,393)			
Four years later	(5,258)	(5,448)	(6,001)	(6,531)	(7,836)	(8,607)				
Five years later	(5,409)	(5,617)	(6,156)	(6,736)	(8,050)					
Six years later	(5,527)	(5,725)	(6,311)	(6,936)						
Seven years later	(5,594)	(5,792)	(6,467)							
Eight years later	(5,660)	(5,826)								
Nine years later Estimate of gross ultimate claims	(5,727)									
At end of accident year	6,891	7,106	7,533	8,530	9,508	7,364	6,911	6,428		
One year later	6,557	6,938	7,318	8,468	9,322	7,297	7,006	6,330		
Two years later	6,371	6,813	7,243	8,430	9,277	7,281	6,950			
Three years later	6,178	6,679	7,130	8,438	9,272	7,215				
Four years later	6,008	6,603	7,149	8,409	9,235					
Five years later	6,003	6,605	7,167	8,446		6,201				
Six years later	5,953	6,591	7,167		6,385	6,172	6,124	6,036	5,932	5,853
Seven years later	5,933	6,596		5,813	5,792	5,798	5,791	5,791		
Eight years later	5,926		5,926	6,596	7,167	8,446	9,235	7,215		
Nine years later Estimate of gross ultimate claims		6,950	6,330	6,201						
Cumulative payments	(5,727)	(5,826)	(6,467)	(6,936)	(8,050)	(8,607)	(6,393)	(5,875)	(4,765)	(3,055)
Effect of discounting	2,798	100	3,146			822		1,075		
	(479)	64	10,954							
		(4)	(450)							
		12								
		9								
		1								
		8								
		23								
		1								
		8								
		39								
		6								
		5								
		628	2							
Present value	2,31	60	100	147	239	401	630	822		
Cumulative effect of foreign exchange movements	- 14	1	2	3	37	1,075	1,565	3,146	10,504	4
Effect of acquisitions		8	4	9	(22)	(19)	(14)	(34)	(34)	3
present value recognised in the statement of financial position	2,31	7	11	17	282	438	61	808	1,041	1,543



Present value recognised in the statement  
of financial position

1,365 7 106 168 265 409 590 789 1,016 1,505 3,016 9,300

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

The loss development tables above include information on asbestos and environmental pollution claims provisions from business written before 2003. The undiscounted claim provisions for continuing operations, net of reinsurance, in respect of this business at 31 December 2012 were £1,003 million (2011 £929 million). The movement in the year reflects strengthening of provisions by £8 million in the UK (2011 V. exceptional strengthening of £35 million), other increases in undiscounted provisions of £51 million (2011 V. £23 million), reclassification of commercial liability provisions of £55 million, claim payments, reinsurance recoveries and foreign exchange rate movements.

**(e) Provision for unearned premiums  
Movements**

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

	2012 £ m	2011 £ m
<b>Carrying amount at 1 January</b>	<b>4,483</b>	
Premiums written during the year	<u>4,855</u>	
Less Premiums earned during the year	9,535	10,364
	(9,514)	(10,099)
Change in UPR recognised as income	<b>21</b>	
Gross portfolio transfers and acquisitions	<b>(6</b>	
Deconsolidation of Delta Lloyd Foreign exchange rate movements	<b>)</b>	
	<b>(57)</b>	
	265	
	(161	
	)	
	(424	
	)	
	(52)	
<b>Carrying amount at 31 December</b>	<b>4,441</b>	4,483

### 37 - Liability for investment contracts

This note analyses our investment contract liabilities by type of product and describes how the Group calculates these liabilities and the assumptions used.

#### (a) Carrying amount

The liability for investment contracts at 31 December comprised:

	2012 f m £m	Restated <sup>1</sup> 2011
Long-term business		
Participating contracts		
Non-participating contracts at fair value	46,299	43,990
Non-participating contracts at amortised cost	47,699	45,659
<b>Total</b>	<b>110,494</b>	<b>113,366</b>
Less Amounts classified as held for sale	(4,054)	— <sup>1</sup>
	<b>110,494</b>	<b>113,366</b>

<sup>1</sup> From a review of the classification of contracts issued by the Group's Italian long-term business, there has been a reallocation from participating insurance investment contract liabilities of £1.722 million to participating investment contract liabilities of £1.722 million.

#### (b) Long-term business investment liabilities

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

Many investment contracts contain a discretionary participation feature in which the contract holder has a contractual right to receive additional benefits as a supplement to guaranteed benefits. These are referred to as participating contracts and are measured according to the methodology and Group practice for long-term business liabilities as described in note 36. They are not measured at fair value as there is currently no agreed definition of fair valuation for discretionary participation features under IFRS. In the absence of such a definition, it is not possible to provide a range of estimates within which a fair value is likely to fall. The IASB has deferred consideration of participating contracts to Phase II of its insurance contracts project.

For participating business, the discretionary participation feature is recognised separately from the guaranteed element and is classified as a liability, referred to as unallocated divisible surplus. Guarantees on long-term investment products are discussed in note 38.

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

Of the non-participating investment contracts measured at fair value, £45,087 million in 2012 are unit linked in structure and the fair value liability is equal to the unit reserve plus additional non-unit reserves, if required, on a fair value basis. These contracts are generally classified as level 1' in the fair value hierarchy, as the unit reserve is calculated as the publicly quoted unit price multiplied by the number units in issue, and any non-unit reserve is insignificant.

For unit-linked business, a deferred acquisition cost asset and deferred income reserve liability are recognised in respect of transaction costs and front-end fees respectively, that relate to the provision of investment management services, and which are amortised on a systematic basis over the contract term. The amount of the related deferred acquisition cost asset is shown in note 24 and the deferred income liability is shown in note 47.

In the US, funding agreements consist of one to ten year fixed rate contracts. These contracts may not be cancelled by the holders unless there is a default under the agreement, but may, subject to a call premium, be terminated by Aviva at any time. Aviva issued no new funding agreements in 2012. The weighted average interest rates for fixed-rate and floating-rate funding agreements as at 31 December 2012 were 4.688% and 0.305% respectively. Funding agreements issued before 2008 are measured at fair value equal to the present value of contractual cash flows and, for business issued since 2008, are measured at amortised cost. Most funding agreements are fully collateralised and therefore their fair values are not adjusted for own credit risk. Funding agreements carried at fair value total £0.6 billion and are classified as level 2' in the fair value hierarchy.

There is a small volume of annuity certain business for which the liability is measured at amortised cost using the effective interest method.

The fair value of contract liabilities measured at amortised cost is not materially different from the amortised cost liability.

#### (c) Movements in the year

The following movements have occurred in the year.

##### (i) Participating investment contracts

	2012 f m £m	Restated <sup>1</sup> 2011
Carrying amount at 1 January	67,707	
Provisions in respect of new business	2,695	3,688
Expected change in existing business provisions	(2,039)	(2,618)
Variance between actual and expected experience	102	(2,708)
Impact of operating assumption changes	9	(72)
Impact of economic assumption changes	74	631
Other movements	(82)	211
Change in liability recognised as an expense	759	(868)
Foreign exchange rate movements	(1,610)	(1,352)
Deconsolidation of Delta Lloyd	—	(2,523)
Other movements	(7)	10
Carrying amount at 31 December	66,849	

<sup>1</sup> Following a review of the classification of contracts issued by the Group's Italian long-term business, there has been a reallocation from participating insurance investment contract liabilities of £1.722 million to participating investment contract liabilities of £1.722 million.

For many types of long-term business, including unit-linked and participating funds, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of participating investment contract liabilities. For participating business, a movement in liabilities is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact on profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 40, together with the impact of movements in related non-financial assets

**(ii) Non-participating investment contracts**

**Carrying amount at 1 January**

Provisions in respect of new business  
 Expected change in existing business provisions  
 Variance between actual and expected experience  
 Impact of operating assumption changes  
 Impact of economic assumption changes  
 Other movements  
 Change in liability  
 Effect of portfolio transfers, acquisitions and disposals  
 Deconsolidation of Delta Lloyd  
 Foreign exchange rate movements  
 Other movements

	2012 C m	2011 1 fm
	45,659	48,305
	3,851	3,863
	(2,531)	(2,558)
	982	(2,796)
	14	1
	4	7
	104	(123)
	2,424	(1,606)
	25	—
	—	(832)
	(404)	(206)
	(5)	(2)
	<b>47,699</b>	<b>45,659</b>

**Carrying amount at 31 December**

The variance between actual and expected experience of £1.0 billion was primarily driven by favourable movements in investment markets in 2012. The rise in investment markets increased the value of unit linked contracts, which comprise the vast majority of the non-participating investment contract liabilities. For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit. Minor variances arise from differences between actual and expected experience for persistency, mortality and other demographic factors.

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of non-participating investment contract liabilities. The impact of assumption changes on profit are included in the effect of changes in assumptions and estimates during the year shown in note 40, which combines participating and non-participating investment contracts together with the impact of movements in related non-financial assets

**38 - Financial guarantees and options**

This note details the financial guarantees and options that the Group has given for some of our insurance and investment products. As a normal part of their operating activities, various Group companies have given guarantees and options, including investment return guarantees, in respect of certain long-term insurance and fund management products. Further information on assumptions is given in notes 36 and 37.

**(a) UK Life with-profit business**

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

**(i) Maturity value guarantees**

Substantially all of the conventional with-profit business and a significant proportion of unitised with-profit business have minimum maturity values reflecting the sums assured plus declared annual bonus. In addition, the guarantee fund has offered maturity value guarantees on certain unit-linked products. For some unitised with-profit life contracts the amount paid after the fifth policy anniversary is guaranteed to be at least as high as the premium paid increased in line with the rise in RPI/CPI.

**(ii) No market valuation reduction (MVR) guarantees**

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



## 38 - Financial guarantees and options continued

### (iii) Guaranteed annuity options

The Group's UK with-profit funds have written individual and group pension contracts which contain guaranteed annuity rate options (GAOs), where the policyholder has the option to take the benefits from a policy in the form of an annuity based on guaranteed conversion rates. The Group also has exposure to GAOs and similar options on deferred annuities.

*Realistic liabilities for GAOs in the UK with-profit funds were £1,156 million at 31 December 2012 (2011: £1,170 million). With the exception of the New With-Profits Sub Fund (NWPSF), movements in the realistic liabilities in the with-profit funds are offset by a corresponding movement in the unallocated divisible surplus, with no net impact on IFRS profit. Realistic liabilities for GAOs in the NWPSF were £180 million at 31 December 2012 (2011 ■ £ 193 million).*

### (iv) Guaranteed minimum pension

The Group's UK with-profit funds also have certain policies that contain a guaranteed minimum level of pensions as part of the condition of the original transfer from state benefits to the policy.

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

#### (b) UK Life non-profit business

*The Group's UK non-profit funds are evaluated by reference to statutory reserving rules, including changes introduced in 2006 under FSA Policy Statement 06/14, Prudential Changes for Insurers*

### (i) Guaranteed annuity options

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

### (ii) Guaranteed unit price on certain products

Certain unit-linked pension products linked to long-term life insurance funds provide policyholders with guaranteed benefits at retirement or death. No additional provision is made for this guarantee as the investment management strategy for these funds is designed to ensure that the guarantee can be met from the fund, mitigating the impact of large falls in investment values and interest rates.

#### (c) Overseas life businesses

In addition to guarantees written in the Group's UK life businesses, our overseas businesses have also written contracts containing guarantees and options. Details of the significant guarantees and options provided by overseas life businesses are set out below.

#### (i) France

##### **Guaranteed surrender value and guaranteed minimum bonuses**

Aviva France has written a number of contracts with such guarantees. The guaranteed surrender value is the accumulated value of the contract including accrued bonuses. Bonuses are based on accounting income from amortised bond portfolios, where the duration of bond portfolios is set in relation to the expected duration of the policies, plus income and releases from realised gains on equity-type investments. Policy reserves are equal to guaranteed surrender values. Local statutory accounting envisages the establishment of a reserve, 'Provision pour Aleas Financiers' (PAF), when accounting income is less than 125% of guaranteed minimum credited returns. No PAF was established at the end of 2012.

*The most significant of these contracts is the AFER Eurofund which has total liabilities of £33 billion at 31 December 2012 (2011: £33 billion). The guaranteed minimum bonus is agreed between Aviva France and the AFER association at the end of each year, in respect of the following year. The bonus was 3.45% for 2012 (2011: 3.43%) compared with an accounting income from the fund of 3.94% (2011: 3.92%).*

Non-AFER contracts with guaranteed surrender values had liabilities of £14 billion at 31 December 2012 (2011: £14 billion) and all guaranteed annual bonus rates are between 0% and 4.5%.

##### **Guaranteed death and maturity benefits**

In France, the Group has also sold unit-linked policies where the death and/or maturity benefit is guaranteed to be at least equal to the premiums paid. The reserve held in the Group's consolidated statement of financial position at the end of 2012 for this guarantee is £101 million (2011: £130 million). The reserve is calculated on a prudent basis and is in excess of the economic liability. At the end of 2012, total sums at risk for these contracts were £223 million (2011: £631 million) out of total unit-linked funds of £12 billion (2011: £12 billion). The average age of policyholders was approximately 54. It is estimated that this liability would increase by £88 million (2011: £96 million) if yields were to decrease by 1% per annum and by £21 million (2011: £26 million) if equity markets were to decline by 10% from year end 2012 levels. These figures do not reflect our ability to review the tariff for this option.

#### (ii) Ireland

##### **Guaranteed annuity options**

Products with similar GAOs to those offered in the UK have been issued in Ireland. The current net of reinsurance provision for such options is £256 million (2011: £271 million). This has been calculated on a deterministic basis, making conservative assumptions for the factors which influence the cost of the guarantee, principally annuitant mortality option take-up and long-term interest rates.

These GAOs are 'in the money' at current interest rates but the exposure to interest rates under these contracts has been hedged through the use of reinsurance, using derivatives (swaptions). The swaptions effectively guarantee that an interest rate of 5% will be available at the vesting date of these benefits so there is reduced exposure to a further decrease in interest rates.

## 38 - Financial guarantees and options continued

### 'No MVR' guarantees

Certain unitised with-profit policies containing 'no MVR' guarantees, similar to those in the UK, have been sold in Ireland.

These guarantees are currently 'in-the-money' by £0.4 million (2011: £5.5 million). This has been calculated on a deterministic basis as the excess of the current policy surrender value over the discounted value (excluding terminal bonus) of the guarantees. The value of these guarantees is usually sensitive to the performance of investments held in the with-profit fund. Amounts payable under these guarantees are determined by the bonuses declared on these policies. There is no sensitivity to either interest rates or equity markets since there is no longer any exposure to equity in these funds and a matching strategy has been implemented for bonds.

### Return of premium guarantee

Until 2005, Aviva Life and Pensions Ireland wrote two tranches of linked bonds with a return of premium guarantee, or a price floor guarantee, after five or six years. The first tranche expired before the end of the previous financial reporting period. The second tranche expired during the last quarter of the current reporting period. As a result there is no provision held for this business (2011: £7 million).

### (iii) Spain and Italy

#### Guaranteed investment returns and guaranteed surrender values

The Group has also written contracts containing guaranteed investment returns and guaranteed surrender values in both Spain and Italy. Traditional profit-sharing products receive an appropriate share of the investment return, assessed on a book value basis, subject to a guaranteed minimum annual return of up to 6% in Spain and 4% in Italy on existing business, while on new business the maximum guaranteed rate is lower. Liabilities are generally taken as the face value of the contract plus, if required, an explicit provision for guarantees calculated in accordance with local regulations. At 31 December 2012, total liabilities for the Spanish business were £3 billion (2011: £3 billion) with a further reserve of £0.1 million (2011: £5.1 million) for guarantees. Total liabilities for the Italian business were £10 billion (2011: £11 billion), with a further provision of £45 million (2011: £43 million) for guarantees. Liabilities are most sensitive to changes in the level of interest rates. It is estimated that provisions for guarantees would need to increase by £5 million (2011: £18 million) in Spain and £1 million (2011: £5 million) in Italy if interest rates fell by 1% from end 2012 values. Under this sensitivity test, the guarantee provision in Spain is calculated conservatively, assuming a long-term market interest rate of 1.89% and no lapses or premium discontinuances.

### (iv) United States

#### Indexed and total return strategy products

In the United States, the Group writes indexed life and deferred annuity products. These products guarantee the return of principal to the policyholder and credit interest based on certain indices, primarily the Standard & Poor's 500 Composite Stock Price Index. A portion of each premium is used to purchase derivatives to hedge the growth in interest credited to the policyholder. The derivatives held by the Group and the options embedded in the policy are both carried at fair value.

The US Treasury swap curve plus a risk adjustment of 1.06% (2011: 2.48%) for indexed life and 1.57% (2011: 2.51%) for indexed deferred annuities is used as the discount rate to calculate the fair value of the embedded options.

The risk adjustment calculation is based on market spreads on senior long-term unsecured Aviva plc debt with a reduction to reflect policyholder priority over other creditors in case of default. The amount of change in the fair value of these embedded options resulting from the risk adjustment in 2012 is an increase of £269 million (2011: £453 million), and is principally attributable to market factors rather than instrument specific credit risk. At 31 December 2012, the total liabilities for indexed products were £23 billion (2011: £22 billion), including liabilities for the embedded option of £2.7 billion (2011: £2.6 billion). If interest rates were to increase by 1%, the provision for embedded options would decrease by £151 million (2011: £152 million) and, if interest rates were to decrease by 1%, the provision would increase by £167 million (2011: £167 million).

The Group has certain products that credit interest based on a total return strategy, whereby policyholders are allowed to allocate their premium payments to different asset classes within the general account. The Group guarantees a minimum return of premium plus approximately 3% interest over the term of the contracts. The linked general account assets are fixed maturity securities, and both the securities and the contract liabilities are carried at fair value. At 31 December 2012, the liabilities for total return strategy products were £0.8 billion (2011: £0.9 billion).

The Group offers an optional lifetime guaranteed income benefit focused on the retirement income segment of the deferred annuity marketplace to help customers manage income during both the accumulation stage and the distribution stage of their financial life. At 31 December 2012, a total of £11.0 billion (2011: £10.1 billion) in indexed deferred annuities have elected this benefit, taking steps to guarantee retirement income.

#### (d) Sensitivity

In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, real estate prices and equity prices. Interest rate guaranteed returns, such as those available on GAOs, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made.

### 39 - Reinsurance assets

This note details the reinsurance recoverables on our insurance and investment contract liabilities.

#### (a) Carrying amounts

The reinsurance assets at 31 December comprised:

							2012	2011	£m	£m
<b>Long-term business</b>										
Insurance									contracts	
4,291									3,747	
Participating			investment						contracts	
3									—	
Non-participating			investment						contracts <sup>1</sup>	
1,678									1,626	
									5,972	5,373
Outstanding			claims						provisions	
93									126	
									6,065	5,499
<b>General insurance and health</b>										
Outstanding			claims						provisions	
900									974	
Provisions	for	claims	incurred	but	not				reported	
354									395	
									1,254	1,369
Provisions		for			unearned				premiums	
248									245	
									1,502	1,614
									7,567	7,113
									(883)	(1)
<b>Total</b>										

Less: Amounts classified as held for sale

**Total** 6684 Lu2

<sup>1</sup> Balances in respect of all reinsurance treaties are included under reinsurance assets regardless of whether they transfer significant insurance risk

Of the above total, £5,251 million (2011: £5,086 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) In respect of long-term business provisions

	2012	2011	£m.	£m.
Carrying amount at 1 January	5,373	5,115		
Asset in respect of new business	387	187		
Expected change in existing business asset	166	7		
Variance between actual and expected experience	197	290		
Impact of operating assumption changes	(306)	(9)		
Impact of economic assumption changes	143	433		
Other movements	(137)	(260)		
Change in asset				
Effect of portfolio transfers, acquisitions and disposals				
Deconsolidation of Delta Lloyd				
Foreign exchange rate movements	(48)	(13)		
Carrying amount at 31 December	5,972	5,373		

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of reinsurance assets. The changes to the reinsurance asset from assumption changes mainly relates to business in the UK and Ireland, with corresponding movements in gross insurance contract liabilities. For participating businesses, a movement in reinsurance assets is generally offset by a corresponding adjustment to the unallocated divisible surplus and does not impact on profit. Where assumption changes do impact profit, these are included in the effect of changes in assumptions and estimates during the year shown in note 40, together with the impact of movements in related liabilities and other non-financial assets.

**39 - Reinsurance assets continued****(ii) In respect of general insurance and health outstanding claims provisions and IBNR**

	201 2 C m	201 1 C m
<b>Carrying amount at 1 January</b>	<b>1,369</b>	
Impact of changes in assumptions Reinsurers' share of claim losses and expenses	22	
Incurred in current year	286	
Incurred in prior years	1	
Exceptional strengthening of general insurance latent claims provisions Reinsurers' share of incurred claim losses and expenses	3	
Less:	299	
Reinsurance recoveries received on claims		
Incurred in current year		
Incurred in prior years Reinsurance recoveries received in the year Unwind of discounting Other movements	(138)	
	(150)	
	(288)	
	13	
	1,55	
	8 87	
	24	
	7	
	(84)	
	)	
	10	
	173	
	(138)	
	)	
	(196)	
	)	
	(334)	
	)	
	19	
	(1)	
Change in reinsurance asset recognised as income	46	
Effect of portfolio transfers, acquisitions and disposals Deconsolidation of Delta Lloyd Foreign exchange rate movements Other movements	(136)	
	(26)	
	1	
	(56)	
	28	
	(153)	
	) (2)	
	(6)	
<b>Carrying amount at 31 December</b>	<b>1,254</b>	<b>*1,369</b>

**(iii) Reinsurers' share of the provision for UPR**

<b>Carrying amount at 1 January</b>	<b>245</b>	
Premiums ceded to reinsurers in the year	641	
Less' Reinsurers' share of premiums earned during the year	(636)	
	5	
Change in reinsurance asset recognised as income		
Reinsurers' share of portfolio transfers and acquisitions	3	
Deconsolidation of Delta Lloyd		
Foreign exchange rate movements	(5)	
Other movements	307	
	650	
	(678)	
	(28)	
	(30)	
	)	
	(4)	
	)	
<b>Carrying amount at 31 December</b>	<b>248</b>	<b>245</b>

**40 - Effect of changes in assumptions and estimates during the year**

Certain estimates and assumptions used in determining our liabilities for insurance and investment contract business were changed from 2011 to 2012, affecting the profit recognised for the year with an equivalent effect on liabilities. This note analyses the effect of the changes This note only allows for

the impact on liabilities and related assets, such as unallocated divisible surplus, reinsurance, deferred acquisition costs and AVIF, and does not allow for offsetting movements in the value of backing financial assets.

	Effect on profit 2012	(Effect on profit 2011 Cm)	Effect on profit 2010 Em trn
<b>Assumptions</b>			
<b>Long-term insurance business</b>			
Interest rates	(515)	(2,403)	5
Expenses	11	(4)	
Persistency rates		35	
Mortality for assurance contracts		(21)	
Mortality for annuity contracts	241	99	
Tax and other assumptions	(207)		
<b>Investment contracts</b>			
Interest rates	(2)		
Expenses	(1)		
Persistency rates			
Tax and other assumptions		(796)	(1) 2 71
<b>General insurance and health business</b>			
Change in loss ratio assumptions			167
Change in discount rate assumptions		1	
Change in expense ratio and other assumptions			
<b>Total</b>		28	
		5	
		(90)	
		(21)	(3)
	(21)		
	(21)		
		(4)	(61)
		38	
	(515)	(2,406)	(1,243)

The impact of interest rates for long-term business relates primarily to the UK and Ireland driven by the reduction in valuation interest rates. This had the effect of increasing liabilities and hence a negative impact on profit. The overall impact on profit also depends on movements in the value of assets backing the liabilities, which is not included in this disclosure. The impact of tax and other assumptions relates mainly to strengthening of credit default assumptions for commercial mortgages backing UK annuity business.

#### 41 - Unallocated divisible surplus

An unallocated divisible surplus (UDS) is established where the nature of policy benefits is such that the division between shareholder reserves and policyholder liabilities is uncertain at the reporting date. Therefore the expected duration for settlement of the UDS is not defined.

The following movements have occurred in the year.

	2012	2011
	Cm	Em
Carrying amount at 1 January	650	3,428
Change in participating contract assets	6,140	(3,016)
Change in liability recognised as an expense	253	244
Effect of portfolio transfers, acquisitions and disposal	(77)	70
Deconsolidation of Delta Lloyd		
Foreign exchange rate movements		
Other movements	6,316	(2,702)
<b>Carrying amount at 31 December</b>	<b>1</b>	<b>—</b>
Less: Amounts classified as held for sale	—	(144)
	6,931	650
	(5)	8
	<b>6,986</b>	<b>650</b>

In Italy, the UDS balance was £2 million negative at 31 December 2012 (2011: £1,449 million negative). In

Spain, certain participating funds had negative UDS balances at 31 December 2012, although in aggregate the UDS balance was £95 million positive (2011: £13 million positive).

Negative UDS balances result from an accounting mismatch between participating assets carried at market value and participating liabilities measured using local practice. The negative balances were tested for recoverability using embedded value methodology and in line with local accounting practice. Testing is conducted at a participating fund-level within each life entity. The negative balances are considered to be recoverable from margins in the existing participating business liabilities.

In Italy, there was a loss of £9 million for negative UDS considered irrecoverable (2011: £17 million loss), and in Spain a reversal of £33 million of previous losses (2011: £49 million loss).

In Italy the estimation of the recoverable negative UDS balance uses a real-world embedded value method, with a risk-discount rate of 6.25%. (2011: 7.05%). The embedded value method includes implicit allowance for the time value of options and

guarantees. If the risk discount rate were increased by 1 % it is estimated that the recoverable negative UDS balance would be unchanged.

In Spain, the estimation of the recoverable negative UDS balance uses a market-consistent embedded value method.

## Notes to the consolidated financial statements continued

**42 - Tax assets and liabilities**

This note analyses the tax assets and liabilities that appear in the statement of financial position and explains the movements in these balances in the year.

**(a) Current tax**

Current tax assets recoverable and liabilities payable in more than one year are £37 million and £8 million (2011: £29 million and £48 million), respectively.

**(b) Deferred tax**

(i) The balances at 31 December comprise'

	2012 Cm	2011 Cm
Deferred tax assets	220	238
<b>Deferred tax liabilities</b>	<b>(1,227)</b>	<b>(1,171)</b>
<b>Net deferred tax liability</b>	<b>(1,007)</b>	<b>(933)</b>
Less: Amounts classified as held for sale	648	—
	(359)	(933)

Amounts classified as held for sale include £32 million of deferred tax assets (2011: £nil) and £680 million of deferred tax liabilities (2011: £ml).

(ii) The net deferred tax liability arises on the following items:

	2012 Cm	2011 Cm
Long-term business technical provisions and other insurance items	2,067	—
Deferred acquisition costs	(681)	(598)
Unrealised gains on investments	(2,869)	(347)
Pensions and other post-retirement obligations	(135)	(245)
Unused losses and tax credits	535	462
Subsidiaries, associates and joint ventures	(10)	(10)
Intangibles and additional value of in-force long-term business	(363)	(445)
Provisions and other temporary differences	449	(205)
<b>Net deferred tax liability</b>	<b>(1,007)</b>	<b>(933)</b>
Less: Amounts classified as held for sale	648	—
	(359)	(933)

(iii) The movement in the net deferred tax liability was as follows'

	2012 Cm	2011 Cm
Net liability at 1 January	(933)	(1,470)
Acquisition and disposal of subsidiaries	—	53
Amounts (charged)/credited to income statement (note 10a)	(122)	513
Amounts credited/(charged) to other comprehensive income (note 10b)	24	(354)
Deconsolidation of Delta Lloyd	—	326
Foreign exchange rate movements	27	(6)
Other movements	(3)	5
Net liability at 31 December	(1,007)	(933)

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. In countries where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available. Where this is the case, the directors

have relied on business plans supporting future profits.

The Group has unrecognised tax losses and other temporary differences of £1,005 million (2011: £910 million) to carry forward against future taxable income of the necessary category in the companies concerned. Of these, trading losses of £278 million will expire within the next 20 years. The remaining losses have no expiry date.

In addition, the Group has unrecognised capital losses of £652 million (2011: £418 million). These have no expiry date.

There are no temporary differences in respect of unremitted overseas retained earnings for which deferred tax liabilities have not been recognised at 31 December 2012 (2011: £nil).

**43 - Provisions**

This note details the non-insurance provisions that the Group holds, and shows the movements in these during the year, (a) Carrying amounts

	2012	2011
	£m	£m
Total IAS 19 obligations to main staff pension schemes (note 44(e)(vii))	<b>651</b>	
Deficits in other staff pension schemes	<b>8</b>	
	<b>8</b>	
	<b>40</b>	
	<b>6</b>	
	<b>8</b>	
	<b>6</b>	
Total IAS 19 obligations to staff pension schemes	739	492
Restructuring provisions	106	423
Other provisions	398	398
<b>Total provisions</b>	<b>1,306</b>	996
Less: Amounts classified as held for sale	<b>(187)</b>	(4)
	<b>-1,119.</b>	992

Other provisions comprise many small provisions throughout the Group for obligations such as costs of compensation, litigation, staff entitlements and reorganisation.

Of the total, £901 million (2011: £605 million) is expected to be settled more than one year after the statement of financial position date.

(b) Movements on restructuring and other provisions

	Restructuring provisions £m	Other provisions £m	Total £m
At 1 January	<b>106</b>	<b>504</b>	842
Additional provisions	<b>236</b>	<b>356</b>	690
Unused amounts reversed	-	<b>(30)</b>	69
Change in the discounted amount arising from passage of time	-	<b>5</b>	(45)
	-	152	33
	-	82	
	-	(5)	
	-	)	
Charge to income statement	<b>236</b>	32	109
Utilised during the year	<b>(197)</b>	<b>(124)</b>	<b>(174)</b>
Disposal of subsidiaries	)	<b>(6)</b>	<b>(6)</b>
Effect of deconsolidation of Delta Lloyd	)	(177)	(232)
Foreign exchange rate movements	)	<b>(17)</b>	(35)
At 31 December	<b>(1)</b>	398	504
	<b>144</b>		
	<b>95</b>		
	<b>(83)</b>		
	<b>(3)</b>		
	<b>(14)</b>		
	<b>423</b>		
	<b>331</b>		
	<b>(250)</b>		
	<b>(3)</b>		
	<b>(15)</b>		
	<b>567</b>		
	77		
	(50)		
	)		
	(55)		
	)		
	(18)		
	)		
	106		



## Notes to the consolidated financial statements continued

**44 - Pension obligations**

## (a) Introduction

The Group operates a large number of defined benefit and defined contribution pension schemes. The material defined benefit schemes are in the UK, Canada and Ireland with the main UK scheme being the largest. This note gives full IAS 19 disclosures for these schemes. The smaller ones, while still measured under IAS 19, are included as one total within Provisions (see note 43). Similarly, while the charges to the income statement for the main schemes are shown in section (e)(iv) below, the total charges for all pension schemes are disclosed in section (d) below.

The assets of the UK, Irish and Canadian schemes are held in separate trustee-administered funds to meet long-term pension liabilities to past and present employees. In all schemes, the appointment of trustees of the funds is determined by their trust documentation, and they are required to act in the best interests of the schemes' beneficiaries. The long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes.

A full actuarial valuation of each of the defined benefit schemes is carried out at least every three years for the benefit of scheme trustees and members. Actuarial reports have been submitted for each scheme within this period, using appropriate methods for the respective countries' on local funding bases.

## (b) Membership

The number of scheme members was as follows:

			United Kingdom		Ireland		Canada	
	2012 Number	2011 Number	2012 Number	2011 Number	2012 Number	2011 Number	2012 Number	2011 Number
Active members	—	—	791	1,063	—	—	—	—
Deferred	56,830	57,328	1,246	998	1,022	1,213	707	1,344
Total members	30,647	30,447	723	—	—	—	87,472	87,775
	2,768	2,366	2,497					1,284
								2,760

As noted below, the final salary sections of both the UK schemes were closed to future accrual with effect from 1 April 2011. The Canadian scheme closed to future accrual on 31 December 2011.

## (c) UK schemes

In the UK, the Group operates two main pension schemes, the Aviva Staff Pension Scheme (ASPS) and the smaller RAC (2003) Pension Scheme which was retained after the sale of RAC Limited in September 2011.

The Group confirmed its decision to close the final salary sections of both UK schemes with effect from 1 April 2011, with entry into the defined contribution sections being offered to the staff members affected. New entrants join the defined contribution section of the ASPS. Closure of the schemes has removed the volatility associated with adding future accrual for active members, and has also led to lower service costs and their cash funding since April 2011.

**(i) Defined benefit section of the ASPS**

This scheme is operated by a trustee company, with 11 trustee directors, comprising representatives of the employers, staff, pensioners and an independent trustee (referred to as the trustees). The Company works closely with the trustees who are required to consult it on the funding of the scheme and its investment strategy. Following each actuarial valuation, the Company and the trustees agree the level of contributions needed and funding levels are then monitored on an annual basis.

At 31 March 2009, the date of the last actuarial valuation, this section of the scheme had an excess of obligations over available assets, on a funding basis, which uses more prudent assumptions than are required for reporting under IAS 19, of £3.0 billion. As a result of that valuation, the Company and the trustees have agreed a long-term funding plan where contributions, together with anticipated growth in scheme investments, are expected to eliminate the funding deficit over time. Under this agreement, deficit funding payments of £378 million were made in 2010, £178 million in 2011 and £128 million in 2012. Further funding payments of £144 million are expected in 2013. Funding payments along with the rise in gilt yields and return on invested scheme assets have resulted in a reduced deficit which is estimated to have fallen by £1.3 billion to £1.0 billion at 31 December 2012. The Company is currently undergoing a triennial actuarial valuation as at 31 March 2012, which is expected to be finalised by 30 June 2013.

**(ii) Defined contribution (money purchase) section of the ASPS**

The trustees have responsibility for selecting a range of suitable funds in which the members can choose to invest and for monitoring the performance of the available investment funds. Members are responsible for reviewing the level of contributions they pay and the choice of investment fund to ensure these are appropriate to their attitude to risk and their retirement plans. Members of this section contribute at least 2% of their pensionable salaries and, depending on the percentage chosen, the Company contributes up to a maximum 14%, together with the cost of the death-in-service benefits. These contribution rates are unchanged for 2013.

## 44 - Pension obligations continued

### (d) Charge to staff costs in the income statement

The total pension charge to staff costs of all the Group's defined benefit and defined contribution schemes were:

	£m	2012	£m	2011	£m	2010
<b>Continuing operations</b>						
UK defined benefit schemes	12		36		(227)	
Overseas defined benefit schemes	7		22		8	
<b>Total defined benefit schemes (note 8b)</b>	<b>19</b>		<b>58</b>		<b>(219)</b>	
UK defined contribution schemes	91		75		53	
Overseas defined contribution schemes	11		11		17	
<b>Total defined contribution schemes (note 8b)</b>	<b>102</b>		<b>86</b>		<b>70</b>	
<b>Total charge/(credit) from continuing operations</b>	<b>121</b>		<b>144</b>		<b>(149)</b>	
<b>Total charge from discontinued operations</b>	<b>5</b>		<b>16</b>		<b>44</b>	
<b>Total charge/(credit) for pension schemes</b>	<b>126</b>		<b>160</b>		<b>(105)</b>	

The gains in curtailments in 2010 principally arose from closure of the UK schemes to future accruals. There were no significant contributions outstanding or prepaid as at either 31 December 2012 or 2011.

#### (e) IAS 19 disclosures

Disclosures under IAS 19 for the material defined benefit schemes in the UK, Ireland and Canada, are given below. Where schemes provide both defined benefit and defined contribution pensions, the assets and liabilities shown exclude those relating to defined contribution pensions. Total employer contributions for these schemes in 2013, including the ASPS deficit funding, are currently expected to be £230 million.

#### (i) Assumptions on scheme liabilities The projected unit credit method

The inherent uncertainties affecting the measurement of scheme liabilities require these to be measured on an actuarial basis. This involves discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. This is an accrued benefits valuation method which calculates the past service liability to members and makes allowance for their projected future earnings. It is based on a number of actuarial assumptions, which vary according to the economic conditions of the countries in which the relevant businesses are situated, and changes in these assumptions can materially affect the measurement of the pension obligations.

#### Alternative measurement methods

There are alternative methods of measuring liabilities, for example by calculating an accumulated benefit obligation (the present value of benefits for service already rendered but with no allowance for future salary increases) or on a solvency basis, using the cost of securing the benefits at a particular date with an insurance company or one of the growing market of alternative buy-out providers. This could take the form of a buy-out, in which the entire liability will be settled in one payment with all obligations transferred to an insurance company or buy-out provider, or a buy-in, in which annuities or other insurance products are purchased to cover a part or all of the liability. A valuation of the liabilities in either of these cases will almost always result in a higher estimate of the pension deficit than under an on-going approach, as they assume that the sponsor immediately transfers the majority, if not all, of the risk to another provider who would be seeking to make a profit on the transaction. However there is no active market of organisations that would be able to offer a full buy-out option for schemes of the size of our main UK scheme.

There is a small buy-out market in Ireland, largely restricted to pensions currently in payment and it is not clear whether current capacity would enable an immediate buy-out of our Irish pension liabilities at present. The Canadian defined benefit plan's liabilities represent the likely limit on what the Canadian group annuity market could absorb at normal competitive group annuity prices if the entire plan were subject to a buy-out valuation. There is in fact a reasonably high chance that only a portion of the plan's liabilities could be absorbed in one tranche.

IAS 19 requires us to use the projected unit credit method to measure our pension scheme liabilities. Neither of the alternative methods is considered appropriate in presenting fairly the Group's obligations to the members of its pension schemes on an ongoing basis, so they are not considered further.

#### Valuations and assumptions

The valuations used for accounting under IAS 19 have been based on the most recent full actuarial valuations, updated to take account of that standard's requirements in order to assess the liabilities of the material schemes at 31 December 2012. Scheme assets are stated at their fair values at 31 December 2012.

## Notes to the consolidated financial statements continued

**44 - Pension obligations continued**

The main actuarial assumptions used to calculate scheme liabilities under IAS 19 are

	2012	2011	2012	2011	2012	2011
Inflation rate	3.0%	3.1%	2.0%	2.0%	2.5%	2.5%
General salary increases	4.8%	4.9%	3.5%	3.5%	3.0%	3.75%
Pension increases	3.0%	3.1%	2.0%	2.0%	1.25%	1.25%
Deferred pension increases	3.0%	3.1%	2.0%	2.0%	—	—
Discount rate	4.5%	4.9%	3.5%	5.7%	3.75%	4.5%
<u>Basis of discount rate</u>	AA-rated corporate bonds		AA-rated corporate bonds		AA-rated corporate bonds	

The discount rate and pension increase rate are the two assumptions that have the largest impact on the value of the liabilities, with the difference between them being known as the net discount rate. For each country, the discount rate is based on current average yields of high-quality debt instruments taking account of the maturities of the defined benefit obligations. A 1% increase in this rate (and therefore the net discount rate) would reduce the liabilities by £2.0 billion and the service cost for the year by £2 million. It would also increase the interest cost on the liabilities by £1 million.

**Mortality assumptions**

Mortality assumptions are significant in measuring the Group's obligations under its defined benefit schemes, particularly given the maturity of these obligations in the material schemes. The assumptions used are summarised in the table below and have been selected to reflect the characteristics and experience of the membership of these schemes.

The mortality tables, average life expectancy and pension duration used at 31 December 2012 for scheme members are as follows.

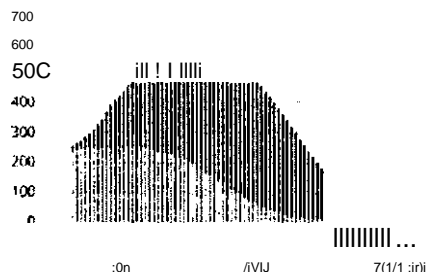
Mortality table	retirement age (NRA)	Life expectancy (pension duration) at NRA of a male				Life expectancy (pension duration) at NRA of a female		20 year younger
		Normal Currently aged	20 year younger	Normal Currently aged	20 year younger			
UK-ASPS Club Vita pooled experience, including an allowance for future improvements		60	90.193.3	90.1	92.2			
-RAC SAPS series 1. including allowances for future improvement	65 87.9	(30.1)	(33.3)	(30.1)	(32.2)			
<u>Ireland 94% PNA00 with allowance for future improvements</u>	<u>61 87.0</u>	<u>90.9</u>	<u>89.9</u>	<u>91.9</u>	<u>93.0</u>			
		(22.9)	(25.9)	(24.9)	(26.9)			
<u>Canada UP1994, with Projection Scale AA applied on a generational basis</u>		<u>65</u>	<u>84.786.2</u>	<u>87.1</u>	<u>87.9</u>			
		(19.7)	(21.2)	(22.1)	(22.9)			

The assumptions above are based on commonly used mortality tables and, in the UK, are those used by both schemes' trustees in the most recently completed full actuarial valuations. The tables make allowance for observed variations in such factors as age, gender, pension amount, salary and postcode-based lifestyle group, and have been adjusted to reflect recent research into mortality experience. However, the extent of future improvements in longevity is subject to considerable uncertainty and judgement is required in setting this assumption. In the UK schemes, which are the most material to the Group, the assumptions include an allowance for future mortality improvement, based on the actuarial profession's long and medium cohort projection tables (for the ASPS and RAC schemes respectively) and incorporating underpins to the rate of future improvement equal to 1.5% pa for males and 1.0% pa for females. The effect of assuming all members were one year younger would increase the liabilities in all the schemes by £293 million and would not significantly impact the service cost for the year.

The discounted scheme liabilities have an average duration of 20 years in the main UK scheme, 21 years in the RAC scheme, 22 years in the Irish scheme and 13 years in the Canadian scheme. The undiscounted benefits payable from the main UK defined benefit scheme are expected to be as shown in the chart below.

**44 - Pension obligations continued**

Undiscounted benefit payments f m

**(ii) Assumptions on scheme assets**

The expected rates of return on the schemes' assets are:

			UK		Ireland Canada	
	2012	2011	2012	2011	2012	2011
Equities	5.8%	7.2%	5.9%	6.9%	5.8%	7.0%
Bonds	3.4%	4.4%	3.2%	2.7%	3.2%	3.2%
Property	4.3%	5.7%	4.4%	5.4%	n/a	n/a
Cash	0.7%	0.6%	0.9%	2.7%	0.8%	1.0%

The expected rates of return on the schemes' assets presented above are as at the beginning of the year. The overall rates of return are based on the expected returns within each asset category and on current asset allocations. The expected returns for equities and properties are aligned with the rates used for the Group's longer-term investment return assumptions. The figures for the total expected return on scheme assets in the following section are stated after deducting investment expenses and, in Ireland, the government levy on pension fund assets. The amended IAS 19, Employee Benefits, which is effective from 1 January 2013, will replace the concept of expected return on scheme assets with interest on scheme assets, which will be calculated using the same interest rate as applied for the purpose of discounting the defined benefit obligation.

**(iii) Investments in Group-managed funds and insurance policies**

Plan assets include investments in Group-managed funds in the consolidated statement of financial position of £62 million (2011: £112 million) and insurance policies with other Group companies of £179 million (2011: £163 million) in the main UK scheme.

**(iv) Pension expense**

The total pension expense comprises:

**Recognised in the income statement**

	2012 £m	2011 £m	2010 £m
<b>Continuing operations</b>			
Current service cost		(51)	(126)
Past service cost		—	(10)
Gains on curtailments		—	347
Total pension cost from continuing operations	(4)	(51)	211
<b>Total pension cost from discontinued operations</b>		(7)	
	(34)		
<b>Total pension cost charged to net operating expenses</b>		(4)	(58)
Expected return on scheme assets	427	452	457
Interest charge on scheme liabilities	(509)	(539)	(584)
Charge to finance costs from continuing operations	(82)	(87)	(127)
Charge to finance costs from discontinued operations	—	(26)	
	(68)		
<b>Total charge to finance costs</b>	(82)	(113)	(195)
<b>Total charge to income arising from continuing operations</b>	(86)	(138)	84
<b>Total charge to income arising from discontinued operations</b>	—	(33)	(102)
<b>Total charge to income</b>	(86)	(171)	(18)

The gains on curtailments in 2012 arose from restructuring activities in Ireland, and in 2010 principally arose from closure of the UK schemes to future accrual.

**44 - Pension obligations continued***Recognised in the statement of comprehensive income*

	2012	2011	2010
	£	£	£
	m	m	m
<b>Continuing operations</b>			
Expected return on scheme assets	(427)		
Actual return on these assets	) 611		
	(452)		
	1,815		
	(457)		
	1,001		
Actuarial gains on scheme assets	184	1,363	544
Experience losses arising on scheme liabilities	(100)	(46)	
Changes in assumptions underlying the present value of the scheme liabilities	382	(914)	(321)
<b>Actuarial (losses) gains from continuing operations</b>	<b>(830)</b>	99	1,078
<b>Actuarial gains from discontinued operations</b>		6	(79)
		1	
		1	
<b>Total actuarial (losses) gains recognised in other comprehensive income</b>	<b>(830)</b>	1,007	999
Attributable to equity shareholders of Aviva pic	<b>(830)</b>	1,00	
Attributable to non-controlling interests		25	
		1,033	
		(34)	
	(830)	1,007	999

The loss arising from changes in assumptions in 2012 primarily reflects the impact of lower discount rates for liabilities.

*The cumulative amount of actuarial gains and losses on the pension schemes recognised in other comprehensive income since 1 January 2004 (the date of transition to IFRS) is a loss of £1,054 million at 31 December 2012 (2011: cumulative loss of £224 million).*

**(v) Experience gains and losses**

The following disclosures of experience gains and losses give a five-year history. Scheme assets exclude insurance policies with Group companies and income on the assets underlying them.

	2012	2011	2010	2009	2008
	£	£	£	£	£
	m	m	m	m	m
Fair value of scheme assets at the end of the year	<b>12,281</b>				
Present value of scheme liabilities at the end of the year	<b>(11,675)</b>				
	11,791				
	(10,527)				
	) 9,971				
	(11,419)				
	) 8,754				
	(11,812)				
	) 7,936				
	(9,951)				
	) 606				
Net surplus (deficits) in the schemes	606	1,264	(1,448)	(3,058)	(2,015)
Difference between the expected and actual return on scheme assets		547'	(1,893)		
Amount of gains/(losses)		5.5%	'		
Percentage of the scheme assets at the end of the year	18				
Experience (losses) gains on scheme liabilities (excluding changes in assumptions)	4		23.8%		
Amount of (losses)/gains	1.5%	450'			
Percentage of the present value of scheme liabilities		3.9%	105'		
	(100)	%	1.1%		
	0.9%				
	1,363 ■	561'			
	11.6%	6.4%			
		77'			
	(46)	0.7%			
	) 0				
	4%				

**(vi) Risk management and asset allocation strategy**

As noted above, the long-term investment objectives of the trustees and the employers are to limit the risk of the assets failing to meet the liabilities of the schemes over the long term, and to maximise returns consistent with an acceptable level of risk so as to control the long-term costs of these schemes. To meet these objectives, each scheme's assets are invested in a diversified portfolio, consisting primarily of debt securities, equity securities and property.

***Main UK scheme***

Both the Group and the trustees regularly review the asset/liability management of the main UK scheme. It is fully understood that, whilst the current asset mix is designed to produce appropriate long-term returns, this introduces a material risk of volatility in the scheme's surplus or deficit of assets compared with its liabilities.

The principal risks to which the scheme is exposed are interest rate, inflation and equity markets. These are actively mitigated for example, by using inflation and interest rate swaps. Additionally, the exposure to equities has been reduced over time. There is also an exposure to currency risk where assets are not denominated in the same currency as the liabilities. The majority of this exposure has been removed by the use of hedging instruments.

***Other schemes***

The other schemes are considerably less material but their risks are managed in a similar way to those in the main UK scheme.

**44 - Pension obligations continued****(vii) Recognition in the statement of financial position**

The assets and liabilities of the schemes attributable to defined benefit members at 31 December 2012 were:

	U K C m	Irelan d Cm Canad a Cm Total Cm Irelan d Cm Canad a £m	Tot al Cm	C			
Equities	87	1,088	46	85			
Bonds	26	9,248	23	7			
Property	0	926	3	9,02			
Other	12	1,019	13	5			
909	47	73	90	67			
8,86	9	5	7	0			
7 914	2	8.66	6	1,23			
957	12	3	12	9			
	1	65	9				
	15	7	14				
		1,13					
		5					
Total fair value of assets Present	11,647	406	12,281	382 (539)		11,791	
value of scheme liabilities	(10,501)	(777)	11,190	219 (382)		(10,527)	
		)	(11,675)			)	
		228	(9,606)				
		(397)					
<b>Net surplus/(deficits) in the schemes</b>	<b>1,146</b>	<b>(371) (169)</b>		606	1,584	(157)	(163) 1,264
Surplus included in other assets (note 24)						1,670 (86)	— 1,670
Deficits included in provisions (note 43)		(371)			1,584	(157)	(163) (406)
	1,257			606		(157)	(163)
	(111)		1,257	(169)			1,264
	1,146	(6S1)					
		(371) (169)					

Other assets comprise cash at bank, derivative financial instruments, receivables and payables.

Plan assets in the table above include investments in Group-managed funds and insurance policies, as described in section (iii) above. Where the investment and insurance policies are in segregated funds with specific asset allocations, they are included in the appropriate line in the table above, otherwise they appear in 'Other'.

The present value of unfunded post-retirement benefit obligations included in the table above is £127 million at 31 December 2012 (2011: £116 million).

**(viii) Movements in the scheme deficits and surpluses**

Movements in the pension schemes' surpluses and deficits comprise

	Schem e assets Cm Pension sdseme net surplus/ (defidt) Cm	Adjust for Group insurance policies Cm	IAS 19 pensions net surplus/ (defkrl) Cm
<b>Net surplus in the schemes at 1 January</b>	<b>11,791</b>	<b>(19)</b>	
Employer contributions	250 2	15	
Employee contributions Benefits paid	(357)	(82)	
		(830)	
		8	
Current and past service cost (see (iv) above) Gain on curtailments and settlements (see (iv) above)	427		
Credit/(charge) to finance costs (see (iv) above)	184	1,26	
Actuarial gains/dosses) (see (iv) above) Exchange rate movements on foreign plans	(16)	4 250	
	(10,527)		
		(19)	
	(2) 357	15	
	(19) 15	(82)	
	(509)	(830)	
	(1,014)		
	24		
	1.26		
	4 250		
<b>Net surplus in the schemes at 31 December</b>	<b>12,281 (11,675)</b>	<b>606</b>	<b>— 606</b>



	Scheme assets	Scheme liabilities Cm	Pension scheme net surplus/ (deficit) Cm	Group insurance policies' Cm	Adjust for pensions net surplus/ (deficit) Cm	IAS 19 Cm
<b>Net deficits in the schemes at 1 January</b>	11,41	(3				
Employer contributions	6 452	)				
Employee contributions	12	452				
Benefits paid	(356)					
Current and past service cost (see (iv) above)						
Credit/(charge) to finance costs (see (iv) above)	465	(58)				
Actuarial gains/(losses) (see (iv) above)	1,347	(100)				
Disposals	(23)	991 7				
Deconsolidation of Delta Lloyd	(1,589)	(31)				
Exchange rate movements on foreign plans	67	6				
	(11,419)	(1,445				
		) (66)				
	(12) 356	(9) 15				
	(58)					
	(565)	(1				
	(356) 30	3)				
	1,558	16				
	(61)					
		1,582				
		(80				
		)				
		(1.448				
		) 386				
		(9) 15				
		(58)				
		(113)				
		1,007				
		7				
		1,551 (74)				
<b>Net surplus in the schemes at 31 December</b>	11.791	(10,527)	1,264		— 1,264	

1 Relates to non-transferrable insurance policies treated as other obligations to support pension schemes in the Delta Lloyd subsidiary, which was deconsolidated in 2011

The fall in the pension schemes' net surplus during 2012 is mainly attributable to losses arising from changes in actuarial assumptions, which primarily reflect the impact of lower discount rates for liabilities

**45 - Borrowings**

Our borrowings are either core structural borrowings or operational borrowings. This note shows the carrying values and contractual maturity amounts of each type, and explains their main features and movements during the year.

**(a) Analysis of total borrowings**

Total borrowings comprise

	2012 Cm
Core structural borrowings, at amortised cost	<b>5,139</b>
Operational borrowings, at amortised cost	<b>1,868</b>
Operational borrowings, at fair value	<b>1,332</b>
	2011 Cm
	5,255
	1,889
	1,306
	3,195
	8,450
	<b>3,200</b>
	<b>8,339</b>
Less: Amounts classified as held for sale	<b>(145)</b>
	8,194 8,450

**(b) Core structural borrowings****(i) The carrying amounts of these borrowings are:**

	Upper Tier 2	Lower Tier 2	Senior	Total	Upper Tier 2	Lower Tier 2	Senior	Total	Cm
		Cm	Cm	Cm	Cm	Cm	Cm	Cm	
<b>Subordinated debt</b>									
6.125% £700 million subordinated notes 2036	—	691	—	691	—	690	—	690	
5.250% €650 million subordinated notes 2023	—	527	—	527	—	510	—	510	
5.700% €500 million undated subordinated notes	404	—	—	404	416	—	—	416	
6.125% £800 million undated subordinated notes	792	—	—	792	792	—	—	792	
Floating rate US\$300 million subordinated notes 2017	—	—	—	—	—	193	—	193	
6.875% £400 million subordinated notes 2058	—	395	—	395	—	398	—	398	
6.875% £200 million subordinated notes 2058	—	199	—	199	—	199	—	199	
6.875% €500 million subordinated notes 2018	—	404	—	404	—	416	—	416	
10.6726% £200 million subordinated notes 2019	—	200	—	200	—	200	—	200	
10.464% €50m subordinated notes 2019	—	40	—	40	—	42	—	42	
8.25% \$400 million subordinated notes 2041	—	239	—	239	—	248	—	248	
6.625% £450 million subordinated notes 2041	—	446	—	446	—	446	—	446	
	1,196	3,141	—	4,337	1,208	3,342	—	4,550	
<b>Debenture Loans</b>									
9.5% guaranteed bonds 2016	—	—	199	199	—	—	—	199	199
	—	—	199	199	—	—	—	199	199
Commercial paper	—	—	603	603	—	—	506	506	
Total	1,196	3,141	802	5,139	1,208	3,342	705	5,255	

The classifications between Upper Tier 2, Lower Tier 2 and Senior debt shown above are as defined by the FSA in GENPRU Annex 1 'Capital Resources'

Subordinated debt is stated net of notes held by Group companies which were £nil (2011: £32 million) All the above borrowings are stated at amortised cost.

As described in note 54, the Group has designated a portion of its euro and US dollar denominated debt as a hedge of the net investment in its European and American subsidiaries. The carrying value of the debt, included in the table above, at 31 December 2012 was £1,741 million (2011: £1,815 million).

**(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:**

	Principal	30	2,6	1,7	510	6
Within one year	603	7	10	19	3,643	2,85
1 to 5 years	200	1,1	Total	6,2	Interest	9
5 to 10 years	241	97	1 Cm	18	Em	
10 to 15 years	527	1,3	91	Principal	312	Total
Over 15 years	3,6	42	0	Em	1,23	1m
	08	1,1	1,3	506~	7	1,43
		92	97	200	1.39	7
			1,5	435	5	1,83
			83		1,23	0

1,746  
6,502

**Total contractual undiscounted cash flows**

**5.179      6,648 11.827      5,294      7,039 12,333**

*Borrowings are considered current if the contractual maturity dates are within a year. Where subordinated debt is undated or loan notes are perpetual, the interest payments have not been included beyond 15 years Annual interest payments for these borrowings are £72 million (2011: £73 million)*

**45 - Borrowings continued**

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Year-end exchange rates have been used for interest projections on loans in foreign currencies.

**(c) Operational borrowings****(i) The carrying amounts of these borrowings are:**

	2012	2011	£m	Cm
<b>Amounts owed to financial institutions</b>				
<b>Loans</b>			<b>1,868</b>	<b>1,889</b>
<b>Securitised mortgage loan notes</b>				
UK lifetime mortgage business			1,332	1,306
Total			3,200	3,195

All the above borrowings are stated at amortised cost, except for the loan notes issued in connection with the UK lifetime mortgage business of £1,332 million (2011: £1,306 million). These loan notes are carried at fair value, their values are modelled on risk-adjusted cash flows for defaults discounted at a risk-free rate plus a market-determined liquidity premium, and are therefore classified as 'Level 2' in the fair value hierarchy. These have been designated at fair value through profit and loss in order to present the relevant mortgages, borrowings and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. This presentation provides more relevant information and eliminates any accounting mismatch.

The securitised mortgage loan notes are at various fixed, floating and index-linked rates. Further details about these notes are given in note 21.

**(ii) The contractual maturity dates of undiscounted cash flows for these borrowings are:**

	Principa l Cm	C	Total C m i c i p a l C m I n t e r e s t C m	Tota l C m
Within one year	789		39	
1 to 5 years	1,210		12	
5 to 10 years	763		4	
10 to 15 years	895		82	
Over 15 years	1,231		64	
725	64	677	995	43
951	259	247	510	9
399	364	1,008 <sup>1</sup>		716
611	284			1,11
940	291			9
				329
				574
				1,44
				7
<b>Total contractual undiscounted cash flows</b>	3,626	1,26	4.88	3,437 748 ;

Contractual undiscounted interest payments are calculated based on underlying fixed interest rates or prevailing market floating rates as applicable. Year-end exchange rates have been used for interest projections on loans in foreign currencies.

**(d) Description and features****(i) Subordinated debt**

A description of each of the subordinated notes is set out in the table below.

Notional amount	Issue	Redemption date	Callable at par at option of the Company from	In the event the Company does not call the notes, the coupon will reset at each applicable reset date to
£700 million	£450 million	30 Apr 2001	14 Nov 2036	16 Nov 2026
€650 million	\$400 million	26 May 2003	02 Oct 2023	02 Oct 2013
€500 million	14 Nov 2008	22 November 2008	Undated	29 Sep 2015
£800 million	29 Sep 2009	2008	2008	29 Sep 2022 20 May 2038 20 May 2038 22 May 2018
£400 million	29 Sep 2009	2009	2058 20	30 Apr 2014
£200 million	29 Sep 2011	2011	May 2058	3 June 2021 1
€500 million	29 Sep 2011	2011	2038 1	December 2016
£200 million	20 May 2019	2019	Apr 2019	
€500 million	8 Aug 2019	2019	30 Apr	
£200 million	20 May 2019	2019	3 June	
€50 million	1 Apr 2041	2041	1	
			December 2041	

5 year  
Benchmark  
k Gilt +  
2.85% 3

month Euribor + rk Gilt + 2.40% 3 26% 3 month  
Euribor + 2.35% 53 month LIBOR Euribor + 3  
2.08% 3 year + 3.26% 3 35% 3 month  
month Benchmark month LIBOR + LIBOR + 8 10%

3 month Euribor + 8.25% 6  
Month LIBOR + 4.136% 8  
25%(fixed)

Subordinated notes issued by the Company rank below its senior obligations and ahead of its preference shares and ordinary share capital. The dated subordinated notes rank ahead of the undated subordinated notes. The fair value of these notes at 31 December 2012 was £4,435 million (2011: £3,814 million), calculated with reference to quoted prices.

#### (ii) Debenture loans

The 9.5% guaranteed bonds were issued by the Company at a discount of £1.1 million. This discount and the issue expenses are being amortised over the full term of the bonds. Although these bonds were issued in sterling, the loans have effectively been converted into euro liabilities through the use of financial instruments in a subsidiary.

All these borrowings are at fixed rates and their fair value at 31 December 2012 was £246 million (2011: £246 million), calculated with reference to quoted prices.

#### (iii) Commercial paper

The commercial paper consists of £603 million issued by the Company (2011: £506 million) and is considered core structural funding.

All commercial paper is repayable within one year and is issued in a number of different currencies, primarily sterling, euros and US dollars. Its fair value is considered to be the same as its carrying value.

205

Aviva pfc  
Annual report on Form 20-F 201 2

### Notes to the consolidated financial statements continued

## 45 - Borrowings continued

### (iv) Loans

Loans comprise:

	2012 Cm Cm	2011
Non-recourse		
Loans to property partnerships (see (a) below)	1,004	1,128
Loans to Irish investment funds (see (b) below)	20	33
UK Life reinsurance (see (c) below)	257	254
Other non-recourse loans (d)	336	224
	1,617	1,639
Other loans (see (e) below) _____ 251	250	
_____ ~~~	1,868	1,789

(a) As explained in accounting policy D, the UK long-term business policyholder funds have invested in a number of property limited partnerships (PLPs). The PLPs have raised external debt, secured on their respective property portfolios, and the lenders are only entitled to obtain payment of both interest and principal to the extent there are sufficient resources in the respective PLPs. The lenders have no recourse whatsoever to the policyholder or shareholders' funds of any companies in the Group. Loans of £1,004 million (2011: £1,128 million) included in the table relate to those PLPs which have been consolidated as subsidiaries

(b) Certain Irish policyholder investment funds and unit trusts, which have been fully consolidated in accordance with accounting policy D, have raised borrowings with external credit institutions. The borrowings are secured on the funds, with the only recourse on default being the underlying investments in these funds and unit trusts. The lenders have no recourse whatsoever to the shareholders' funds of any companies in the Aviva Group. These loans run for a period of five years, with interest rates fixed monthly and based on a fixed margin above the euro inter-bank rate.

(c) The UK long-term business entered into a financial reinsurance agreement with Swiss Re in 2008, under which up-front payments are received from Swiss Re in return for 90% of future surpluses arising. The loan will be repaid as profits emerge on the business. The UK long-term business entered into an additional financial reinsurance agreement with BNP Paribas in 2012 in return for 100% of future surpluses arising. The loan will be repaid as profits emerge on the business.

(d) Other non-recourse loans include external debt raised by special purpose vehicles in the UK long-term business. The lenders have no recourse whatsoever to the shareholders' funds of any companies in the Group. It also includes an operational loan from Delta Lloyd to the UK Life Belgian branch.

(e) Other loans include external debt raised by overseas long-term businesses to fund operations, which includes £145 million. (2011: £158 million) of external debt held by the Group's US business.

### (v) Securitised mortgage loan notes

Loan notes have been issued by special purpose securitisation companies in the UK. Details are given in note 21.

(e) Movements during the year

Movements in borrowings during the year were:

	2012			2011		
	Core Structural Cm	Operational Cm	Total Em	Core Structural trn	Operational Em	Total trn
New borrowings drawn down, including commercial paper, net of expenses	2,200	452	2,652	3,853	1,042	4,895
Repayment of borrowings, including commercial paper _____	(2,295)	(347)	(2,642)	(3,848)	(1,283)	(5,131)
Net cash outflow/Onflow)		(95)	105	5	(241)	(236)
Foreign exchange rate movements		(54)	(130)	9	193	202
Borrowings acquired for non-cash consideration		—	—	—	34	34
Fair value movements		—	43	43	—	8
Amortisation of discounts and other non-cash items	1	(13)	(12)	3	—	3
Deconsolidation of Delta Lloyd		—	—	—	(816)	(5,683)
						(6,499)



Less'	Amounts	classified	as	held	for	sale
(735).						(7)
<hr/>						
1,843	2,828					
Expected	to	be	settled	within	one	year
1,458						2,195
Expected	to	be	settled	in	more	than
385						one
						year
						633
						1,843,282

## 48 - Contingent liabilities and other risk factors

This note sets out the main areas of uncertainty over the calculation of our liabilities.

### (a) Uncertainty over claims provisions

Note 36 gives details of the estimation techniques used by the Group to determine the general business outstanding claims provisions and of the methodology and assumptions used in determining the long-term business provisions. These approaches are designed to allow for the appropriate cost of policy-related liabilities, with a degree of prudence, to give a result within the normal range of outcomes. 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 these liabilities.

### (b) Asbestos, pollution and social environmental hazards

In the course of conducting insurance business, various companies within the Group receive general insurance liability claims, and become involved in actual or threatened related litigation arising there from, including claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos production and handling in various jurisdictions, including Europe, Canada and Australia. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, on the basis of current information having regard to the level of provisions made for general insurance claims, the directors consider that any additional costs arising are not likely to have a material impact on the financial position of the Group.

20  
7

## 48 - Contingent liabilities and other risk factors continued

### (c) Guarantees on long-term savings products

As a normal part of their operating activities, various Group companies have given guarantees and options, including interest rate guarantees, in respect of certain long-term insurance and fund management products. Note 38 gives details of these guarantees and options. In providing these guarantees and options, the Group's capital position is sensitive to fluctuations in financial variables including foreign currency exchange rates, interest rates, property values and equity prices. Interest rate guaranteed returns, such as those available on GAOs, are sensitive to interest rates falling below the guaranteed level. Other guarantees, such as maturity value guarantees and guarantees in relation to minimum rates of return, are sensitive to fluctuations in the investment return below the level assumed when the guarantee was made. The directors continue to believe that the existing provisions for such guarantees and options are sufficient.

### (d) Regulatory compliance

The Group's insurance and investment business is subject to local regulation in each of the countries in which it operates. The FSA regulates the Group's UK business (from 1 April 2013, the FSA will split into two new regulatory bodies: the Prudential Regulation Authority (PRA), which will be a subsidiary of the Bank of England, and the Financial Conduct Authority (FCA)) and will monitor the financial resources and organisation of the Group 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 Group's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The Group's regulated businesses have compliance resources to respond to regulatory enquiries in a constructive way, and take corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

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

### (e) Payment protection insurance (PP1) mis-selling

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

(f) Structured-settlements

The Company has purchased annuities from licensed Canadian life insurers to provide for fixed and recurring payments to claimants. As a result of these arrangements, the Company is exposed to credit risk to the extent that any of the life insurers fail to fulfil their obligations. The Company's maximum exposure to credit risk for these types of arrangements is approximately \$ 1,145 million as at 31 December 2012 (2011: \$1,085 million, 2010 \$1,063 million). Credit risk is managed by acquiring annuities from a diverse portfolio of life insurers with proven financial stability. This risk is reduced to the extent of coverage provided by Assuris, the life insurance industry compensation plan. As at 31 December 2012, no information has come to the Company's attention that would suggest any weakness or failure in life insurers from which it has purchased annuities and consequently no provision for credit risk is required.

(g) Other

In the course of conducting insurance and investment business, various Group companies receive liability claims, and become involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

*At 31 December 2012, the Company and several of its subsidiaries have guaranteed the overdrafts and borrowings of certain other Group companies. At 31 December 2012, the Group and Company had no exposure (2011: £nil and £334 million respectively)*

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

There are a number of charges registered over the assets of Group companies in favour of other Group companies or third parties. In addition, certain of the Company's assets are charged in favour of certain of its subsidiaries as security for intra Group loans.

The Group's insurance subsidiaries pay contributions to levy schemes in several countries in which we operate. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

208

Aviva 

Annual report on Form 20-F 2012

**Notes to the consolidated financial statements continued**

**49 - Commitments**

This note gives details of our commitments to capital expenditure and under operating

leases (a) Capital commitments

Contractual commitments for acquisitions or capital expenditures of investment property and property and equipment, which have not been recognised in the financial statements, are as follows:

	2012 Cm	2011 Cm
Investment		property
6		23
Property and equipment _____		
36 _____	36	^

*Contractual obligations for future repairs and maintenance on investment properties are £nil (2011: £nil).*

*The Group has capital commitments to its joint ventures of £157 million (2011: £258 million) and to other investment vehicles of £nil (2011: £nil).*

(b) Operating lease commitments

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

	2012 Cm	2011 fm
Within	1	year
269		313



Later than 1 year and not later than 5 years	832	562
Later than 5 years	1,570	1,738
		-
		∴ 2,671

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

Within 1 year	2012	2011
■,136	Cm-	fm
Later than 1 year and not later than 5 years	1,120	
Later than 5 years	400	
587	667	
	∴ 1,187	
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases	53	56

## Notes to the consolidated financial statements continued

### 50 - Group capital structure

The Group maintains an efficient capital structure from a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings, consistent with our overall risk profile and the regulatory and market requirements of our business. This note shows where this capital is employed.

#### Accounting basis and capital employed by segment

The table below shows how our capital, on an IFRS basis, is deployed by segment and how that capital is funded.

		2012 tm	2011 tm
Long-term		savings	
11,467		11,237	
General	insurance	health	
6,089		5,875	
Fund		management	
225		184	
Other		business	
(1,059)		(1,102)	
Corporate <sup>1</sup>			508
(588)			Lloyd
Delta			776
—			
<b>United States</b>		<b>365</b>	<b>3,140</b>
<b>Total capital employed</b>		<b>16,499</b>	<b>20,618</b>
<b>Financed by</b>			
Equity shareholders' funds		8,204	12,643
Non-controlling interests		1,574	1,530
Direct capital instruments and fixed rate tier 1 notes		1,382	990
Preference shares		200	200
Subordinated debt		4,337	4,550
External debt		802	705
<b>Total capital employed</b>		<b>16,499</b>	<b>20,618</b>

<sup>1</sup> Corporate includes centrally held unquoted net assets, the surplus pension scheme surplus and also reflects internal lending arrangements. These revolving lending arrangements, when set out on consolidated OT arise in the United Kingdom. Aviva Insurance Limited (AI) acts as both a UK general insurer and as the primary holding company for our foreign subsidiaries. Internal capital management mechanisms in place allocate a portion of the total capital of the company to the UK general insurance operations, giving rise to notional levying between the general insurance and other company activities. These mechanisms also allow for some of the assets of the general insurance business to be made available for use across the Group.

<sup>2</sup> Subsequent to the year end, the Group has taken action to improve its access to dividends from the Group's insurance and asset management business by undertaking a corporate restructure. The result is that the majority of its overseas businesses move to Aviva Group Holdings Limited from Aviva Insurance Limited. Certain subsidiaries, subject to continuing to satisfy sund-alone capital and liquidity requirements, loan funds to corporate and holding entities. These loans satisfy arm's length criteria and all interest payments are made when due.

Total capital employed is financed by a combination of equity shareholders' funds, preference capital, subordinated debt and borrowings.

At the end of 2012 we had £16.5 billion (2011: £20.6 billion) of total capital employed in our trading operations measured on an IFRS basis. The decrease is primarily driven by the Group's loss after tax, actuarial losses on staff pension schemes and the payment of dividend.

In May 2012 we issued US\$650 million of hybrid Tier 1 Notes. The Notes are perpetual and may be called from November 2017. The Notes qualify as Innovative Tier 1 capital under current regulatory rules and are expected to be treated as Fixed Rate Tier 1 capital under Solvency II transitional rules. The transaction had a positive impact on Group IGD solvency and Economic Capital measures.

In June 2012 US\$300 million of Lower Tier 2 floating rate notes were redeemed at first call.

At the end of 2012 the market value of our external debt, subordinated debt, preference shares (including both Aviva plc preference shares of £200 million and General Accident plc preference shares, within non-controlling interests, of £250 million), and direct capital instruments and fixed rate tier 1 notes was £7,260 million (2011: £5,782 million), with a weighted average cost, post tax, of 4.4% (2011: 6.6%). The Group Weighted Average Cost of Capital (WACC) is 6.3% (2011: 7.1%) and has been calculated by reference to the cost of equity and the cost of debt at the relevant date. The cost of equity at 2012 was 7.5% (2011: 7.4%) based on a risk free rate of 1.9% (2011: 2.0%), an equity risk premium of 4.0% (2011: 4.0%) and a market beta of 1.4 (2011: 1.3).

**51 - Statement of cash flows**

This note gives further detail behind the figures in the statement of cash flows.

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

	2012	2011	2010
	fm	fm	fm
<b>Profit before tax from continuing operations</b>	246	373	
Adjustments for			
Share of loss of joint ventures and associates		123	
Dividends received from joint ventures and associates		71	
(Profit)/Loss on sale of:			
Investment property	(7)	(8)	(41)
Property and equipment	—	(4)	5
Subsidiaries, joint ventures and associates	164	(565)	(163)
Investments	(1,167)	(1,340)	(1,432)
	1,790		
Fair value (gains)/losses on			
Investment property			(141) 16
Investments Borrowings	(1,010)	(1,917)	(1,631)
Depreciation of property and equipment		5,348	(7,498)
Equity compensation plans, equity settled expense		5,484	(6,963)
Impairment and expensing of:		48	52
Goodwill on subsidiaries	(11,867)		
Financial Investments, loans and other assets	109	160	3
Acquired value of in-force business and intangibles	46	95	1
Non-financial assets	122	49	16
	—	1	(1)
	277	305	19
Amortisation of. Premium or discount on			
debt securities Premium or discount on			
borrowings	105	82	84
Premium or discount on non-participating investment contracts	(12)	3	2
Financial instruments	20	45	17
Acquired value of in-force business and intangibles	64	7	82
	121	137	155
Change in unallocated divisible surplus	298	274	340
Interest expense on borrowings Net finance	6,316	(2,721)	(362)
charge on pension schemes Foreign	653	689	559
currency exchange (gains)/losses	82	87	127
	(128)	35	(36)
<b>Changes in working capital</b>			
(Increase)/decrease in reinsurance assets			
Decrease in deferred acquisition costs	(416)	(611)	623
Increase in insurance liabilities and investment contracts	216	45	56
Increase in other assets and liabilities	4,325	550	10,966
	1,742	1,123	1,557
<b>Net purchases of operating assets</b>			
Purchases of investment property Proceeds on			
sale of investment property Net			
purchases (sales) of financial investments	5,867		
	492	(12,402)	43
	1,107	13,202	
	(839)		(1,070)
	1,141		798
	1,231		(4,907)
	(1,211)	717	(3,264)
	1,533	(3,758)	(5,179)
<b>Cash generated from operating activities continuing operations</b>	2,676	111	1,41
<b>-Cash generated from operating activities - discontinued operations</b>	46	27	9
			794
<b>Total cash generated from operating activities</b>	2,722	138	2,213

Operating cash flows reflect the movement in both policyholder and shareholder controlled cash and cash equivalent balances. Around two thirds of the Group's balances relate to unit-linked or participating policyholder funds. As such, the asset mix and the level of cash held by these funds are determined from a policyholder perspective and can move significantly from one year to another. Shareholder cash at 31 December 2012 is at £9.0 billion (2011: £8.6 billion).

Purchases and sales of operating assets, including financial investments, are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance and investment contracts, net of payments of related benefits and claims. During the year, the net operating cash inflow reflects a number of factors, including changes in the investment strategy of funds to hold a lower weighting of cash and higher levels of financial investments, the level of premium income and the timing of receipts of premiums and the payment of creditors, claims and surrenders. It also includes changes in the size and value of consolidated cash investment funds and changes in the Group participation in these funds.

Notes to the consolidated financial statements continued

**51 - Statement of cash flows continued**

(b) Cash flows in respect of, and additions to, the acquisition of subsidiaries, joint ventures and associates comprised:

	2012 fm	2011 fm	2010 fm
Cash consideration for subsidiaries, joint ventures and associates acquired and additions	136,114	239	
Less: Cash and cash equivalents acquired with subsidiaries	(7)	—	(781)
Cash flows on acquisitions and additions - continuing operations	129	114	(542)
Cash flows on acquisitions and additions - discontinued operations	—	—	65
Cash flows on acquisitions and additions	129	114	(477)

(c) Cash flows in respect of the disposal of subsidiaries, joint ventures and associates comprised:

	2012 fm	2011 fm	2010 fm
Cash proceeds from disposal of subsidiaries, joint ventures and associates	442,988	241	
Less: Net cash and cash equivalents divested with subsidiaries	(21)	(111)	
	(19)		
Cash flows on disposals - continuing operations	421,877	222	
Cash flows on disposals - discontinued operations	—(502)	29	
Cash flows on disposals	421,375	251	

The above figures form part of cash flows from investing activities.

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

	2012 fm	2011 fm	2010 fm
Cash at bank and in hand		13,020,854	9,740
Cash equivalents		10,794,215	15,715
	23,814	23,069	25,455
<u>Bank overdrafts</u>	<u>(566)</u>	<u>(668)</u>	<u>(760)</u>
	23,248	22,401	24,695

Cash and cash equivalents reconciles to the statement of financial position as follows:

	2012 fm	2011 fm	2010 fm
Cash and cash equivalents (excluding bank overdrafts) Less: Assets classified as held for sale	23,814	23,069	
	22,897	23,043	25,455
		25,455	(917)

52 - Capital statement

This statement sets out the financial strength of our Group entities and provides an analysis of the disposition and constraints over the availability of capital to meet risks and regulatory requirements. The capital statement also provides a reconciliation of shareholders' funds to regulatory capital.

The analysis below sets out the Group's available capital resources, which includes available capital resources of subsidiaries classified as held for sale in the Group IFRS statement of financial position still included in the Group's available capital resources at 31 December 2012.

Available capital resources

	with-profit sub-fund	with-profit sub-fund	with-profit sub-fund	with-profit sub-fund	Other operations	UK (He life operations)	Other life operations	Total Other operations*	Overseas	2012 Total Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total shareholders' funds	(276)	(310)	31	5,1	4,8	7.4	12,3	(98)	11,3	15,36
Other sources of capital <sup>1</sup>				70	94	49	43	3)	60	3
Unallocated divisible surplus <sup>2</sup>				200	200	43	243	4.13	4.3	4,824
Adjustments onto a regulatory basis:				18	1,9	5.0	6.98		80	650
Shareholders' share of accrued bonus					74		6		6,9	
Goodwill and other intangibles <sup>3</sup>		(289)	(5)	(186)	(304)	-		(30)	86	(351)
Regulatory valuation and admissibility restrictions <sup>4</sup>				-	(136)		(1,759)	4)	(1.51)	
Total available capital resources	291	907	1,836	3,034	2,688	(906)	1.615	5)	23(3,279)	12,284
Analysis of liabilities. Participating insurance liabilities <sup>7</sup> Unit-linked	1,909	14,078	11,228	8	22,250					
liabilities Other non-participating life insurance Amounts classified as held for sale	359	2,758	483	3,600	3.6	49,473				
					93	6,243				
					33,8	9,936				
					89	35,634				
						73,123				
					27,2	(34,446				
					23	)				
					3,69	(34,446				
					3	)				
					37,4					
					89	-	49,4			
						73				
						52,8				
						72				
						-				
						9,9				
						36				
						10,				
						168				
						-	73,1			
						23				
						69,4				
						42				
						-				
						(34,				
						446)	(344)			
Total insurance liabilities	2,268	16,836	11,711	30,815	37,590		98,086			
Participating investment liabilities <sup>5</sup>	651	3,097		66,849	67,707					
Non-participating investment liabilities	(3)	(24)		47,699	45,659					
Amounts classified as held for sale				(4,054)						
5,967	9,715	2,453	12,168							
54,681	66,849									
-	(27)	33,851	33,824	13,875						
47,699										
-				(4,054)						
(4,054)										
Total investment liabilities	648	3,073	5,967	9,688	36,304	-	110,494			
	45,992	64,502	110,494							
Total liabilities	2,916	19,909	17,678	40,503	73,894	114,397	208,580			
	94,183	208,580								

1 Other sources of capital include Subordinated debt of £4,337 million issued by Aviva and £43 million of other qualifying capital issued by Italian and Spanish subsidiary and associate undertakings  
 2 Unallocated divisible surplus for overseas life operations is reduced gross of minority interest and amounts disclosed include balances classified as held for sale 2012 includes a negative balance of (2 million) in Italy (2011 £1,449 million negative)  
 3 Goodwill and other intangibles includes £132 million in joint ventures and associates including amounts classified as held for sale  
 4 Includes an adjustment for minorities (except for other sources of capital that are reflected net of minority interest)  
 5 Includes The Mutual with-profit fund  
 6 Other operations include general insurance and fund management business  
 7 Following review of the classification of contracts issued by the group's Italian business, there has been a reallocation from participating insurance liabilities at 31 December 2011 to participating investment contract liabilities of £2,722 million

Analysis of movements in capital of long-term businesses For the year ended 31 December 2012

with-profit sub-fund	Old with-profit sub-fund £m	New With-profit sub-fund £m	Other UK life operations	Overseas life operations £m	Total life operations £m
		Total UK life with- funds £m	Total UK life operations £m		



NWPSF	17.3	(17.3)	—	0.3	0.7
0.7 (0.4) OWPSF		2.9	(2.6)	0.2	0.2
0.3 — (0.1) WPSF <sup>4</sup>			18.3		1.3
Aggregate	38.5	(36.4)	2.1	1.8	1.9

1. These realistic habits include the shareholders' share of future bonuses of £0.3 billion (December 2011 £0.3 billion). Realistic habits adjusted to eliminate the shareholders' share of future bonuses are £36 billion (December 2011 £38.8 billion). These realistic habits make provision for guarantees options and promises on a market consistent stochastic basis. The value of the provision included within realistic liabilities is £1.8 billion. £0.3 million and £3.5 billion for NWPSF, OWPSF and WPSF respectively. The realistic habits for NWPSF, OWPSF and WPSF are £0.3 million and £3.1 billion for NWPSF, OWPSF and WPSF respectively.

2. Estimated realistic habitable estate at 31 December 2011 was £11.1 billion and £16.1 billion for NWPSF, OWPSF and WPSF respectively.

3. This represents the reattributed estate of £0.7 billion (31 December 2012) (£1.1 billion (31 December 2011)) for NWPSF, OWPSF and WPSF respectively.

4. The WPSF fund includes the Prudential Mutual (PM) fund, which has realistic assets and liabilities of £1.7 billion and therefore does not impact the realistic habitable estate.

Under the FSA regulatory regime, UK life with-profits business is required to hold capital equivalent to the greater of their regulatory requirement based on EU directives (regulatory peak) and the FSA realistic bases (realistic peak) described above.

For UK non-participating business, the relevant capital requirement is the minimum solvency requirement determined in accordance with FSA regulations. The available capital reflects the excess of regulatory basis assets over liabilities before deduction of capital resources requirement.

For UK general insurance businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the FSA requirements.

For overseas businesses in the European Economic Area (EEA), US, Canada, Hong Kong and Singapore, the available capital and the minimum requirement are calculated under the locally applicable regulatory regimes. The businesses outside these territories are subject to the FSA rules for the purposes of calculation of available capital and capital resource requirement.

For fund management and other businesses, the relevant capital requirement is the minimum solvency requirement determined in accordance with the local regulator's requirements for the specific class of business.

## 52 - Capital statement continued

The available capital resources in each regulated entity are generally subject to restrictions as to their availability to meet requirements that may arise elsewhere in the Group. The principal restrictions are:

- (i) UK with-profits fund - (NWPSF, OWPSF and WPSF) - any available surplus held in each fund can be used to meet the requirements of the fund itself, be distributed to policyholders and shareholders or in the case of NWPSF and OWPSF, transferred via the capital support arrangement explained above (for OWPSF only to the extent support has been provided in the past). In most cases, with-profit policyholders are entitled to at least 90% of the distributed profits while the shareholders receive the balance. The latter distribution would be subject to a tax charge, which is met by the fund.
- (ii) UK non-participating funds - any available surplus held in these is attributable to shareholders. Capital in the non-profit funds may be made available to meet requirements elsewhere in the Group subject to meeting the regulatory requirements of the fund. Any transfer of the surplus may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- (iii) Overseas life operations - the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. In several business units, Group companies and other parties jointly control certain entities; these joint venture operations may constrain management's ability to utilise the capital in other parts of the Group. Any transfer of available capital may give rise to a tax charge subject to availability of tax relief elsewhere in the Group.
- (iv) General insurance operations - the capital requirements and corresponding regulatory capital held by overseas businesses are calculated using the locally applicable regulatory regime. The available capital resources in all these businesses are subject to local regulatory restrictions which may constrain management's ability to utilise these in other parts of the Group. Any transfer of available capital may give rise to a tax charge, subject to availability of tax relief elsewhere in the Group.

## 53 - Risk management

This note sets out the major risks our businesses and its shareholders face and describes the Group's approach to managing these. It also gives sensitivity analyses around the major economic and non-economic assumptions that can cause volatility in the Group's earnings and capital position.

### (a) Risk management framework

The risk management framework (RMF) in Aviva forms an integral part of the management and Board processes and decision-making framework across the Group. The key elements of our risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes we use to identify, measure, manage, monitor and report (IMMMR) risks, including the use of our risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to Aviva's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance, general insurance, asset management and operational risk. Risks falling within these types may affect a number of metrics including those relating to balance sheet strength, liquidity and profit. They may also affect the performance of the products we deliver to our customers and the service to our customers and distributors, which can be categorised as risks to our brand and reputation.

To promote a consistent and rigorous approach to risk management across all businesses we have a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Group's worldwide operations. On a semi-annual basis the business chief executive officers and chief risk officers sign-off compliance with these policies and standards, providing assurance to the relevant oversight committees that there is a consistent framework for managing our business and the associated risks

A regular top-down key risk identification and assessment process is carried out by the risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. This process is replicated at the business unit level. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

Risk models are an important tool in our measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. We carry out a range of stress (where one risk factor, such as equity returns, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged.

Roles and responsibilities for risk management in Aviva are based around the 'three lines of defence model' where ownership for risk is taken at all levels in the Group. Line management in the business is accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The risk function is accountable for quantitative and qualitative oversight and challenge of the IMMR process and for developing the risk management framework. Internal Audit provides an independent assessment of the risk framework and internal control processes.

Board oversight of risk and risk management across the Group is maintained on a regular basis through its Risk Committee. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital, liquidity and franchise value at Group and in the business units. Economic capital risk appetites are also set for each risk type. The Group's position against risk appetite is monitored and reported to the Board on a regular basis. The oversight of risk and risk management at the Group level is supported by the Asset Liability Committee (ALCO), which focuses on business and financial risks, and the Operational Risk Reputation Committee (ORRC) which focuses on operational and reputational risks. Similar committee structures with equivalent terms of reference exist in the business units.



## Notes to the consolidated financial statements continued

### 53 - Risk management continued

Further information on the types and management of specific risk types is given in sections (b) - (j) below.

The risk management framework of a small number of our joint ventures and strategic equity holdings differs from the Aviva framework outlined in this note. We work with these entities to understand how risks are managed and to align them, where possible, with Aviva's framework.

#### (b) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to Aviva, or variations in market values as a result of changes in expectations related to these risks. Credit risk is an area where we can provide the returns required to satisfy policyholder liabilities and to generate returns for our shareholders. In general we prefer to take credit risk over equity and property risks, due to the better expected risk adjusted return, our credit risk analysis capability and the structural investment advantages conferred to insurers with long-dated, relatively illiquid liabilities.

Our approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. Our credit risks arise principally through exposures to debt security investments, structured asset investments, bank deposits, derivative counterparties, mortgage lending and reinsurance counterparties.

The Group manages its credit risk at business unit and Group level. All business units are required to implement credit risk management processes (including limits frameworks), operate specific risk management committees, and ensure detailed reporting and monitoring of their exposures against pre-established risk criteria. At Group level, we manage and monitor all exposures across our business units on a consolidated basis, and operate a Group limit framework that must be adhered to by all.

#### A detailed breakdown of the Group's current credit exposure by credit quality is

##### shown below, (i) Financial exposures by credit ratings

Financial assets are graded according to current external credit ratings issued AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade. The following table provides information regarding the aggregated credit risk exposure of the Group for financial assets with external credit ratings, excluding assets 'held for sale'. 'Not rated' assets capture assets not rated by external ratings agencies.

As at 31 December 2012	AAA	AA	A	Speculative BBB	grade	Carrying value including Not rated	Less assets held for sale	Carrying value for sale
<b>Debt securities</b>		24.4%	16.9%	23.8%	25.4%	4.2%		5.3%
161,623						(33,617)	128,006	
<b>Reinsurance assets</b>		0.4%	63.4%	30.1%	0.7%	0.1%	(883)	6,684
7,567						1.5%	(1,550)	28,543
<b>Other investments</b>		0.1%	0.2%	2.3%	2.0%			93.9%
30,093								
<b>Loans</b>	5.8%	8.2%	1.2%	0.1%	0.7%	84.0%	27,934	(3,397)
<b>Total</b>							(39,447)	187,770
227,217								

As at 31 December 2011	AAA	AA	A	Speculative BBB	grade	Carrying value including Not rated	Less assets held for sale	Carrying value for sale
<b>Debt securities</b>	32 3%	13 2%	29 9%	16.3%	2.8%	5 4%	(93) 153,252	153,345
Reinsurance assets	0.0%	70 1%	23 2%	0.0%	0.4%	6.3%	(1) 7,112	7,113
Other investments		0 2%	0 8%	14%	2.3%	0.4%	(217) 30,160	94.9%
30,377								
<b>Loans</b>	0 9%	13%	1.2%	0.2%	0.8%	95 6%	28,116	—
<b>Total</b>							(311)	218,640
218,951								

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure. The impact of collateral held on the net credit exposure is shown below.

At 31 December 2012	Carrying value of financial Collateral position held	Net credit exposure	Net credit exposure
	fm	fm	Cm
		Carrying value in the statement of financial position fm	
			Collateral held

Debt securities					
Reinsurance		161,590	(31)	153,314	
assets		7,546	28,869	(443)	6,670-
Other		1,041		(465)	29,912
investments		153,345		(26,957)	1,159
Loans		7,113	30,377		
			28,116		
161.623	(33)				
	7.567	(21)			
30,093	(1,224)				
27,934	(26,893)				
<b>Tota</b>		227,217	(28,171)	199,046	218,951
<b>Less Assets classified as held</b>		191,055			(27,896)
<b>for sale Total (excluding held</b>		(39,447)		3,958	(311)
		(35,489)			(311)
		187,770	(24,213)	163,557	218,640
		(27,896)	190,744		

Following a review of the collateral reported the total net credit exposure (excluding assets classified as held for sale) at 31 December 2011 has decreased by £1,045 cr

Additional information in respect to collateral is provided in notes 20(c) and notes 22(d)(i)

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

216

Aviva plc

Annual report on Form 20-F 2012

## Notes to the consolidated financial statements continued

### 53 - Risk management continued

#### (ii) Financial exposures to peripheral European countries

Included in our debt securities and other financial assets, are exposures to peripheral European countries. Gross of non-controlling interests, our direct shareholder assets exposure to the governments (and local authorities and agencies) of Greece, Ireland, Portugal, Italy and Spain has reduced since 2011 and is detailed in 25 (e). We continue to monitor closely the situation in the eurozone and have had additional restrictions on further investment in place since late 2009 as well as taking actions to reduce exposure to higher risk assets.

#### (iii) Other investments

Other investments (including assets of operations classified as held for sale) include unit trusts and other investment vehicles; derivative financial instruments, representing positions to mitigate the impact of adverse market movements; and other assets includes deposits with credit institutions and minority holdings in property management undertakings.

The credit quality of the underlying debt securities within investment vehicles is managed by the safeguards built into the investment mandates for these funds which determine the funds' risk profiles. At the Group level, we also monitor the asset quality of unit trusts and other investment vehicles against Group set limits.

A proportion of the assets underlying these investments are represented by equities and so credit ratings are not generally applicable. Equity exposures are managed against agreed benchmarks that are set with reference to overall appetite for market risk.

#### (iv) Loans

The Group loan portfolio principally comprises:

- Policy loans which are generally collateralised by a lien or charge over the underlying policy;
- Loans and advances to banks which primarily relate to loans of cash collateral received in stock lending transactions. These loans are fully collateralised by other securities; and
- Mortgage loans collateralised by property assets.

We use loan to value; interest and debt service cover; and diversity and quality of the tenant base metrics to internally monitor our exposures to mortgage loans. We use credit quality, based on dynamic market measures, and collateralisation rules to manage our stock lending activities. Policy loans are loans and advances made to policyholders, and are collateralised by the underlying policies.

#### (v) Credit concentration risk

The long-term and general insurance businesses are generally not individually exposed to significant concentrations of credit risk due to the regulations applicable in most markets and the Group credit policy and limits framework, which limit investments in individual assets and asset classes. Credit concentrations are monitored as part of the regular credit monitoring process and are reported to Group ALCO. With the exception of government bonds the largest aggregated counterparty exposure within shareholder assets is approximately 1.5% of the total shareholder assets (gross of 'held for sale')

#### (vi) Reinsurance credit exposures

The Group is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite. The Group risk function has an active monitoring role with escalation to the Chief Financial Officer (CFO), Group ALCO and the Board Risk Committee as appropriate.

The Group's largest reinsurance counterparty is Swiss Reinsurance Company Ltd (including subsidiaries). At 31 December 2012, the reinsurance asset recoverable, including debtor balances, from Swiss Reinsurance Company Ltd was £1,717 million.

#### (vii) Securities finance

The Group has significant securities financing operations within the UK and smaller operations in some other businesses. The risks within this activity are mitigated by over-collateralisation and minimum counterparty credit quality requirements which are designed to minimise residual risk. The Group operates strict standards around counterparty quality, collateral management, margin calls and controls.

**(viii) Derivative credit exposures**

The Group is exposed to counterparty credit risk through derivative trades. This risk is mitigated through collateralising almost all trades (the exception being certain foreign exchange trades where it has historically been the market norm not to collateralise). Residual exposures are captured within the Group's credit management framework.

**(ix) Unit-linked business**

In unit-linked business the policyholder bears the direct market risk and credit risk on investment assets in the unit funds and the shareholders' exposure to credit risk is limited to the extent of the income arising from asset management charges based on the value of assets in the fund

## Notes to the consolidated financial statements continued

## 53 - Risk management continued

## (x) Impairment of financial assets

In assessing whether financial assets are impaired, due consideration is given to the factors outlined in accounting policy (S). 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. The table excludes assets 'held for sale'.

	Neither past due nor impaired Cm	Financial assets that are past due but not impaired					Carrying value Cm
		0-3 months Cm	3-6 months Cm	6 months-ty ear Cm	Greater than 1 year fm	Financial assets that have been Carrying impaired value Cm fm	
At 31 December 2012							
Debt securities	128,0						128,0
Reinsurance assets	06						06
Other investments	6,684	85	46				6,684
Loans	28,53						28,53
Receivables and other financial assets	5				1	1	3
	23,77						24,53
	0						7
	7,518	8					7,617
		68					
		2					
At 31 December 2011							
Debt securities	152,9						153,2
Reinsurance assets	88						52
Other investments	7,112						7,112
Loans	30,15	6					30,16
Receivables and other financial assets	2	134	148				0
	27,58	264					28,11
	2						6
	7,650	8					7,937
		528					

Where assets have been classed as 'past due and impaired', an analysis is made of the risk of default and a decision is made whether to seek to mitigate the risk. There were no material financial assets that would have been past due or impaired had the terms not been renegotiated.

## (c) Market risk

Market risk is the risk of adverse financial impact resulting, directly or indirectly from fluctuations in interest rates, foreign currency exchange rates, equity and property prices. Market risk arises in business units due to fluctuations in both the value of liabilities and the value of investments held. At Group level, it also arises in relation to the overall portfolio of international businesses and in the value of investment assets owned directly by the shareholders. We actively seek some market risks as part of our investment and product strategy however have limited appetite for interest rate risk as we do not believe it is adequately rewarded.

The management of market risk is undertaken at business unit and at Group level. Businesses manage market risks locally using the Group market risk framework and within local regulatory constraints. Group Risk is responsible for monitoring and managing market

risk at Group level and has an established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

In addition, where the Group's long-term savings businesses have written insurance and investment products where the majority of investment risks are borne by its policyholders, these risks are managed in line with local regulations and marketing literature, in order to satisfy the policyholders' risk and reward objectives. The Group writes unit-linked business in a number of its operations. The shareholders' exposure to market risk on this business is limited to the extent that income arising from asset management charges is based on the value of assets in the fund.

The most material types of market risk that the Group is exposed to are described below

#### **(i) Equity price risk**

The Group is subject to equity price risk arising from changes in the market values of its equity securities portfolio.

We continue to limit our direct equity exposure in line with our risk preferences. The reduction of the shareholding in Delta Lloyd has decreased the Group's equity price risk and, in particular, has led to a fall in equity exposures. Our equity hedging programme during 2012 has further reduced our equity exposures. At a business unit level, investment limits and local asset admissibility regulations require that business units hold diversified portfolios of assets thereby reducing exposure to individual equities. The Group does not have material holdings of unquoted equity securities.

Equity risk is also managed using a variety of derivative instruments, including futures and options. Businesses actively model the performance of equities through the use of risk models, in particular to understand the impact of equity performance on guarantees, options and bonus rates. At 31 December 2012 the Group's shareholder funds held £3 billion notional of equity hedges, with up to 12 months to maturity with an average strike of 88% of the prevailing market levels on 31 December 2012.

Sensitivity to changes in equity prices is given in section '(j) risk and capital management' below.

#### **(ii) Property price risk**

The Group is subject to property price risk directly due to holdings of investment properties in a variety of locations worldwide and indirectly through investments in mortgages and mortgage backed securities. Investment in property is managed at business unit level, and is subject to local regulations on asset admissibility, liquidity requirements and the expectations of policyholders.

As at 31 December 2012, no material derivative contracts had been entered into to mitigate the effects of changes in property prices.

Sensitivity to changes in property prices is given in section '(j) risk and capital management' below

### **53 - Risk management continued**

#### **(iii) Interest rate risk**

**Interest rate risk arises primarily from the Group's investments in long-term debt and fixed income securities and their movement relative to the value placed on the insurance liabilities. A number of policyholder product features have an influence on the Group's interest rate risk. The major features include guaranteed surrender values, guaranteed annuity options, and minimum surrender and maturity values. Details of material guarantees and options are given in note 38.**

Exposure to interest rate risk is monitored through several measures that include duration, economic capital modelling, sensitivity testing and stress and scenario testing. The impact of exposure to sustained low interest rates is considered within our scenario testing.

The Group typically manages interest rate risk by investing in fixed interest securities which closely match the interest rate sensitivity of the liabilities where this is available. Interest rate risk is also managed in some business units using a variety of derivative instruments, including futures, options, swaps, caps and floors.

**Sensitivity to changes in interest rates is given in section '(j) risk and capital management' below. Further information on borrowings is included in note 45**

#### **(iv) Inflation risk**

Inflation risk arises primarily from the Group's exposure to general insurance claims inflation, to inflation linked benefits within the defined benefit staff pension schemes and within the UK annuity portfolio and to expense inflation. Increases in long-term inflation expectations are closely linked to long-term interest rates and so are frequently considered with interest rate risk. Exposure to inflation risk is monitored through economic capital modelling, sensitivity testing and stress and scenario testing. The Group typically manages inflation risk through its investment strategy and, in particular, by investing in inflation linked securities and through a variety of derivative instruments, including inflation linked swaps.

#### **(v) Currency risk**

The Group has minimal exposure to currency risk from financial instruments held by business units in currencies other than their functional currencies, as nearly all such holdings are backing either by unit-linked or with-profit contract liabilities or hedging.

The Group operates internationally and as a result is exposed to foreign currency exchange risk arising from fluctuations in exchange rates of various currencies. Approximately half of the Group's premium income arises in currencies other than sterling and the Group's net assets are denominated in a variety of currencies, of which the largest are euro, sterling and US dollars. The Group does not hedge foreign currency revenues as these are substantially retained locally to support the growth of the Group's business and meet local regulatory and market requirements.

Businesses aim to maintain sufficient assets in local currency to meet local currency liabilities, however movements may impact the value of the Group's consolidated shareholders' equity which is expressed in sterling. This aspect of foreign exchange risk is monitored and managed centrally, against pre-determined limits. These exposures are managed by aligning the deployment of regulatory capital by currency with the Group's regulatory capital requirements by currency. Currency borrowings and derivatives are used to manage exposures within the limits that have been set.

At 31 December 2012 and 2011, the Group's total equity deployment by currency including assets 'held for sale' was.

	Sterling	Euro	US\$	Other Total	
	£m	£m	£m	£m	£m
<b>Capital 31 December 2012</b>	<b>4,445</b>	<b>4,648</b>		<b>(51)</b>	<b>2,318</b>
Capital 31 December 2011	3,427	6,442	3,237		2,257
15,363					

A 10% change in sterling to euro/US\$ foreign exchange rates would have had the following impact on total equity.

	10% increase in sterling/euro rate	10% decrease in sterling/euro rate	10% increase in sterling/US\$ rate	10% decrease in sterling/US\$ rate	
	£m	£m	£m	£m	£m
<b>Net assets at 31 December 2012</b>	<b>411</b>	<b>34</b>	<b>(5)</b>	<b>(524)</b>	<b>2012</b>
Net assets at 31 December 2011	632	(323)	323		

A 10% change in sterling to euro/US\$ foreign exchange rates would have had the following impact on profit before tax, excluding 'discontinued operations'.

	10% increase in sterling/euro rate	10% decrease in sterling/euro rate	10% increase in sterling/US\$ rate	10% decrease in sterling/US\$ rate	
	£m	£m	£m	£m	£m
<b>Impact on profit before tax 31 December 2012</b>	<b>32</b>	<b>1</b>	<b>(1)</b>	<b>(84)</b>	<b>(32)</b>
Impact on profit before tax 31 December 2011	11				17

The balance sheet changes arise from retranslation of business unit statements of financial position from their functional currencies into sterling, with above movements being taken through the currency translation reserve. These balance sheet movements in exchange rates therefore have no impact on profit. Net asset and profit before tax figures are stated after taking account of the effect of currency hedging activities.

## 53 - Risk management continued

### (vi) Derivatives risk

Derivatives are used by a number of the businesses. Activity is overseen by the Group risk function, who monitors exposure levels and approves large or complex transactions. Derivatives are primarily used for efficient investment management, risk hedging purposes, or to structure specific retail savings products

The Group applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

### (vii) Correlation risk

The Group recognises that lapse behaviour and potential increases in consumer expectations are sensitive to and interdependent with market movements and interest rates. These interdependences are taken into consideration in the internal economic capital model and in scenario analysis.

### (d) Liquidity risk

Liquidity risk is the risk of not being able to make payments as they become due because there are insufficient assets in cash form. The relatively illiquid nature of insurance liabilities is a potential source of additional investment return by allowing us to invest in higher yielding, but less liquid assets such as commercial mortgages. The Group seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a Group liquidity risk policy and business standard. At Group and business unit level, there is a liquidity risk appetite which requires that sufficient liquid resources be maintained to cover net outflows in a stress scenario. The Company's main sources of liquidity are liquid assets held within the Company and Aviva Group Holdings Limited (AGH), and dividends received from the Group's insurance and asset management businesses. Sources of liquidity in normal markets also includes a variety of short and long-term instruments including commercial papers and medium and long-term debt. For 2012 and prior years, the Company's main sources of liquidity also included intercompany loans from Aviva Insurance Limited and Aviva International Insurance Limited, subject to regulatory constraints. In addition to the existing liquid resources and expected inflows, the Group and Company maintain significant undrawn committed borrowing facilities (£2.1 billion) from a range of leading international banks to further mitigate this risk.

### Maturity analyses

The following tables show the maturities of our insurance and investment contract liabilities, and of the financial and reinsurance' assets to meet them. A maturity analysis of the contractual amounts payable for borrowings and derivatives is given in notes 45 and 54, respectively. Contractual obligations under operating leases and capital commitments are given in note 49.

#### (i) Analysis of maturity of insurance and investment contract liabilities ■

For non-linked insurance business, the following table shows the gross liability at 31 December 2012 and 2011 analysed by remaining duration. The total liability is split by remaining duration in proportion to the cash-flows expected to arise during that period, as permitted under IFRS 4, Insurance Contracts

Almost all linked business and non-linked investment contracts may be surrendered or transferred on demand. For such contracts, the earliest contractual maturity date is therefore the current statement of financial position date, for a surrender amount approximately equal to the current statement of financial position liability. We expect surrenders, transfers and maturities to occur over many years, and the tables reflect the expected cash flows for these contracts. However, contractually, the total liability for linked business and non-linked investment contracts would be shown in the 'within 1 year' column below, and previously the total liability for linked business was shown in the 'within 1 year' column. Changes in durations between 2011 and 2012 reflect evolution of the portfolio, and changes to the models for projecting cash-flows.

At 31 December 2012	Total £m	On demand or within 1 year Cm	1-5 years Cm	
			Over 15 year	5-15 year
Long-term business				
Insurance contracts - non-linked	117,602			
Investment contracts - non-linked	59,788			
Linked business	69,690			
General insurance and health	15,006			
		8.30		
		3		
		2.49		
		1		
		5.66		
		7		
		6.16		
		6		
		31.894		
		12.390		
		18,203		
		5,763		
		44.455		
		16.679		
		21,590		
		2,456		
		32.950		
		28.228		
		24,230		
		621		
<b>Total contract liabilities</b>	<b>262,086</b>	<b>22,627</b>	<b>68,250</b>	<b>85,180</b>
				<b>86,029</b>

	On demand		or within	
	total £m	1 year £m	1-5 years fm	5+ years fm
Long-term business				
<b>Insurance contracts - non-linked (restated)<sup>1</sup></b>	45,829	26,517		
<b>Investment contracts - non-linked (restated)<sup>1</sup></b>	26,252	9,712		
<b>Linked business (restated)<sup>1</sup></b>	24,324	13,759		
<b>General insurance and health (restated)<sup>1</sup></b>	2,913	716		
<b>Total contract liabilities</b>	<b>261,089</b>	<b>281,875</b>	<b>82,192</b>	<b>99,318</b>

1 Following a review of the classification of contracts issued by the Group's Italian long-term business, certain profits have been reclassified from participating insurance to participating investment contracts for all years presented. There is no impact on the result for any year presented as a result of this classification. The linked business maturity profile has been restated to reflect an expected rather than contractual basis. The total liability for linked business would be shown in the 'within 1 year' column.

220

Aviva plc  
Annual report on Form 20-F 2012

## Notes to the consolidated financial statements continued

### 53 - Risk management continued

#### (ii) Analysis of maturity of financial assets

The following table provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise. This table excludes assets held for sale.

	Total fm	or within 1 year fm	1-5 years fm	On demand		term
				5 years fm	Over (perpetual) fm	
<b>Debt securities</b>					<b>128,006</b>	
<b>16,796</b>			<b>36,009</b>	<b>75,198</b>	<b>3</b>	
<b>Equity securities</b>					<b>32,529</b>	
<b>—</b>			<b>—</b>	<b>—</b>	<b>32,529</b>	
<b>Other investments</b>					<b>28,543</b>	
<b>12,638</b>			<b>866</b>	<b>12,508</b>	<b>2,531</b>	
<b>Loans</b>					<b>70</b>	
<b>24,537</b>	<b>5,358</b>		<b>1,780</b>	<b>17,329</b>	<b>22,897</b>	
<b>Cash and cash equivalents</b>					<b>—</b>	
<b>22,897</b>			<b>—</b>	<b>—</b>	<b>—</b>	
	<b>236,512</b>	<b>57,689</b>	<b>38,655</b>	<b>105,035</b>	<b>35,133</b>	

	Total fm	or within 1 year fm	1-5 years fm	On demand		term
				5 years fm	Over (perpetual) fm	
Debt securities			153,252	18,698	39,079	95,460
Equity securities			32,646	—	—	32,646
Other investments			30,160	21,007	1,192	6,945
Loans			28,116	6,490	2,800	18,825
Cash and cash equivalents			23,043	23,043	—	—
	267,217	69,238	43,071	115,301	39,607	

The assets above are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Group. Where an instrument is transferable back to the issuer on demand, such as most unit trusts or similar types of investment vehicle, it is included in the 'On demand or within 1 year' column. Debt securities with no fixed contractual maturity date are generally callable at the option of the issuer at the date the coupon rate is reset under the contractual terms of the instrument. The terms for resetting the coupon are such that we expect the securities to be redeemed at this date, as it would be uneconomic for the issuer not to do so, and for liquidity management purposes we manage these securities on this basis. The first repricing and call date is normally ten years or more after the date of issuance. Most of the Group's investments in equity securities and fixed maturity securities are market traded and therefore, if required, can be liquidated for cash at short notice.

#### (e) Life insurance risk

Life insurance risk in the Group arises through its exposure to mortality and morbidity risks and exposure to worse than anticipated operating experience on factors such as persistency levels and management and administration expenses. The Group chooses to take measured amounts of life insurance risk provided that the relevant business has the appropriate core skills to assess and price the risk and adequate returns are available.

The underlying risk profile of our life insurance risks, primarily persistency, longevity, mortality and expense risk, has remained stable during 2012, although the current low levels of interest rates have increased our sensitivity to longevity shocks. Persistency risk remains significant and continues to have a volatile outlook with underlying performance linked to some degree to economic conditions. However, businesses across the Group have continued to make progress with a range of customer retention activities. The Group has continued to write strong volumes of life protection business, and to utilise reinsurance to reduce exposure to potential losses. More generally, life insurance risks are believed to benefit from a significant diversification against other risks in the portfolio. Life insurance risks are modelled within the internal economic capital model and subject to sensitivity and stress and scenario testing. The assumption and management of life insurance risks is governed by the group-wide business standards.



covering underwriting, pricing, product design and management, in-force management, claims handling, and reinsurance. The individual life insurance risks are managed as follows:

- Mortality and morbidity risks are mitigated by use of reinsurance. The Group allows businesses to select reinsurers, from those approved by the Group, based on local factors, but retains oversight of the overall exposures and monitor that the aggregation of risk ceded is within credit risk appetite.
- Longevity risk and internal experience analysis are monitored against the latest external industry data and emerging trends. Whilst individual businesses are responsible for reserving and pricing for annuity business, the Group monitors the exposure to this risk and any associated capital implications. The Group has used reinsurance solutions to reduce the risks from longevity and continually monitors and evaluates emerging market solutions to mitigate this risk further
- Persistency risk is managed at a business unit level through frequent monitoring of company experience, and benchmarked against local market information. Generally, persistency risk arises from customers lapsing their policies earlier than has been assumed. Where possible the financial impact of lapses is reduced through appropriate product design. Businesses also implement specific initiatives to improve retention of policies which may otherwise lapse. The Group has developed guidelines on persistency management.
- Expense risk is primarily managed by the business units through the assessment of business unit profitability and frequent monitoring of expense levels

### **Embedded derivatives**

The Group has exposure to a variety of embedded derivatives in its long-term savings business due to product features offering varying degrees of guaranteed benefits at maturity or on early surrender, along with options to convert their benefits into different products on pre-agreed terms. The extent of the impact of these embedded derivatives differs considerably between business units and exposes Aviva to changes in policyholder behaviour in the exercise of options as well as market risk.

22  
1

## **53 - Risk management continued**

Examples of each type of embedded derivative affecting the Group are:

- Options: call, put, surrender and maturity options, guaranteed annuity options, options to cease premium payment, options for withdrawals free of market value adjustment, annuity options, and guaranteed insurability options.
- Guarantees: embedded floor (guaranteed return), maturity guarantee, guaranteed death benefit, and guaranteed minimum rate of annuity payment.
- Other: indexed interest or principal payments, maturity value, loyalty bonus.

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

### **(f) General insurance risk Types of risk**

General insurance risk in the Group arises from:

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

Aviva has a preference for general insurance risk in measured amounts for explicit reward, in line with our core skills in underwriting and pricing. The majority of the general insurance business underwritten by the Group continues to be short tail in nature such as motor, household and commercial property insurances. The Group's underwriting strategy and appetite is communicated via specific policy statements, related business standards and guidelines. General insurance risk is managed primarily at business unit level with oversight at the Group level. Claims reserving is undertaken by local actuaries in the various general insurance businesses and is also subject to periodic external reviews. Reserving processes are further detailed in note 36 'insurance liabilities'

The vast majority of the Group's general insurance business is managed and priced in the same country as the domicile of the customer.

### **Management of general insurance risks**

Significant insurance risks will be reported under the risk management framework. Additionally, the economic capital model is used to assess the risks that each general insurance business unit, and the Group as a whole, is exposed to, quantifying their impact and calculating appropriate capital requirements.

Business units have developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of the appetite of the Group. The business units are assisted by a Business Capability team who provide technical input for major decisions which fall outside individual delegated limits or escalations outside group risk preferences, group risk accumulation, concentration and profitability limits.

### **Reinsurance strategy**

Significant reinsurance purchases are reviewed annually at both business unit and Group level to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Group. The basis of these purchases is underpinned by analysis of economic capital, economic gain, earnings volatility, liquidity, retained risk exposure profile and the Group's franchise value.

Detailed actuarial analysis is used to calculate the Group's extreme risk profile and then design cost and capital efficient reinsurance programmes to mitigate these risks to within agreed appetites. For businesses writing general insurance we analyse the natural catastrophe exposure using external probabilistic catastrophe models widely used by the rest of the (re)insurance industry

The Group cedes much of its worldwide catastrophe risk to third-party reinsurers but retains a pooled element for its own account gaining diversification benefit. The total Group potential loss from its most concentrated catastrophe exposure zone (Northern Europe) is approximately £260 million, for a one in ten year annual loss scenario, compared to approximately £460 million when measured on a one in a hundred year annual loss scenario.

In our 2011 Annual Report & Accounts we reported our participation in a share of Hiscox's US property catastrophe portfolio. This arrangement expired on the 31 December 2012 and remaining exposure will run off during 2013.

(g) Asset management risk

Asset Management risk arises through exposure to negative investment performance, fund liquidity, and factors that influence franchise value such as product development appropriateness and capability, and client retention. The Group's exposure to asset management risk is informed through regular assessment of the investment management capabilities and proven track record of the investment funds.

Aviva is directly exposed to the risks associated with operating an asset management business through its ownership of Aviva Investors. The underlying risk profile of our asset management risk is derived from investment performance, specialist investment professionals and leadership, product development capabilities, fund liquidity, margin, client retention, regulatory developments, fiduciary and contractual responsibilities. Investment performance has remained strong over 2012 despite some positions being impacted by the volatility of global markets.

222

Aviva » pic  
Annual report on Form 20-F 201 2

Notes to the consolidated financial statements continued

### 53 - Risk management continued

Action has been taken during the year to improve the operational infrastructure and enhance the quality of the customer experience including; progressing towards the implementation of the Blackrock Aladdin platform to support our investment process; review of our Business Development capability; and a continued drive to work closely with clients.

(h) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. We have limited appetite for operational risk and aim to reduce these risks as far as is commercially sensible.

Our business units are primarily responsible for identifying and managing operational risks within their businesses, within the group-wide operational risk framework including the risk and control self-assessment process. Businesses must be satisfied that all material risks falling outside our risk tolerances are being mitigated, monitored and reported to an appropriate level. Any risks with a high potential impact are monitored centrally on a regular basis. Businesses use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

(i) Brand and reputation risk

We are exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, media speculation and negative publicity, disclosure of confidential client information, inadequate services, whether or not founded, could impact our brands or reputation. Any of our brands or our reputation could also be affected if products or services recommended by us (or any of our intermediaries) do not perform as expected (whether or not the expectations are founded) or the customer's expectations for the product change. We seek to reduce this risk to as low a level as commercially sensible.

The FSA regularly considers whether we are meeting the requirement to treat our customers fairly and we make use of various metrics to assess our own performance, including customer advocacy, retention and complaints. Failure to meet these requirements could also impact our brands or reputation.

If we do not manage the perception of our brands and reputation successfully, it could cause existing customers or agents to withdraw from our business and potential customers or agents to choose not to do business with us.

(j) Risk and capital management

**(i) Sensitivity test analysis**

The Group uses a number of sensitivity tests to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on the Group's key financial performance metrics to inform the Group's decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which each of its business units, and the Group as a whole, are exposed.

For long-term business in particular, sensitivities of market consistent performance indicators to changes in both economic and non-economic experience are continually used to manage the business and to inform the decision making process.

**(ii) Life insurance and investment contracts**

The nature of long-term business is such that a number of assumptions are made in compiling these financial statements. Assumptions are made about investment returns, expenses, mortality rates and persistency in connection with the in-force policies for each business unit. Assumptions are best estimates based on historic and expected experience of the business. A number of the key assumptions for the Group's central scenario are disclosed elsewhere in these statements for both IFRS reporting and reporting under MCEV methodology.

**(iii) General insurance and health business**

General insurance and health claim liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims.

**(iv) Sensitivity test results**

Illustrative results of sensitivity testing for long-term business, general insurance and health business and the fund management and non-insurance business are set out below. For each sensitivity test the impact of a reasonably possible change in a single factor is shown, with other assumptions left unchanged.

## Notes to the consolidated financial statements continued

## 53 - Risk management continued

## Sensitivity factor

Interest rate and investment return

## Description of sensitivity factor applied

The impact of a change in market interest rates by a 1 % increase or decrease. The test allows consistently for similar changes to investment returns and movements in the market value of backing fixed interest securities.

Credit spreads

The impact of a 0.5% increase in credit spreads over risk-free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations.

Equity/property market values Expenses

The impact of a change in equity/property market values by ± 10%.

Assurance mortality/morbidity (life insurance only)

The impact of an increase in maintenance expenses by 10%.  
The impact of an increase in mortality/morbidity rates for assurance contracts by 5%.

Annuity mortality (life insurance only)

The impact of a reduction in mortality rates for annuity contracts by 5%.

Gross loss ratios (non-life insurance only)

The impact of an increase in gross loss ratios for general insurance and health business by 5%.

## Long-term business

## Sensitivities as at 31 December 2012

2012

Impact on profit before tax fm

	Interest rates +1% Interest rates -1%	Overdrt spreads +0.5% +10%	Equity/ property -10%	Equity/ property mortality +10%	Expenses mortality +10%	Assurance Annuity *5% -5%
Insurance Participating Insurance	(45)	60		(95)		
non-participating Investment	(160)					
participating Investment	( )	5		(10)		
non-participating Assets backing life	(55)	10		(15)		
shareholders' funds	(40)	45		(45)		
	10			(25)		
	(15)			(75)		
	130			(10)		
	45			(20)		
	35			(5)		
	(15)			(45)		
	(110)			(50)		
	(430)			(470)		
	(5)					
	(40)					
<b>Total excluding Delta Lloyd and United States</b>	(290)	180	(585)	120	(165) (130)	(50) (520)
United States	880	(640)	495			
<b>Total excluding Delta Uoyd</b>	590	(460)	(90)	120	(165) (130)	(50) (520)

Impact on shareholders' equity before tax fm

	Interest rates +1% Interest rates -1%	Credit spreads +0.5% +10%	Equity/ property -10%	Equity/ property Expenses +10%	Assurance Annuity mortality *5% -5%
Insurance Participating Insurance	(45)		(110)	60	(95) (25) (5)
non-participating Investment	(165)		(430)		- (75) (45)
participating Investment	( )	(15)		5	(10) (10) (50)
non-participating Assets backing life	(55)	125 45 — 40		1	(15) (20) (470)
shareholders' funds	(45)	— - (45)		0	(50) -
	(5)			5	
				0	
<b>Total excluding Delta Lloyd and United States</b>	(315)	195	(585)	125	(170) (130) (50) (520)
United States					
<b>Total excluding Delta Uoyd</b>	(315)	195	(585)	125	(170) (130) (50) (520)

## Sensitivities as at 31 December 2011

2011

Impact on profit before tax fm

	Interest rates +1% Interest rates -1%	Credit spreads +0.5% +10%	Equity/ property +10%	Equity/ property -10%	Assurance Annuity Expenses mortality *5% -5%
Insurance Participating Insurance	(45)		(110)	60	(95) (25) (5)
non-participating Investment	(165)		(430)		- (75) (45)
participating Investment	( )	(15)		5	(10) (10) (50)
non-participating Assets backing life	(55)	125 45 — 40		1	(15) (20) (470)
shareholders' funds	(45)	— - (45)		0	(50) -
	(5)			5	
				0	
<b>Total excluding Delta Lloyd and United States</b>	(315)	195	(585)	125	(170) (130) (50) (520)
United States					
<b>Total excluding Delta Uoyd</b>	(315)	195	(585)	125	(170) (130) (50) (520)

backing life shareholders' funds	(45)	5	(95)	(45)	(150)			
	(180)		)	(65)	(45)			
	)	3	(35)	(10)	(470)			
	(35)	0	)	(20)	) -			
	(15)	5	(75)					
	135	0	)					
	(155)	1	(15)					
	) 130	5	)					
	40	1	(10)					
	20	0	)					
	(15)							
	(20)							
	(385)							
	)							
	(30)							
	(5)							
	(10)							
<b>Total excluding Delta Lloyd and United States</b>	<b>(140)</b>	<b>20</b>	<b>(450)</b>	<b>110</b>	<b>(230)</b>	<b>(140)</b>	<b>(55)</b>	<b>(520)</b>
United States	45	(50)	1	50	(35)	(10)	(15)	
<b>Total excluding Delta Uoyd</b>	<b>(95)</b>	<b>(30)</b>	<b>(440)</b>	<b>160</b>	<b>(265)</b>	<b>(150)</b>	<b>(70)</b>	<b>(520)</b>
Impact on shareholders' equity before tax								
	Interest rates + 1%							
	Interest rates -1%							
	Credit spreads +0.5%							
	Equity/property +10%							
	Equity/property -10%							
	Expenses + 10%							
Insurance Participating Insurance non-participating Investment participating Investment non-participating Assets backing life shareholders' funds	(45)	5	(95)	(45)	(150)			
	(180)		)	(65)	(45)			
	)	3	(35)	(10)	(470)			
	(35)	0	)	(20)	) -			
	(15)	5	(75)					
	125	0	)					
	(155)	1	(15)					
	) 130	5	)					
	40	1	(15)					
	20	5	)					
	(25)							
	(385)							
	)							
	(30)							
	(5)							
	(15)							
<b>Total excluding Delta Lloyd and United States</b>	<b>(150)</b>	<b>35</b>	<b>(460)</b>	<b>11</b>	<b>(235)</b>	<b>(140)</b>	<b>(55)</b>	<b>(520)</b>
United States	(540)	455	(350)	50	(35)	(10)	05[	
<b>Total excluding Delta Lloyd</b>	<b>(690)</b>	<b>490</b>	<b>(810)</b>	<b>16</b>	<b>(270)</b>	<b>(150)</b>	<b>(70)</b>	<b>(520)</b>

### 53 - Risk management continued

Changes in sensitivities between 2012 and 2011 reflect movements in market interest rates, portfolio growth, changes to asset mix and the relative durations of assets and liabilities and asset liability management actions.

The sensitivities to economic movements (excluding the United States) relate mainly to business in the UK. In general, a fall in market interest rates has a beneficial impact on non-participating business, due to the increase in market value of fixed interest securities and the relative durations of assets and liabilities; similarly a rise in interest rates has a negative impact. The mortality sensitivities also relate primarily to the UK.

In the United States, most debt securities are classified as AFS for which movements in unrealised gains or losses are taken directly to shareholders' equity. This limited the overall sensitivity of IFRS profit to interest rate and credit spread movements. Following the classification of the business as held for sale in 2012 it was remeasured to fair value less costs to sell. It has been assumed that economic movements would not materially impact the fair value less costs to sell and the impact on shareholders' equity is therefore reported as £nil. As a result, were economic movements to occur, the corresponding movements in AFS assets which would be taken directly to shareholders' equity, are reversed out through profit before tax in order to maintain the remeasurement value of the US at fair value less costs to sell.

#### General insurance and health business Sensitivities as at 31 December 2012

2012 Impact on profit before tax fm	Interest rate s +1%	Interes t rate s -1%	Credi t spread s +0.5%	Equity/ property +10%	Equity/ Property -10%	Expense s +10%
<b>Gross of reinsurance excluding Delta Uoyd</b>	<b>(260)</b>	<b>23S</b>	<b>(125)</b>	<b>45</b>	<b>(50)</b>	<b>(120) (300)</b>
<b>Net of reinsurance excluding Delta Uoyd</b>	<b>(300)</b>	<b>285</b>	<b>(125)</b>	<b>45</b>	<b>(50)</b>	<b>(120) (285)</b>

Impact on shareholders' equity before tax fm	Intere st rate s +1%	rat es -1%	Credit spread s +0.5%	Equity/ property +10%	Equity/ property -10%	Expens es +10%	Gross loss ratio s +5%
<b>Gross of reinsurance excluding Delta Uoyd</b>	<b>(260)</b>	<b>23S</b>	<b>(125)</b>	<b>S</b>	<b>(50)</b>	<b>(25)</b>	<b>(300)</b>
<b>Net of reinsurance excluding Delta Uoyd</b>	<b>(300)</b>	<b>285</b>	<b>(125)</b>	<b>50</b>	<b>(50)</b>	<b>(25)</b>	<b>(285)</b>

#### Sensitivities as at 31 December 2011

2011 Impact on profit before tax fm	Intere st rates Intere st rates	Credit spreads +10%	Equity/ property +0.5%	Equity property -10%	Expenses +10%	Gross loss ratios +5%
<b>Gross of reinsurance excluding Delta Lloyd</b>	<b>(205)</b>	<b>180</b>	<b>(125)</b>	<b>50</b>	<b>(55)</b>	<b>(130) (300)</b>
<b>Net of reinsurance excluding Delta Uoyd</b>	<b>(275)</b>	<b>275</b>	<b>(125)</b>	<b>50</b>	<b>(55)</b>	<b>(130) (290)</b>

Impact on shareholders' equity before tax fm	Intere st rates Intere st rates Credit sprea ds +0 5%	ty -10%	Expen ses +10%	Gross loss rati os +5%	Equity/ property +10%	Equity proper

<b>Gross of reinsurance excluding Delta Lloyd</b>	(205)	180	<b>(125)</b>	50	<b>(55)</b>	<b>(30)</b>	(300)
<b>Net of reinsurance excluding Delta Uoyd</b>	(275)	275	(125)	50	(55)	(30)	(290)

For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.

**Fund management and non-insurance business  
Sensitivities as at 31 December 2012**

2012  
Impact on profit before tax  
fm

**Total excluding Delta Uoyd**

Interest rates Credit spreads	Equity/ property Equity/ property			
↓ 1% ↓ 0.5%	↑ 10% -10%			
		<b>(5)</b>	<b>30</b>	<b>(90)</b>
				<b>10</b>

Impact on stwreholders equity before tax  
fm

**Total excluding Delta Uoyd**

Interest rates Credit spreads	Equity/ property Equity/ property			
↓ 1% ↓ 0.5%	↑ 10% -10%			
		<b>(5)</b>	<b>30</b>	<b>(90)</b>
				<b>10</b>

**53 - Risk management continued****Sensitivities as at 31 December 2011**

2011  
Impact on profit before  
tax £m  
**Total excluding Delta  
Uoyd**

Interest rates	Credit		
(10)	Equity/ Equity/ spreads property property -OS*	+10% -10%	75
Interest rates		(	
+1%		4	
10		0	
		)	

Impact on shareholders' equity  
before tax £m

**Total excluding Delta  
Uoyd**

Interest rates	Credit		
Interest rates	Equity/ Equity/ spreads property property +0.5%	+10% -10%	(40) 7
(10)	1		

**Limitations of sensitivity analysis**

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

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations.

As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation, adjusting bonuses credited to policyholders, and taking other protective action.

A number of the business units use passive assumptions to calculate their long-term business liabilities. Consequently, a change in the underlying assumptions may not have any impact on the liabilities, whereas assets held at market value in the statement of financial position will be affected. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity. Similarly, for general insurance liabilities, the interest rate sensitivities only affect profit and equity where explicit assumptions are made regarding interest (discount) rates or future inflation.

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



## 54 - Derivative financial instruments and hedging

This note gives details of the various instruments we use to mitigate risk.

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

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

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

### (a) Instruments qualifying for hedge accounting

The Group has formally assessed and documented the effectiveness of its instruments qualifying for hedge accounting in accordance with IAS 39, Financial Instruments: Recognition and Measurement. To aid discussion and analysis, these instruments are analysed into cash flow, fair value and net investment hedges, as detailed below.

#### (i) Cash flow hedges

At the end of 2012 the Group entered into two cash flow hedges, using foreign exchange forward and option contracts, to hedge the currency exposure on expected proceeds in 2013 of businesses held for sale as at 31 December 2012. The fair value of the cash flow hedges as of 31 December 2012 was a £5 million derivative asset. No amounts in respect of the cash flow hedges have been recognised in the income statement for the year. All cash flows being hedged upon transaction completion are expected to occur and movements in the fair value will be recycled to the income statement in 2013. These hedges were fully effective in the year.

#### (ii) Fair value hedges

The Group entered into a number of interest rate swaps in order to hedge fluctuations in the fair value part of its portfolio of mortgage loans and debt securities in the US. The notional value of these swaps was £765 million at 31 December 2012 (2011: £844 million) and their fair value was £54 million liability (2011: £77 million liability). During 2012, there were hedging relationships that became ineffective. The amount of ineffectiveness included in the income statement as a result was £14 million. The related hedges were re-designated and are expected to be effective in future periods.

#### (iii) Net investment hedges

To reduce its exposure to foreign currency risk, the Group has entered into the following net investment hedges:

The Group has designated a portion of its euro and US dollar denominated debt as a hedge of the net investment in its European and American subsidiaries. The carrying value of the debt at 31 December 2012 was £1,741 million (2011 £1,815 million) and its fair value at that date was £1,785 million (2011: £1,694 million).

The foreign exchange gain of £74 million (2011: gain of £30 million) on translation of the debt to sterling at the statement of financial position date has been recognised in the hedging instruments reserve in shareholders' equity. This hedge was fully effective throughout the current and prior years.

**54 - Derivative financial instruments and hedging continued**

(b) Derivatives not qualifying for hedge accounting

Certain derivatives either do not qualify for hedge accounting under IAS 39 or the option to hedge account has not been taken. These are referred to below as non-hedge derivatives.

(i) The Group's non-hedge derivative activity at 31 December 2012 and 2011 was as follows:

			201	Contract/ 'a» value notional bility amount fm fm	Far value asset fm	Restate d 2011
	asse t fm					Tatr value Eability £m
<b>Foreign exchange contracts</b>						
OTC Forwards						
Interest rate and currency swaps Options	<b>8,123</b>	7	(7) 6,727	(21)	41	<b>(38</b>
	<b>611</b>	1	502	(5) 4,600	8	)
	<b>4,600</b>	6			3	<b>(3</b>
		4			3	)
		6			3	<b>(9</b>
						)
<b>Total</b>	<b>13,334</b>	<b>14</b>	(33) 11,829		15	(50)
<b>Interest rate contracts</b>						
OTC						
Swaps	<b>25,889</b>	<b>135</b>	(925) 13,931		24	
Options	<b>32,656</b>	<b>272</b>	(4) 2,604		7	
Exchange traded		<b>58</b>			20	
Futures	<b>3,725</b>		(14)		8	
			2,794			
					46	
						(986
						) (2)
						(25)
<b>Total</b>	<b>62,270</b>	<b>465</b>	(943) 19,329		50	(1,013)
<b>Equity/Index contracts</b>						
OTC						
Options	<b>2,765</b>	<b>650</b>	(10) 2,864		531	
Exchange traded						
Futures	<b>5,468</b>	<b>45 228</b>	(123)	3,805	5	
Options	<b>11,880</b>		(139)	7,405	2	
					24	
					2	
						(5)
						(452
						)
						(161
						)
<b>Total</b>	<b>20,113</b>	<b>923</b>	(272) 14,074		825	(618)
<b>Credit contracts Other</b>						
	<b>6,27</b>	<b>4</b>	(53)	2		<b>(17</b>
	<b>7</b>	<b>1</b>	)	13		)
	<b>3,16</b>	<b>1</b>	(406)			<b>(75</b>
	<b>3</b>	<b>5</b>	)			)
			5,47			
			8			
			3,30			
			9			
<b>Totals at 31 December</b>	<b>105,157</b>	<b>1,585</b>	(1,707)	54,019	1,498	(1,773)
Less' Amounts classified as held for sale	<b>(4,403)</b>	<b>(679)</b>	<b>54</b>			
	<b>100,754</b>	<b>906</b>	(1,653)	54,019	1,498	(1,773)

The 2011 figures have been restated in respect of the notional values of the exchange traded equity option contracts. £5,478 million notional of credit derivatives (and their related fair values) have been reclassified out of the 'other' and 'interest rate swap' categories to the 'credit' contracts category. Additionally £3,156 million notional of inflation linked swaps have been reclassified out of the 'interest rate swap' category to the 'other' category.

Fair value assets are recognised as 'Derivative financial instruments' in note 22(a), while fair value liabilities are recognised as 'Derivative liabilities' in note 46. Fair value assets in note 22(a) of £1,590 million represent non-hedge derivative assets of £1,585 million per the table above plus £5 million of cash flow hedges. Fair value liabilities in note 46 of £1,761 million represent non-hedge derivative liabilities of £1,707 million per the table above plus £54 million of fair value hedges.

The Group's derivative risk management policies are outlined in note 53.

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

	2012 £m	2011 £m
Within 1 year	<b>534</b>	
Between 1 and 2 years	<b>434</b>	
Between 2 and 3 years	<b>158</b>	
Between 3 and 4 years	<b>387</b>	
Between 4 and 5 years	<b>113</b>	
After 5 years	<b>1.78</b>	
	<b>7</b>	
	226	
	144	
	135	
	123	
	355	
	1,911	
	<b>3,413</b>	2,894

(c) Collateral

Certain derivative contracts, primarily interest rate and currency swaps, involve the receipt or pledging of cash and non-cash collateral. The amounts of cash collateral receivable or repayable are included in notes 23 and 46 respectively.

## 55 - Assets under management

In addition to the assets included in the consolidated statement of financial position, the Group manages funds for third parties. This note details the total assets under management.

	2012 £m	2011 £m
Total IFRS assets included in the consolidated statement of financial position	315,689	312,376
Less: Third-party funds included within consolidated	<b>IFRS</b>	<b>assets</b>
(13,525)		<b>(11,814)</b>
Third-party funds under management	302,164	300,562
	<b>73,114</b>	<b>67,557</b>
Non-managed assets	<b>375,278</b>	<b>368,119</b>
<b>Funds under management</b>	<b>(26,137)</b>	<b>(31,558)</b>
	<b>349,141</b>	<b>336,561</b>
Discontinued operations	<b>(38,148)</b>	<b>(37,110)</b>
<b>Funds under management (excluding discontinued operations)</b>	310,993	299,451
Managed by:		
Aviva Investors	274,484	
Other Aviva and external managers	262,506	
	74,657	
	74,055	
	349,141	
	336,561	

## Notes to the consolidated financial statements continued

**56 - Related party transactions**

This note gives details of the transactions between Group companies and related parties which comprise our joint ventures, associates and staff pension schemes.

The Group undertakes transactions with related parties in the normal course of business. Loans to related parties are made on normal arm's-length commercial terms.

## Services provided to, and by related parties

	2012				2011				2010		end £m	
	Income earned in period £m	Expenses incurred at period end £m	Payable at period end £m	Receivable at period end £m	Income earned in period £m	Expenses incurred in period £m	Payable at period end £m	Receivable at period end £m	Income earned in period £m	Expenses incurred in period £m		Payable at period end £m
Associates	—	(4)	—	—	—	—	(3)	(49)	—	—	47	—
Joint ventures	23	(1)	—	103	23	—	—	125	18	—	—	—
— 375												
Employee pension schemes	12	—	—	6	13	—	—	9	10	—	—	—
— 2												
	35	(5)	—	109	36	(3)	(49)	134	75	—	—	377

Transactions with joint ventures in the UK relate to the property management undertakings, the most material of which are listed in note 15(b). Our interest in these joint ventures comprises a mix of equity and loans, together with the provision of administration services and financial management to many of them. Our UK life insurance companies earn interest on loans advanced to these entities, movements in which may be found in note 15(a).

Our fund management companies also charge fees to these joint ventures for administration services and for arranging external finance.

Our UK fund management companies manage most of the assets held by the Group's main UK staff pension scheme, for which they charge fees based on the level of funds under management. The main UK scheme holds investments in Group-managed funds and insurance policies with other Group companies, as explained in note 44(e)(iii).

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties provided on behalf of related parties are given in note 48(g).

## Key management compensation

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

	2012 £m	2011 £m	2010 £m
Salary	4.7	6.7	8.1
Other	0.4	2.8	2.5
Post-employment	1.9	1.7	1.6
Equity	4.8	5.9	6.4
Termination	1.5	0.7	—
<b>Total</b>	<b>13.3</b>	<b>17.8</b>	<b>18.6</b>

<sup>1</sup> Following a review of the composition of key management in the current year, comparative amounts have been revised from the amounts previously reported. The total key management compensation reported in 2011 was £65 million and in 2010 was £66 million.

Information concerning individual directors' emoluments, interests and transactions is given in the Directors' Remuneration Report.

# Financial statements of the Company

## Income statement

For the years ended 31 December 2012, 2011 and 2010:

	2012 Cm	2011 £m	2010 Cm
<b>Income</b>			
Dividends received from subsidiaries	1,585	1,068	1,110
Interest receivable from Group companies	107	143	150
Net investment expense	28	(8)	(14)
	1,720	1,203	
	1,246		
<b>Expenses</b>			
Operating expenses	(333)	(184)	(176)
Interest payable to Group companies	(402)	(460)	(458)
Interest payable on borrowings	(347)	(353)	(340)
Impairment of subsidiaries	(254)	—	—
	(1,336)	(997)	(974)
Profit before tax	384	206	272
Tax credit	232	25	228
Profit after tax	616	231	500

## Statement of comprehensive income

For the years ended 31 December 2012, 2011 and 2010:

	2012 Cm	2011 £m	2010 Cm
Profit for the year	616	231	500
Other comprehensive income			
Fair value (losses) gains on investments in subsidiaries and joint ventures	2,126	(2,389)	150
Impairment losses on assets previously revalued through other comprehensive income			
now taken to income statement	254	—	—
Actuarial gains on pension provision			
Other comprehensive income, net of tax	2,380	(2,388)	151
Total comprehensive income for the year	2,996	(2,157)	651

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 108 to 119. The notes identified alphabetically on pages 234 to 237 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 127 to 229.



	Equity instrument	Direct capital £m	7 total equity £m				
<b>Balance at 1 January Restated</b>	692	200	1,207	735	6,653	990	13,946
Profit for the year						500	50
Other comprehensive income				—	150	151	0
<b>Total comprehensive income</b>							15
for the year Dividends and appropriations				150	109	3,360	12,956
Shares issued in lieu of dividends						500	1
Employee trust shares distributed	1		(13)			501	651
in the year Reserves						(757)	(757)
credit for equity compensation plans						209	209
Shares issued under equity compensation plans						(50)	(50)
<b>Aggregate tax effect</b>							41
<b>Balance at 31 December Restated</b>	705	200	1,194	735	6,803	41	
							1
						(50)	7
						41	990
							14,057
							5
							1
						(51)	
						99	3,331
							13,067

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 108 to 119. The notes identified alphabetically on pages 234 to 237 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 127 to 229.

## Statement of financial position

At 31 December 2012 and 2011 and 2010

	2012	Restatred 2011 fm	Restated 2010 fm
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	31,0		
Investment in joint venture	23		
Loans owed by subsidiaries	141		
Deferred tax assets	1,05		
Current tax assets	4,180		
	50		
	28,8		
	89		
	150		
	2,37		
	5		
	261		
	31,284		
	115		
	2,411		
	388		
<b>Current assets</b>			
Loans owed by subsidiaries		2,28	
Other amounts owed by subsidiaries		0	
Other assets		61	
Cash and cash equivalents			
32,448	31,675	34,198	
<b>Total assets</b>			
	691		
	2,33		
	4,74		
	10		
Ordinary share capital			70
Preference share capital			5
Called up capital			90
Share premium account			5
Merger reserve			1,1
Investment valuation reserve			94
Equity compensation reserve			735
Retained earnings			6,8
<b>Direct capital instruments and fixed rate tier 1 notes</b>			
	6,794		03
	60		~
<b>Total equity</b>			
	3,060		726
	1,382		200
	14,132		926
			1,173
			735
			4,414
			86
			3,116
			990
			11,440
			14,057
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings			
Loans owed to subsidiaries			
Provisions			
	4,536	13,153	36
	17,725		18,122
			506
			504
			514
			3,3
			3,1
			66
			84
<b>Current liabilities</b>			
Borrowings			
Loans owed to subsidiaries			
Other amounts owed to subsidiaries			
Other creditors			
	18,918		
	603,794	3,569	85
<b>Total liabilities</b>			
	22,776		22,593
	23,241		
<b>Total equity and liabilities</b>			
	36,908		34,033
	37,298		
	1,1		5
	13,3		14,0

Approved by the Board on 22 March 2013



Patrick Regan  
Chief Financial Officer

Company number 2468686

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 108 to 119. The notes identified alphabetically on pages 234 to 237 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 127 to 229.

23  
3

Avivil

### Financial statements of the Company continued

Annual report on form 20-F 2012

### Statement of cash flows

For the years ended 31 December 2012, 2011 and 2010

All the Company's operating and investing cash requirements are met by subsidiary companies and settled through intercompany loan accounts. As the direct method of presentation has been adopted for these activities, no further disclosure is required. In respect of financing activities, the following items pass through the Company's own bank accounts.

	2012 £m	2011 £m	2010 £m
<b>Cash flows from financing activities</b>			
Funding provided by subsidiaries	868	847	866
New borrowings, net of expenses	2,200	3,319	2,251
Repayment of borrowings	(2,295)	(7)	(3,326)
Net repayment of borrowings	392	—	—
Proceeds from issue of fixed rate tier 1 notes, net of expenses	(17)	(17)	(17)
Preference dividends paid	(630)	(431)	(472)
Ordinary dividends paid	(383)	(376)	(359)
Interest paid on borrowings	135	16	(3)
Net cash from financing activities	135	16	(3)
Net increase in cash and cash equivalents	135	16	(3)
Cash and cash equivalents at 1 January	17	1	4
Cash and cash equivalents at 31 December	152	17	1

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 108 to 119. The notes identified alphabetically on pages 234 to 237 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 127 to 229.

234

Aviva pic  
Annual report on Form 20-F 2012

## Notes to the Company's financial statements

### A - Presentation changes

During 2012, the Company reviewed the presentation of its investment in its subsidiary General Accident pic ('GA') which was previously shown net of an intercompany liability in the statement of financial position and determined that the investment should be presented gross of the intercompany liability. The result of this has been to increase the value of investments in subsidiaries at 31 December 2011 by £13,659 million, intercompany loan liabilities by £13,919 million, and the investment valuation reserve by £260 million. The value of investments in subsidiaries at 31 December 2010 has been restated by £13,661 million, intercompany loan liabilities by £13,919 million, and the investment valuation reserve by £258 million

### B - Investments in subsidiaries

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

						2012 fm	Restated 2011 fm	Restated 2010 fm
Fair value	as at	1					January	
28,889	31,284						30,897	
Movement in fair value					2,134	(2,395)	387	
At	31						December	
31,023	28,889						31,284	

Fair values are estimated using applicable valuation models underpinned by the Company's market capitalisation, and are classified as Level 2 in the fair value hierarchy described in note 19 to the Group consolidated financial statements.

(ii) At 31 December 2012, the Company has two wholly owned subsidiaries, both incorporated in the UK. These are General Accident pic and Aviva Group Holdings Limited. Aviva Group Holdings Limited is an intermediate holding company, whilst General Accident pic no longer carries out this function. The principal subsidiaries of the Aviva Group at 31 December 2012 are listed on pages 25 and 26.

### C-Tax

(i) Tax credited to equity

Tax credited to equity comprises £18 million (2011: £16 million; 2010: £17 million) in respect of coupon payments on the direct capital instruments and fixed rate tier 1 notes.

(ii) Deferred tax

The UK corporation tax rate reduced to 24% from 1 April 2012. A subsequent reduction in the UK corporation tax rate to 23% was substantively enacted on 3 July 2012 and will apply from 1 April 2013. The substantively enacted rate of 23% has been used in the calculation of the company's deferred tax assets.

As confirmed in the 2013 Budget, the rate is expected to reduce to 21% from 1 April 2014 and to 20% from 1 April 2015. The aggregate impact of the reduction in the rate from 23% to 20% would reduce the deferred tax asset from £180 million to £156 million.

The company has gross unrecognised tax losses of £nil (2011: £296 million) and other temporary differences of £50 million (2011: £245 million).

(iii) Current tax assets

Amounts due in respect of current tax assets are expected to be recovered in more than 12 months

## Notes to the Company's financial statements continued

Annual report on Form 20-F 2012

## D - Reserves

	Merger reserve	Investment compen- valuation reserve tm	Equity sauen reserve Em	Retained earnings Em	Em
Balance at 1 January 2010 Restated	735	6,653	109	3,360	
Arising in the year:					
Profit for the year	—	—	—	500	
Fair value losses on investments in subsidiaries and joint ventures	—	150	—	—	
Actuarial gains on pension provisions	—	—	—	1	
Dividends and appropriations	—	—	—	(757)	
Reserves credit for equity compensation plans	—	—	41	—	
Shares issued in lieu of dividends	—	—	—	209	
Trust shares distributed in the year	—	—	—	(50)	
Issue of share capital under equity compensation scheme	—	—	(51)	51	
Aggregate tax effect	—	—	—	17	
Balance at 1 January 2011 Restated	735	6,803	99	3,331	
Arising in the year:					
Profit for the year	—	—	—	231	
Fair value losses on investments in subsidiaries and joint ventures	—	(2,389)	—	—	
Actuarial gains on pension provisions	—	—	—	1	
Dividends and appropriations	—	—	—	(813)	
Reserves credit for equity compensation plans	—	—	48	—	
Shares issued in lieu of dividends	—	—	—	307	
Trust shares distributed in the year	—	—	—	(18)	
Issue of share capital under equity compensation scheme	—	—	(61)	61	
Aggregate tax effect	—	—	—	16	
Balance at 31 December 2011 Restated	735	4,414	86	3,116	
Arising in the year:					
<b>Profit for the year</b>	—	—	—	<b>616</b>	
Fair value gains on investments in subsidiaries and joint ventures	—	2,126	—	—	
Impairment losses on assets previously revalued through other comprehensive income now taken to the income statement	—	—	254	—	—
<b>Dividends and appropriations</b>	—	—	—	<b>(847)</b>	
Reserves credit for equity compensation plans	—	—	42	—	
<b>Shares issued in lieu of dividends</b>	—	—	—	<b>127</b>	
Trust shares distributed in the year	—	—	—	(44)	
Issue of share capital under equity compensation scheme	—	—	(68)	74	
<b>Aggregate tax effect</b>	—	—	—	<b>18</b>	
Balance at 31 December 2012	735	6,794	60	3,060	

Tax of £18 million (2011: £16 million; 2010: £17 million) is deductible in respect of coupon payments of £73 million (2011: £58 million; 2010: £61 million) on the direct capital instruments and fixed rate tier 1 notes.

**E - Borrowings**

The Company's borrowings comprise:

				2012	2011
				£m	£m
Subordinated debt				4,337	4,582
9% 5% guaranteed bonds				2016	199
Commercial paper				603	506
Total				5,139	5,287

Maturity analysis of contractual undiscounted cash flows:

	Principal £m	Interest £m	2012		Total £m	Total £m
			Total £m	Interest £m		
Within 1 year			603	307	910	820
1 to 5 years				200	1,197	1,397
5 to 10 years			241	1,342	1,583	1,404
10 to 15 years				527	1,921	1,783
Over 15 years	3,608	2,610	6,218	3,643	2,859	6,502
Total contractual undiscounted cash flows				5,179	6,648	11,827

Where subordinated debt is undated, the interest payments have not been included beyond 15 years. Annual interest payments for these borrowings are £72 million (2011: £73 million).

The fair value of the subordinated debt at 31 December 2012 was £4,435 million (2011: £3,814 million). The fair value of the 9.5% guaranteed bonds 2016 at 31 December 2012 was £246 million (2011: £246 million). The fair value of the commercial paper is considered to be the same as its carrying value.

Further details of these borrowings and undrawn committed facilities can be found in the Group consolidated financial statements, note 45.

**F - Contingent liabilities**

Details of the Company's contingent liabilities are given in the Group consolidated financial statements,

**note 48(g). 6 - Risk management**

Risk management in the context of the Group is considered in the Group consolidated financial statements, note 53.

- The business of the Company is managing its investments in subsidiary and joint venture operations. Its risks are considered to be the same as those in the operations themselves and full details of the major risks and the Group's approach to managing these are given in the Group consolidated financial statements, note 53. Such investments are held by the Company at fair value in accordance with accounting policy D.

The fair values of the subsidiaries and joint venture are estimated using applicable valuation models, underpinned by the Company's market capitalisation. This uses the Company's closing share price at year end. Given that the key input into the valuation model is based on an observable current share price, and therefore sensitive to movements in that price, the valuation process is not sensitive to non-observable market assumptions.

Financial assets, other than investments in subsidiaries and the joint venture, largely consist of amounts due from subsidiaries. As at the balance sheet date, these receivable amounts were neither past due nor impaired.

Financial liabilities owed by the Company as at the balance sheet date are largely in respect of borrowings (details of which are provided in note E and the Group consolidated financial statements, note 45) and loans owed to subsidiaries. Loans owed to subsidiaries were within agreed credit terms as at the balance sheet date.

**Interest rate risk**

Loans to and from subsidiaries are at either fixed or floating rates of interest, with the latter being exposed to fluctuations in these rates. The choice of rates is designed to match the characteristics of financial investments (which are also exposed to interest rate fluctuations) held in both the Company and the relevant subsidiary, to mitigate as far as possible each company's net exposure.

The majority of the Company's external borrowings are at fixed rates of interest and are therefore not exposed to changes in these rates. However, for those borrowings that are at floating rates, the Company is affected by changes in these rates. Further details of the Company's borrowings are provided in note E and the Group consolidated financial statements, note 45.

**Currency risk**

The Company's direct subsidiaries are exposed to foreign currency risk arising from fluctuations in exchange rates during the course of providing insurance and asset management services around the world. The exposure of the subsidiaries to currency risk is considered from a Group perspective in the Group consolidated financial statements, note 53.

The Company faces exposure to foreign currency risk through some of its borrowings which are denominated in Euros and US dollars. However, most of these borrowings have been on-lent to a subsidiary which holds investments in these currencies, generating the net investment hedge described in the Group consolidated financial statements, note 54(a)(iii).

## Notes to the Company's financial statements continued

### H - Related party transactions

The Company receives dividend and interest income from subsidiaries and pays interest and fee expense to those subsidiaries in the normal course of business. These activities are reflected in the table below.

Loans to and from subsidiaries are made on normal arm's-length commercial terms. The maturity analysis of the related party loans is as follows:

#### Loans owed by subsidiaries

Maturity analysis	2012	2011	2010
	Cm	£m	Cm
Within 1 year	1		
1.240		—	691
1 to 5 years			
446		1,749	1,769
Over 5 years	608	626	642
<b>Total</b>		<b>2,375</b>	<b>3,102</b>
2,294			

#### Loans owed to subsidiaries

Maturity analysis of contractual undiscounted cash	Principal	Total from Principal from interest Total from	Principal from Interest Total from			
Within 1 year	794	4,202	36	867	514	
1 to 5 years	11,333	41,536	5	12,374	12,325	
Over 5 years	1,820	1,130		938	12,687	1,922
<b>Total</b>	<b>13,947</b>	<b>46,868</b>	<b>41</b>	<b>24,271</b>	<b>25,126</b>	<b>3,844</b>
	33	39				
	6	1,90				
	50	3				
	6	14,872				
	83	13,808				
	925"	1,303				
		15,111				
		/				
		14,581				

Other related party balances comprise dividends and interest receivable and payable, as well as inter-company balances for fees and other transactions in the normal course of business

#### Dividends, loans, interest Services provided to related parties

	earned receivable h	Income	Receivable	Income
	year at year end	earned in year	at year end	earned at year end
	fm fm	fm	fm	fm fm
Subsidiary	1,692 5,31	1,21	4,655	1,260 5,436

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms. Details of guarantees, indemnities and warranties given by the Company on behalf of related parties are given in note 48(g).

#### Services provided by related parties

	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end	Expense incurred in year	Payable at year end	Restated 2011	Restated 2010
	fm	fm	fm	fm	fm	fm	Cm	Cm
Subsidiaries	402	17.516	460	17.174	458	17,765		

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.

The directors and key management of the Company are considered to be the same as for the Group. Information on both the Company and Group key management compensation can be found in note 56.

### I - Equity compensation plans

All transactions in the Group's equity compensation plans involve options and awards for ordinary shares of the Company Full disclosure of these plans is given in the Group consolidated financial statements, note 27 The cost of such options and awards is borne by all participating businesses and, where relevant, the Company bears an appropriate charge. As the majority of the charge to the Company relates to directors' options and awards, for which full disclosure is made in the Directors' Remuneration Report, no further disclosure is given here on the grounds of materiality

#### **J - Subsequent event**

On 21 January 2013 the Company provided a guarantee to its subsidiary, Aviva Group Holdings Limited, on a short term external borrowing of £200 million which will be repaid from disposal proceeds

## **Additional disclosures for SEC**

In this section	
Exchange rate information	239
Record holders	239
Listing and markets	239
Major shareholders	239
Significant changes	239
General insurance and health claims reserves	240
IFRS critical accounting policies	244
Articles of Association	248
Exchange controls and other limitations affecting security holders	252
Taxation	253
Dividends and paying agents	255
Where you can find more information	255
Description of securities other than equity securities	255
Purchase of equity securities by Aviva pic and affiliated purchasers	256
Statement of differences from NYSE corporate governance practices	256
Legal proceedings	256
Employees	256
Controls and procedures	256

## Additional disclosures for SEC

### Exchange rate information

The following table sets forth the average exchange rate as quoted by Bloomberg for pounds sterling expressed in US dollars per pound sterling for each of the five most recent fiscal years. The average exchange rate is calculated by using the average of the exchange rates on the last day of each month during the period. We have not used these rates to prepare our consolidated financial statements.

Yearended31 December

	Quarter 1	Quarter 2	Quarter 3*	Quarter 4	Year
2010 High	422.0	389.5	12.18	8.74	13.38
2010 Low			152	13.6	
2011 High			10.73	7.86	
2011 Low	344.5	294.2			12
2011 High	477.9	452.7	393.0		.1
2011 Low	414.7				13.77
2012 High					9.45
2012 Low					11
2012 High					23
2012 Low	382.6	333.1	299.0		14.6
2012 High	255.3				8.6
2012 Low					11.8
2012 High					5
2012 Low					12.63
2012 High					10.33
2012 Low					
2013 High					
2013 Low					
2014 High					
2014 Low					
2015 High					
2015 Low					
2016 High					
2016 Low					
2017 High					
2017 Low					
2018 High					
2018 Low					
2019 High					
2019 Low					
2020 High					
2020 Low					
2021 High					
2021 Low					
2022 High					
2022 Low					
2023 High					
2023 Low					
2024 High					
2024 Low					
2025 High					
2025 Low					
2026 High					
2026 Low					
2027 High					
2027 Low					
2028 High					
2028 Low					
2029 High					
2029 Low					
2030 High					
2030 Low					

200  
8  
200  
9  
201  
0  
201  
1  
201  
2  
1.85  
19 1  
5662  
1.54  
58  
1.60  
43 1  
6255

Ordinary shares (pence)  
High  
Low  
September 2012  
363.  
1  
318.  
7  
October 2012  
345.  
0  
322.  
4  
November 2012  
350 6  
320 0  
December 2012  
384.  
0  
350.  
8  
January 2013  
388 4  
366 2  
February 2013  
369.2  
348 7

The following table sets forth the high and low exchange rates for pounds sterling expressed in US dollars per pound sterling for the last six months:

Aviva ADS (US dollars)		November 2012		
High	11.40 10.33	11.85	11.28	12.63 11.65
Low	10.41 10.41	11.36	11.66	10.62

	September 2012	October 2012	November 2012	December 2012	January 2013	February 2013	High	Low
On 20 March 2013, the average exchange rate as quoted by Bloomberg was f 1.00 = \$	1.627	1.619	1.614	1.610	1.610	1.610	1.627	1.5107

### Record holders

On 20 March 2013, 492,934 of the Company's ordinary shares, representing 0.02 per cent of the issued and outstanding ordinary shares as of such date, were held by 1,544 ordinary shareholders of record in the United States. In addition, 19,608,472 ordinary shares, representing 0.67 per cent of the issued and outstanding ordinary shares of such date, were held by 24 registered American Depositary Receipt holders

### Listing and markets

The principal trading market for the Company's ordinary shares and preference shares is the London Stock Exchange The Company's American Depositary Shares (ADSs) are listed on the NYSE, each representing the right to receive two ordinary shares under the symbol "AV" deposited pursuant to the deposit agreement with Citibank N.A. and the registered holders from time to time of the ADSs For a detailed description of the rights and obligations attached to Aviva pic ADSs, see "Description of securities other than equity securities".

The following table sets forth, for the periods indicated, the reported highest and lowest closing prices for the Company's ordinary shares on the London Stock Exchange and ADSs on the NYSE.

	September 2012	October 2012	December 2012	January 2013	February 2013	High	Low
2008							
2009			245.3	n/a			
2010			163.3	14.80			
2011			294.2	13.95			
2012		670	0	15			
		467.5		80			
		423.5		12			
		477.9		63			
		384.0					

### Major shareholders

The Financial Services Authority Disclosure and Transparency Rules (DTRs) provide that a person or corporate entity that acquires an interest of 3% or more in Aviva ordinary shares is required to notify us of that interest, whether it is held beneficially or not. Any subsequent increase or decrease of 1% or more must also be notified. Similarly, a notification is required once the interest falls below 3%.

We have set out in the tables below the holdings of each major shareholder as notified to the Company under the DTRs or filed with the SEC as at the latest practicable date for the last three financial years. Our major shareholders as listed below have the same voting rights as all our ordinary shareholders.

As at 20 March 2013	Total number of shares held	% of total issued shares/ % of voting rights
Franklin Resources, Inc and its subsidiaries and affiliates	149,521,223	6.80%
BlackRock, Inc and its subsidiaries	110,128,385	3.98%
Legal & General Group pic AXA S.A and its Group companies	106,788,176	3.86%

As at 7 March 2012	Total number of shares held	% of total issued shares/ % of voting rights
Franklin Resources, Inc and its subsidiaries and affiliates	196,144,458	7.00%
BlackRock, Inc and its subsidiaries	149,521,223	5.15%
Legal & General Group pic AXA S.A and its Group companies	110,128,385	3.98%
AXA S.A and its Group companies	106,788,176	3.86%

As at 2 March 2011	Total number of shares held	% of total issued shares/ % of voting rights
Legal & General Group pic AXA S.A and its Group companies	192,678,120	5.09%
Franklin Resources, Inc and its subsidiaries and affiliates	110,128,385	3.98%
BlackRock, Inc and its subsidiaries	106,788,176	3.86%

### Significant changes

No significant changes have occurred since the balance sheet date, other than as disclosed in the financial statements.



### Additional disclosures for SEC continued

## General insurance and health claims reserves

### Provisions for outstanding claims

We establish provisions for outstanding claims 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.

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. Additionally, we are required by applicable insurance laws and regulations and generally accepted accounting principles to establish reserves for outstanding claims (claims which have not yet been settled) and associated claims expenses from our insurance operations. The reserves for general insurance and health 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.

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'

Class	Rate		Mean term of	
	2012	2011	2012	2011
Reinsured London Market	2.0%	2.20%	11 years	13 years
business Latent claims	0.33% to 3.35%	0.75% to 3.25%	6 to 15 years	7 to 16 years
Structured settlements	2.60%	2.70%	33 years	31 years

The gross outstanding claims provision before discounting was £11,004 million (2011: £11,420 million) and after discounting was £10,554 million (2011: £10,745 million). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims reserves is based on the swap rate in the relevant currency having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given in the table above. The duration of the claims span over 35 years, with the average duration between 6 and 15 years depending on the geographical region.

During 2012, the Group has seen a levelling off in the number of new bodily injury claims settled by periodic payment orders (PPOs) or structured settlements, which are reserved for on a discounted basis.

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. We have adopted a reserve estimation basis for non-life claims at 31 December 2012 that is calculated as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty targets a minimum confidence level that provisions will be sufficient for all business in each country. The adequacy of loss reserves is assessed and reported locally and is aggregated and reported to the Chief Financial Officer on a quarterly basis.

For additional information on the assumptions and changes that have occurred related to the general insurance and health claims provisions, see "Financial statements IFRS - Note 36 - Insurance liabilities". The effect on profit of changes in the main assumptions for the general insurance and health business can be found within "Financial statements IFRS - Note 40 - Effect of changes in assumptions and estimates during the year"

### Reinsurance

We reinsure a portion of the risks we underwrite to control our exposure to losses and stabilise earnings. We use reinsurance to help reduce the financial impact of large or unusually hazardous risks and to manage the volatility of our earnings.

Our reinsurance strategy is to purchase reinsurance in the most cost-effective manner from reinsurers who meet our established security standards. The level of reinsurance sought is determined by using extensive financial modelling and analysis to ensure we understand the large or unusually hazardous risks and to ensure we get maximum benefit for the cost of the reinsurance cover provided.

At 31 December 2012, the total reinsurance asset recoverable in respect of life, general and health insurance was £6,684 million, representing 3.0% of the total gross technical provisions of £223,585 million. In respect of premium income written during 2012, £1,778 million was ceded to reinsurers, representing 6.7% of the total gross written premium of £26,540 million. In respect of premium income written during 2012 for continuing operations, £1,571 million was ceded to reinsurers, representing 6.9% of total gross written premiums of £22,744 million.

The Group is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Group operates a policy to manage its reinsurance counterparty exposures by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite. The Credit Approvals Committee has a monitoring role over this risk.

Our largest reinsurance counterparty is Swiss Reinsurance Company Ltd (including subsidiaries). At 31 December 2012 the amount ceded to Swiss Reinsurance Company Ltd was £1,717 million out of the total reinsurance asset recoverable of £6,684 million. Through the reinsurance of our London Market business, we also have significant exposure to the Berkshire Hathaway Group and its subsidiaries. At 31 December 2012 the amount ceded to the Berkshire Hathaway Group and its subsidiaries was £729 million out of the total reinsurance asset recoverable of £6,684 million. These figures give an indication of the potential losses to the Group following the default of the relevant counterparty, assuming no post-default recovery is possible.

Additional information on our reinsurance strategy and a discussion on concentration risk and reinsurance credit risk can be found within "Financial statements IFRS - Note 53 - Risk management"

## Additional disclosures for SEC continued

## Loss Reserve Development

The loss reserve development tables below present the historical development of the property & casualty reserves that we established in 2003 and subsequent years.

The top line of the tables shows the reserves for unpaid losses and LAE as at each statement of financial position date. These reserves are the estimated future payments to be made for losses and LAE in respect of claims occurring in that year and all prior years.

The "Paid (cumulative)" data represents the cumulative amounts paid as at each subsequent year end against the reserves for losses and LAE held at each statement of financial position date. The "Reserve re-estimated" shows the re-estimate of the reserves, as initially recorded at each statement of financial position date, as at each subsequent year end. The re-estimated reserve changes as a greater proportion of the actual losses for which the initial reserves were set up are paid and more information becomes known about those claims still outstanding.

The "Cumulative redundancy/(deficiency)" line represents the overall change in the estimate since the initial reserve was established, and is equal to the initial reserve less the re-estimated liability as at 31 December 2012. Reserves for losses and LAE at each statement of financial position date represent the amounts necessary to settle all outstanding claims as at that date. The year-end balances in the tables should not be added as they include amounts in respect of both the current and prior years.

In our non-UK property & casualty operations, reserves are established and monitored in the local currency in which the property & casualty entity operates. For the purpose of the tables, claims reserves and payments with respect to each year are translated into pounds sterling at the rates that applied when the initial reserves on the statement of financial position for each year were established. The only exception to this are reserves established in currencies other than an operation's local currency, for which claims reserves are converted to pounds sterling at year-end exchange rates and claims payments are converted at the average of the exchange rates that applied during the relevant year.

The following table presents our consolidated loss development before reinsurance of reserves measured on an IFRS basis for the last ten financial years.

31 December	2003 Cm	2004 Cm	2005 Cm	2006 Cm	2007 Cm	2008 Cm	2009 Cm	2010 Cm	2011* Cm	2012 Cm	
Initial net reserves per statement of financial position	9,627	10,288	10,773	10,788	11,277	12,594	11,053	10,705	9,376	9,300	
Effect of discounting		119	196	204	223	216	447	451	501		
Initial net reserves for unpaid losses and LAE	11,206	9,678	9,593		9,746	10,484	10,977	11,011	11,493	13,041	11,504
Initial retroceded reserves	1,742	1,411		2,626	2,316	2,159	2,050	1,946	2,020	2,072	1,973
Initial gross reserves for unpaid losses and LAE	13,179	11,420	11,004		12,372	12,800	13,136	13,061	13,439	15,061	13,576
Paid (cumulative) as of:											
One year later	3,254	3,361	3,327	3,433	4,017	4,474	3,645	4,579	3,421		
Two years later	5,097	4,977	4,925	5,053	5,836	6,462	6,274	6,673			
Three years later	6,290	6,116	6,111	6,275	7,190	8,535	7,939				
Four years later	7,146	6,950									
Five years later	7,793	7,664	7,057	7,240	8,470	9,917					
Six years later	8,336	8,222	7,792	8,087	9,494						
Seven years later	8,784	8,726	8,449	8,875							
Eight years later	9,214	9,162									
Nine years later	9,614										
Reserve re-estimated as of:	13,110	11,368									
One year later	12,114	13,149	14,505	13,213	13,156	12,290	11,992	13,314			
Two years later			12,216	11,736	12,007	12,006	13,086	14,343			
Three years later			11,855				11,882	12,013	11,956		
Four years later				11,961	11,952	11,893	13,178				
Five years later											
Six years later			12,255	11,891	11,867	12,069					
Seven years later			12,236	11,818	12,046						
Eight years later			12,183	11,989							
Nine years later			12,360								
Cumulative redundancy/(deficiency)	52	12	811	1,090	992	261	552	262	23		

\* Peru, Lloyd nor consolidated from financial year 2011 onward\* loloioirixj lbe partial clauxtal on 6 May 2011

Tables showing the consolidated gross loss development for the last ten individual accident years, as opposed to loss development of total gross reserves for claims at the end of each of the last ten financial years above, are provided within "Financial statements IFRS -Note 36 - Insurance liabilities"



Cumulative redundancy/(deficiency) \_\_\_\_\_ 112 1,127 1,452 1,332 689 923 471 207 213

1 teiu LC^ not rrrrsdated Iron friarvjat vev

Tables showing the consolidated loss development, net of reinsurance, for the last ten individual accident years, as opposed to loss development of total net reserves for claims at the end of each of the last ten financial years above, are provided under "Financial statements IFRS - Note 36 - Insurance liabilities".

The loss development tables above include information on asbestos and environmental pollution claims provisions from business written before 2003. The undiscounted claim provisions for continuing operations, net of reinsurance, in respect of this business at 31 December 2012 were £1,003 million (2011: £929 million). The movement in the year reflects strengthening of provisions by £8 million in the UK (2011: exceptional strengthening of £35 million), other increases in undiscounted provisions of £51 million (2011: £23 million), reclassification of commercial liability provisions of £55 million, claim payments, reinsurance recoveries and foreign exchange rate movements.

In 2008 the Institute of Actuaries' Asbestos Working Party report contributed to our view that experience variances, which we had previously perceived as normal short-term volatility, reflected a real worsening of expected ultimate claims experience. The market trend in mesothelioma claims was fully reflected as a significant one-off strengthening of gross latent claims reserves in 2008 of £356 million, with a corresponding increase of £52 million in reinsurance recoverable. The net increase of £304 million comprised £668 million on an undiscounted basis and discounting of £364 million.

During 2003 reserve strength was significantly increased, and has been maintained by establishing strong reserves for each new year. This has resulted in the reserve releases for 2003 to 2011 shown above.

Following the partial disposal on 6 May 2011, Delta Lloyd was not consolidated in the loss reserve development tables shown above for financial years 2011 onwards. At 31 December 2012 the Group's share of Delta Lloyd's loss reserves made up less than 5% of total Group loss reserves.

## Additional disclosures for SEC continued

**Reserves for Asbestos and Environmental Losses**

The tables below show the historical development of the asbestos and environmental ("A&E") reserves as at 31 December 2010 and subsequent years. The tables include all indemnity claims arising from injuries and diseases due to asbestos and all claims arising from injuries due to toxic waste, hazardous substances and other environmental pollutants, including damages in respect of hazardous waste site clean-up costs. Litigation costs in relation to these claims are also included in the tables. Claims relating to smoking, physical abuse, silicon implants and other health hazards and latent injuries are not included as our exposure is not material.

We have exposure to liabilities for A&E claims arising from the sale of commercial liability and multi-peril policies prior to 1987. After 1987 policy terms and conditions in many cases excluded these types of claims, thereby considerably reducing our potential for loss.

Reserving for A&E claims is subject to many uncertainties, such as very long reporting delays, unresolved legal issues and the number and identity of insureds, and these uncertainties are generally much greater than those present on other types of claims. As a result, traditional loss reserving techniques cannot be entirely relied upon. We therefore employ special techniques to determine reserves using all available information. However, new legislation or legal precedents could result in ultimate outstanding losses being adversely affected in future periods.

A large proportion of our gross A&E liabilities relate to the London Market business we wrote and are therefore covered by our reinsurance with National Indemnity As of 31 December 2000, management of these claims transferred to Berkshire Hathaway. Our net A&E reserves mainly relate to asbestos production and handling in various jurisdictions, including the United Kingdom, Canada, Ireland and Australia.

The following table presents the development of our asbestos and environmental reserves before reinsurance measured on an IFRS basis.

31 December	Em	2012 fm	2011 fm	2010
Initial net reserves per statement of financial position	684	631	551	
Effect of discounting	319	298	388	
Initial net reserves for unpaid losses and LAE	1,003	929	939	
Initial retroceded reserves	531	596		
	674			
Initial gross reserves for unpaid losses and LAE	1,534	1,525	1,613	
Paid (cumulative) as of:				
One year later		29	98	
Two years later			127	
Reserve re-estimated as of:				
One year later		1,565	1,623	
Two years later			1,663	
Cumulative redundancy/(deficiency)			(40)	(50)

1 Oettj Uojcl not toncairjaicd from financial yeai 2011 onwarcts lolowing the partial disposal on 6 May 2011

The following table presents the development of our A&E reserves after reinsurance measured on an IFRS basis

31 December	Em	2012 fm	2011 fm	2010
Initial net reserves per statement of financial position	684	631	551	
Effect of discounting	319	298	388	
Initial net reserves for unpaid losses and LAE	1,003	929	939	
Paid (cumulative) as of:				
One year later			40	69
Two years later				109
Reserve re-estimated as of:				
One year later		1,043	999	
Two years later			1,114	
Cumulative redundancy/(deficiency)			(114)	(175)

1 Delta Uoyd not consouUaled from f ifianoaal year 20 U Onwaidis lolowirvi the partial dopcxj on 6 May 2011

## IFRS critical accounting policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

In preparing our financial statements, we are required to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, including those related to life insurance business and non-life and health business provisioning, the fair value of assets and the declaration of with-profits business bonus rates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the current circumstances. These estimates form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates to the extent that actual conditions arising deviate from assumed conditions.

Critical accounting policies are those that reflect significant judgements and uncertainties and potentially may lead to materially different results under different assumptions and conditions.

### Critical accounting policies

The major areas of judgement on policy application are summarised below:

	Critical accounting judgement assumption policy	Accounting policy
Consolidation	Assessment of whether the Group controls the underlying entities	
Insurance and participating investment contract liabilities	Assessment of the significance of insurance risk passed	
Financial investments	Classification of investments	

### 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 may differ from those estimates, possibly significantly. The table below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy. These policies and notes can be found in the Financial Statements IFRS section.

	Accounting policy
Insurance and participating investment contract liabilities	F & K
Goodwill, AVIF and intangible assets	
Fair values of financial investments	
Impairment of financial investments	
Fair value of derivative financial instruments	
Deferred acquisition costs and other assets	
Provisions and contingent liabilities	W
Pension obligations	A
Deferred income taxes	A
Operations held for sale	A
	B
	FRS Note
	36, 37 & 41
	13 & 14 19
	19, 22 & 53
	5
	4
	2
	4
	43 & 48 44
	10 3

### Additional information on Investments

For an overview of our investments, see "Performance review - Analysis of investments".

Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. Whilst such valuations are sensitive to estimates, we believe that changing one or more of the assumptions for reasonably possible alternative assumptions would not change fair value significantly.

Valuations obtained from third party sources are generally the proprietary information of the third party provider, and therefore, while the third party providers may discuss with us their methodologies and sources of inputs, we are unable to re-perform their valuations. We do, however, validate third

party valuations against other third party pricing providers, broker quotes or our own internal models where we believe there is uncertainty over the reliability of the third party valuation

The fair values of our financial investments are subject to market risk and credit risks, primarily interest rate, equity price and foreign currency exchange risks. "Financial statements IFRS - Note 53 - Risk Management" provides disclosure and discussion of the impact of changes in market assumptions such as interest rates, exchange rates, equity and property prices, as well as providing information regarding the aggregated credit risk exposure of the Group's financial assets with external credit ratings

#### Fixed maturity securities - Valuation techniques

The table below provides an analysis at 31 December 2012 of debt securities by pricing source.

	Level 1	Level 2 £m	Fair hierarchy value	
			Level 3 £m	£m
Third party sources	107,953	37,696	9,974	155,623
Internal models	-	5,892	108	6,000
	107,953	43,588	10,082	161,623

245

Aviva pic

Annual report on Form 20-F 2012

### Additional disclosures for SEC continued

We use a variety of valuation techniques to fair value debt securities included in fair value hierarchy Level 2 and Level 3. Techniques include internal models using observable market inputs, broker quotes and third party pricing vendor services. 94% of Level 2 fixed maturity securities are held by our businesses in North America, Spain, the UK and Italy, of which North America represents 76%. Variations in the proportion of securities classified as Levels 1, 2 and 3 between different countries reflect different levels of liquidity in the markets in which these securities are traded and the different valuation sources used.

#### Valuations sourced from third parties

To determine the appropriate fair value hierarchy, where we use third-party pricing vendor services, we ascertain from the vendors their valuation methodology, the market inputs into their models and how they calibrated and tested their model outputs. Further validation is performed against broker quotes or internal models. Valuations obtained from third party sources, disclosed in the table above, are unadjusted.

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. The valuation techniques applied to the principal fixed maturity securities are described below.

Prices sourced from third parties for certain US corporate securities are based on a consensus valuation by polling banks and trading desks of market makers in these instruments. The collection of quotes is adjusted to remove outliers and stale data. Such securities are classified as Level 3, as these inputs represent prices at which banks are holding these securities in their trading portfolios.

Structured bond-type products held by our business in France amounting to £8.6 billion for which there is no active market. These bonds are valued either using third-party counterparty or broker quotes. These bonds are validated against internal or third-party models. These bonds have been classified as Level 3 because either (i) the third-party models included a significant unobservable liquidity adjustment or (ii) differences between the valuation provided by the counterparty and broker quotes and the validation model were sufficiently significant to result in a Level 3 classification. At 31 December 2012, the values reported in respect of these products were the lower of counterparty and broker quotes and modelled valuations.

The other principal Level 3 debt securities are notes issued by loan partnerships held by our UK Life business amounting to £1.0 billion for which there is no active market. These are valued using counterparty quotes which are corroborated against index information obtained for similar asset classes, taking into further consideration the quality of the underlying loan portfolio, leverage structure, credit rating, illiquidity margins, market spreads and duration.

#### Internal valuation models

In our Spanish business, we use internal models to value illiquid corporate bonds as the prices obtainable from third party pricing services are solely based on the last observed market transaction and are considered stale. Models use discounted cash flows incorporating the interest rate swap curve for the same currency of the instrument and a spread for credit and liquidity risk. The credit and liquidity spread is determined using market quotes of other bonds of the same issuer factored by the liquidity of asset or market. Similarly in our UK Life business, we use internal models for private placement notes, for which third party valuations are unavailable. Models use discounted cash flows incorporating the market swap curve for sovereign government securities for the same currency of the instrument and a spread for credit and liquidity risk. The credit and liquidity spread is derived by matching the credit and maturity profile of the security to a third party pricing matrix grid based on observed market transactions in private placement notes of other issuers. At 31 December 2012, bonds valued on this basis amounted to £3.5 billion in our Spanish business and £2.3 billion in our UK Life business.

For US mortgage-backed securities validated using internal models, credit risk is reflected in determining the expected cash flows and the discount rate used. The discount rate is adjusted for the spread from the corresponding CMBX index, while inputs included in determining expected cash flows are debt service coverage ratios, loan-to-value ratios, interest rate protection, amortisation type, number of properties per loan, location and property type. A liquidity premium is added which is the difference between AAA rated credit card bonds and the average of AAA rated corporate bonds and agency debentures.



The internal models used to validate complex structured bond-type products in France and Italy are based on a discounted cash flow model incorporating the specific characteristics of the bond, such as issue date, credit risk of issuer, form of payout and reference indices. These represent most of the debt securities validated using internal models.

**Adjustments for credit and liquidity risk**

Our internal models and the models used by third-party pricing vendor services 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.

**Equity securities - Valuation techniques**

The table below provides an analysis at 31 December 2012 of equity securities by pricing source.

		Fair value hierarchy	
		Level 2	Level 3 Total
			Cm Cm
<b>Third party sources</b>	<b>33,074</b>	<b>230</b>	<b>465</b>
<b>Internal models</b>	<b>-</b>	<b>-</b>	<b>8 8</b>
	<b>33,074</b>	<b>230</b>	<b>473</b>
	<b>33,777</b>		

Valuations obtained from third party sources, disclosed above, are unadjusted

## Additional disclosures for SEC continued

Equity securities classified as Level 3 are principally strategic interests in banking partners held by our Italian business. Level 3 valuations are based on third-party independent appraisals, or where internally modelled, transactions in similar entities, discounted cash flow techniques and valuation multiples, using public and internal management information

**Other investments (including derivatives) - Valuation techniques**

The table below provides an analysis at 31 December 2012 of other investments by pricing source.

2012	Fair value hierarchy		
	Level 1 Cm	Level 2 Cm	Level 3 Cm
<b>Third party sources</b>	<b>21,704</b>	<b>5,327</b>	<b>2,853</b>
<b>Internal models</b>	<b>-</b>	<b>183</b>	<b>26,209</b>
	<b>21,704</b>	<b>5,510</b>	<b>2,879</b>

Valuations obtained from third party sources, disclosed above, are unadjusted, except for third party valuations of private equity funds as noted below.

Other investments classified as Level 2 principally relate to unit trusts and other investment vehicles amounting to £3.7 billion, and derivatives amounting to £1.2 billion.

Other investments classified as Level 3 are principally private equity funds and hedge funds each amounting to £1.3 billion 66% of the Group's holdings in these funds are held by our UK Life business, with the remainder primarily held by our businesses in France and the US.

Our UK Life business values its interest in private equity funds utilising investment valuation reports received from the fund managers, making adjustments for items such as subsequent draw downs and distributions between the date of the report and the balance sheet date and the fund managers' carried interest.

In valuing its interest in hedge funds, the Group utilises valuations received from fund managers, which are based on the market value of the underlying fund assets. In certain instances, the market values of the underlying assets may be determined by the hedge fund managers using internal, proprietary models. Such investments are classified as Level 3.

Of the internally modelled valuations for other investments disclosed above, all included in Level 2 relate to investments by our UK Life business in investment funds which are valued on a "look through basis" to the underlying investments in the fund. The underlying investments are valued using quoted market prices and other observable market inputs which support the classification. A similar valuation approach is adopted by third parties where we have utilised them as a source of valuations.

The internal model inputs are based on observable market data, except for a small number of deposits placed with credit institutions to back structured products, with a fair value of £26 million at 31 December 2012, which are classified as Level 3 since the interest rates used in the model are based on locked in rates offered on the structured product rather than observable market inputs.

All valuations for derivatives are sourced from third parties. For most non-exchange traded derivatives, we either obtain prices from derivative counterparties and corroborate these prices using internal models, or source prices from a third-party vendor utilising industry standard models and corroborate these prices to non-binding broker quotes. Credit risk is considered, but the presence of collateral usually mitigates any non-performance risk related to the derivatives.

*Duration and amount of unrealised losses on available-for-sale securities*

	Gross Fair value' unrealised fm Cm	Gross Fair value' unrealised Cm	Fair value' Cm	more than 12 months		Gross unrealised Cm	Gross unrealised Cm	Total
				Gross Fair value' unrealised Cm	Gross unrealised Cm			
Less than 20% loss position:								
Debt securities	2,00	(14)	53	(3)	534	220	(11)	2,593
Equity securities			61					236
Other investments	68				556	(3)	(14)	(3)
	<b>2,014</b>	<b>(14)</b>		<b>(3)</b>		<b>2,631</b>		<b>(31)</b>
20%-50% loss position:								
Debt securities					7	(34)	7	(34)
Equity securities				(1)	0	)	0	(2)
Other investments				(1)		(1)		(36)
					2	)	4	
					72	(35)	74	
Greater than 50% loss position:								
Debt securities						(12)		(12)
Equity securities								
Other investments						(12)		(12)
Total						(12)		
Debt securities	2,00	(14)	5	(3)	(1)	(57)	2,670	(74)
Equity securities				(4)			240	(4)
Other investments	68		3		(4)	(61)	(5)	(5)
	<b>2,014</b>	<b>(14)</b>	<b>1</b>	<b>611</b>	<b>222</b>	<b>2,712</b>	<b>(79)</b>	<b>635</b>
Assets of operations classified as held for sale	<b>2,014</b>	<b>(14)</b>	<b>63</b>	<b>(4)</b>	<b>231</b>	<b>(58)</b>	<b>2,308</b>	<b>(76)</b>
<b>Total (excluding assets held for sale)</b>				<b>—</b>	<b>404</b>	<b>(3)</b>	<b>404</b>	<b>(3)</b>

I Only includes AFS classified securities that are in an irrevocable position

	0-6months		7-12months		more than 12 months		Total Gross fm		
	Farvalue <sup>1</sup> fm	Gross unrealised fm	Farvalue <sup>1</sup> fm	Gross unrealised fm	Far value <sup>1</sup> fm	Gross unrealised fm			
Less than 20% loss position									
Debt securities	1,781	(52)	353	(23)	540	(33)	2,674	(108)	
Equity securities									
Other investments	1,831	(54)	503	(31)	550	50 (33)		(2) (118)	150
20%-50% loss position.									
Debt securities	1	(	1	(	16	(7	19	(8	
Equity securities									
Other investments	1	(	1	(	16	(76)	197	(8	
Greater than 50% loss position.									
Debt securities		(2		(2	1	(29	1	(33)	
Equity securities									
Other investments		(2		(2	1	(29)	1	(33)	
Total									
Debt securities	1,796	(61)		369		(30)		724	
Equity securities									
Other investments	(138)	2,889	(229)						
	1,846	(63)	519	(38)	734	50	(2)	(239)	
						150	(8)	8	
		(138)	3,099						
<u>Assets of operations classified as held for sale</u>	1,846	(63)	519	(38)	734	(138)	3,099	(239)	

<sup>1</sup> Or\* includes AFS classified securities that are in an unrealised loss position

We have not recognised any impairment charge in respect of these unrealised losses as we believe the decline in fair value of these securities relative to their amortised cost to be temporary.

At 31 December 2012, 98% of AFS debt securities were held by our US business. In respect of debt securities in an unrealised loss position, our businesses intend to hold these securities for a sufficient period to recover their value in full and to hold them to maturity, as they are held to match long-term policyholder liabilities of the same or longer duration. In the US, the decrease in unrealised losses experienced during 2012 reflects a decrease in the US government treasury yield curve, partially offset by widening credit spreads. Where factors specific to an issuer have resulted in an unrealised loss, we have considered whether the security is impaired and recognised an impairment charge where necessary.

Of the AFS debt security impairment expense for 2012, £12 million relates to our US business, of which £7 million relates to corporate bonds and £5 million to commercial mortgage backed securities. These securities are not yet in default but showed continued deterioration in market value from the previous impairment value.

#### Receivables and other financial assets

We manage the credit quality of receivables and other financial assets at the level of each subsidiary entity. Each subsidiary entity reviews the carrying value of its receivables at each reporting period. If the carrying value of a receivable or other financial asset is greater than the recoverable amount, the carrying value is reduced through a charge to the income statement in the period of impairment.

Where assets classed as "past due and impaired" are of material value thereby exceeding local credit limits, and are also deemed at sufficiently high risk of default, an analysis of the asset is performed and a decision is made whether to seek sufficient collateral from the counterparty or to write down the value of the asset as impaired. The factors to determine whether there is a high risk of default include evidence of significant financial difficulties of the counterparty, evidence of a high probability of bankruptcy or other financial reorganisation of the counterparty. We also consider specific knowledge of the individual counterparty which is experiencing difficulties, the age of the receivable or other financial asset balance, and any general credit ratings available.

#### Financial liabilities fair valued through profit or loss

We have made use of the fair value option under IAS 39 to carry at fair value through profit or loss investment contracts of £46,299 million (2011: £43,990 million) and securitised borrowings of £1,332 million (2010: £1,306 million), as these are managed with associated financial assets and derivatives as a portfolio on a fair value basis. We believe such a presentation provides more relevant information and eliminates any accounting mismatch. In addition, IFRS requires us to fair value derivative liabilities through profit or loss.

Under IFRS, we are required to reflect own credit risk in valuations for those financial liabilities fair valued through profit or loss where this risk would be considered by market participants. Other than the embedded option in indexed life and annuity contracts, we have not included own credit risk as a factor in fair valuing these liabilities for the following reasons:

- In the case of funding agreements and derivative contracts, they are mostly fully collateralised,
- In the case of investment contracts which are unit-linked in structure, our liability to policyholders is linked to a segregated pool of assets, and have priority over other creditors in event of default; and
- In the case of securitised borrowing, the issued loan notes are secured on ring-fenced mortgage assets which effectively act as collateral. Noteholders are only entitled to obtain payment, of both principle and interest, to the extent that the available resources of the special purpose securitisation companies are sufficient. Noteholders have no recourse whatsoever to other companies in the Aviva Group.

*The embedded options in indexed and life annuity contracts are valued using a risk-adjusted discount rate based on market spreads on senior long-term unsecured Aviva pic debt. The change in fair value resulting from the risk adjustment in 2012 was an increase of £269 million (2011: £453 million), and is principally attributable to market perception of the instruments' credit risk. If interest rates were to increase by 1%, the provision for embedded options would decrease by £151 million (2010: £152 million) and, if interest rates were to decrease by 1%, the provision would increase by £167 million (2011: £167 million).*

## Articles of Association

The Company adopted a new set of articles of association with effect from the conclusion of the annual general meeting held on 3 May 2012. The following is a summary of the rights of the holders of our shares and of certain significant provisions of our articles of association and relevant laws and regulations of various regulatory bodies. Because it is a summary, it does not contain all the information that may be important to you. For more complete information you should read our articles of association. A complete copy of our articles of association can be obtained from our website on [www.aviva.com/investor-relations/corporate-governance/article-s-of-association](http://www.aviva.com/investor-relations/corporate-governance/article-s-of-association)

The deposit agreement between us, Citibank and the registered holders from time to time of the ADSs, will govern the rights of holders of ADSs as described in "Description of securities other than equity securities" below. You should be aware that these rights are different from the rights of the holders of our ordinary shares

### Organisation and Register

Our registered company number in England is 2468686. The various entities that comprise Aviva have histories of considerable duration. Hand in Hand was established in 1696, Commercial Union was established in 1861, General Accident was founded in 1885 and Norwich Union was founded in 1797. However, the Group's current structure dates back to February 9, 1990, when Commercial Union pic was incorporated as the listed holding company for the Commercial Union Group.

### Directors

The number of our directors is not less than six, nor more than twenty. We may, in a general meeting by ordinary resolution, increase or reduce the maximum and the minimum number of the directors. Our articles of association do not contain an age restriction applicable to directors.

### Powers of our Board and Election of Directors

Our Board manages the business and affairs of the Company. However, our shareholders must approve certain matters, such as changes to the share capital and the election of directors. Directors are appointed subject to our articles of association. At every annual general meeting, all the directors will be subject to re-election as provided in the UK Corporate Governance Code.

Under English law, shareholders of a public company may, by ordinary resolution, appoint a person who is willing to be a director either to fill a vacancy or, subject to any limit provided in the company's articles of association, as an additional director. Shareholders may also remove any director before the end of his or her term of office by ordinary resolution and may appoint another person in his or her place. In addition, under our articles of association, our Board also has the power to appoint a director to fill a vacancy on our Board or to serve as an additional director, provided that a director so elected may only serve until the next following AGM of the company, at which time the director may be elected by shareholders.

### Directors' Interests

Section 177 of the UK Companies Act 2006 provides that a director who is directly or indirectly interested in a contract or proposed contract or arrangement or proposed arrangement connected to us or any of our subsidiaries must declare the nature of his interest at a meeting of our Board. In the case of a proposed contract or proposed arrangement, the declaration must be made at the meeting of our Board at which the question of entering into the contract or arrangement is first taken into consideration or, if the director was not at the date of the meeting interested in the proposed contract or arrangement, at the next meeting of our Board held after he became so interested. In a case where the director becomes interested in a contract after it is entered into or an arrangement after it is made,

the declaration must be made at the first meeting of our Board held after the director becomes so interested.

If the contract was entered into or the arrangement made or the proposed contract or arrangement was considered before the director was appointed or elected, the declaration must be made at the first meeting of our Board following the appointment or election of the director or, if the director was not then aware of the existence of the contract or arrangement or proposed contract or arrangement, at the next meeting following the director becoming so aware.

A director may hold any other office (other than that of auditor) in any other company in which he is in any way interested in conjunction with his office of director for such period and on such terms (as to remuneration and otherwise) as our Board may determine, and no person is disqualified from appointment or election as a director by reason of his holding any office (other than that of auditor).

No director or director candidate is disqualified by his or her office from contracting either with regard to his or her tenure of any such office, nor is any such contract to be avoided, nor is any director so contracting or being so interested to be liable to account to us for any profit realised by any such contract or arrangement by reason of such director holding that office or of the fiduciary relationship established by his directorship.

### Directors' Remuneration

A director is not required to hold any shares by way of qualification. However, under internal guidelines the Group CEO is required to build up a shareholding in the Company equivalent to 200% of annual base salary, executive directors are required to build up a shareholding in the Company equivalent to 150% of annual base salary and other Group Executive members are required to build up a shareholding in the Company equivalent to 50% of annual base salary. In addition, the executive directors, including the Group CEO, are required to retain 50% of the net shares released from deferred annual bonuses and Long Term Incentive Plan awards until the shareholding requirements have been met. There is no target date for meeting the share ownership requirements.

The non-executive directors as a body are remunerated for their services in an amount not exceeding £2,000,000 per annum in aggregate, to be determined by our Board, or at such other rate that the Company, in general meeting, may determine by ordinary resolution. Such remuneration is to be divided amongst the directors in such proportions and manner that the Board determines and, in default of such determination, equally. The remuneration payable accrues from day to day. A director is entitled to be repaid all reasonable travelling, hotel and other expenses incurred by such director in or about the performance of his or her duties as director, including any expenses incurred in attending meetings of our Board or of Committees of our Board or general meetings, whether incurred in the UK or in any overseas country.

The remuneration of the Chairman and executive directors is recommended to the Board by the Remuneration Committee. The remuneration of the non-executive directors is determined by the Board. For further details see "Governance - Directors' Remuneration Report"

### Proceedings of our Board and Committees

Our Board may meet together for the dispatch of business, adjourn and otherwise regulate its meetings as it thinks fit and decide the quorum necessary for the transaction of business. Unless and until otherwise decided, the quorum is four directors. No business may be transacted without the requisite quorum. Questions arising at any meeting are decided by a majority of votes. In case of an equality of votes, the chairman of the meeting has a second or casting vote.

Two directors may and, upon request of two directors, the secretary shall summon a Board meeting at any time, by notice

given to all of the directors. Notice of a meeting of our Board is deemed to be duly given to a director if it is given to him personally, by word of mouth, by electronic communication to an address given by him for that purpose or sent in writing to him at his last-known address or another address given by him for that purpose. A director absent from the United Kingdom is not entitled to receive notice of any meeting of our Board unless they have requested that notices of Board meetings be sent to an address they supply.

Our Board may from time to time appoint one or more directors as Managing Director, Executive Director, joint Managing Directors or joint Executive Directors either for a fixed or an indefinite term and may from time to time, without prejudice to the terms of any agreement entered into in any particular case, remove or dismiss any directors so appointed from office and appoint another director in his or her place.

#### Liabilities of Directors and Officers

English law does not permit a company to exempt any director or other officer of the company, or any person employed by the company as auditor, from any liability that by virtue of any rule of law would otherwise attach to him or her in respect of any negligence, default, breach of duty or breach of trust of which he or she may be guilty in relation to the company. English law enables companies to purchase and maintain insurance for directors, officers and auditors against any such liability. We maintain such insurance for our directors and executive officers. Our articles of association provide that our directors and officers, among others, are entitled to indemnification by Aviva out of our own funds against all costs, charges, losses, expenses and liabilities incurred by such person in connection with the discharge of his or her duties or the exercise of his or her powers.

#### Debt Limitations

Our articles of association grant our Board authority to exercise our power to borrow money and to mortgage or charge our undertaking, property and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as security for any debt, liability or obligation of ours or of any third party. The aggregate amount of debt borrowed or secured by us or any of our subsidiaries (to the extent our Board can procure through voting and other powers of control and excluding borrowings between subsidiary undertakings and between the Company and its subsidiary undertakings) must not, without the prior approval of the shareholders in a general meeting, exceed twice the aggregate of our share capital and consolidated reserves, subject to certain adjustments set forth in our articles of association.

#### Special Share Rights

Subject to any special rights previously conferred on the holders of any shares or class of shares, we may issue any share with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise.

If any class of shares has any preferential right to dividend or return of capital, the conferring on other shares of rights to either dividend or return of capital ranking either before or *pari passu* with that class is generally deemed a variation of the rights attached to that class of shares.

Subject to legislation and unless otherwise expressly provided by the terms on which shares of that class are held, any of the rights attached to any class of shares may be varied or abrogated with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of such shares. The provisions of the articles of association as to general meetings of the Company apply, with any necessary modifications, to a variation of class rights meeting, except that the necessary quorum is two persons present holding at least one-third in nominal value of the issued

shares of the class or, for an adjourned meeting, one person present holding shares of the class in question, and where a person is present by proxy or by proxies, that person is treated as holding only the shares in respect of which those proxies are authorised to exercise voting rights.

We may issue and allot new preference shares in one or more separate series, each of which may constitute a separate class, and the new preference shares comprising each such series or class will rank *pari passu* and have such rights and terms as may be attached by our Board prior to allotment. Sterling new preference shares, new preference shares and euro new preference shares will have such rights and terms as the Board may determine in accordance with the terms of their respective capital instruments as well as such further rights and terms as may be determined by the Board prior to their issue. For details on the rights of our preference shares, see "Financial statements IFRS - Note 29 - Preference share capital".

#### Allotment of Securities

Our Board has the general power to allot equity securities for cash pursuant to the general authority for the first period and each subsequent period.

Our Board may at any time after the allotment of a share, but before a person has been entered in the register as the holder of the share, recognise a renunciation of the share by the allottee in favour of another person and may grant to an allottee a right to effect a renunciation on the terms and conditions our Board thinks fit.

#### Pre-emptive Rights

Under English law, the issue for cash of equity securities or rights to subscribe for or convert into equity securities must be offered in the first instance to the existing equity shareholders in proportion to the respective nominal values of their holdings in the class of equity securities being offered, unless a special resolution has been passed in a general meeting of shareholders dis-applying (whether generally or specifically) this requirement. As is the custom of many companies listed on the Official List of the UK Listing Authority, we generally obtain authority annually from our shareholders to allot up to a specified amount of equity share capital for cash, instead of allotting *pro rata* to our existing shareholders.

#### Share Warrants to Bearer

Subject to any statutory restrictions, we may issue share warrants with respect to any shares which are fully paid up upon a request in writing by the relevant shareholder. The request should be in the form, and authenticated by the statutory declaration or other evidence as to identity of the person making the same, as our Board may require.

#### Calls on Shares

Our Board may from time to time make calls on the shareholders in respect of any monies unpaid on their shares or on any class of their shares, whether on account of the nominal value of the shares or by way of premium, and not by the conditions of allotment thereof made payable at fixed times. Each shareholder will be required, subject to the shareholder having been given at least fourteen days' notice specifying the time or times and place of payment, to pay at the time and place so specified the amount called on such shareholder's shares. A call may be made payable by instalments, may be revoked by our Board before receipt of any sum due or postponed as our Board may decide and be deemed to have been made at the time when the resolution of our Board authorising the call was passed. A person upon whom a call is made remains liable for calls made upon him or her notwithstanding the subsequent transfer of the shares.

#### Forfeiture of Shares

If the whole or any part of any call or instalment of a call in regard to a share is not paid on forfeiture notice or before the day appointed for payment, our Board may, at any time thereafter

during such time as any part of the call or instalment remains unpaid, serve a notice on the shareholder in whose name the share is registered requiring payment of so much of the call or instalment as is unpaid, together with any interest and expenses which may have accrued by reason of such non-payment.

#### Lien on Shares

We have a first and paramount lien and charge on every share that has not been fully paid for all monies, whether presently payable or not, called or payable at a fixed time in respect of that share.

#### Transfer of Shares

Subject to such restrictions in our articles of association as may apply, any shareholder may, without payment of any fee, transfer all or any of his or her certificated shares by written instrument, in any usual common form or in any other form which our Board may approve, executed by or on behalf of the transferor and, in the case of a transfer of a share not fully paid, by or on behalf of the transferee.

#### Transmission of Shares

In case of the death of a shareholder, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where such person was a sole or only surviving holder, will be the only persons recognised by us as having any title to such shares, but nothing in the articles of association shall release the estate of the deceased shareholder from any liability, whether sole or joint, in respect of any share which has been solely or jointly held by the deceased shareholder

Any person becoming entitled to a share as a result of the death or bankruptcy of a shareholder may, upon production of sufficient evidence of his or her right, either elect to be registered as a shareholder or to nominate some person as a registered shareholder in respect of the share.

#### Shareholders Resident Abroad

If a shareholder has not provided us with an address in the UK, we are not required to send notices to such shareholder directly. Notices to such shareholders may be posted in our registered office and are then deemed to be given to those shareholders on the date when they are first posted. Unless otherwise required by law or our articles of association, we may also give notices by advertisement published once in at least one leading UK daily newspaper. Alternatively, so long as a shareholder has so agreed, we may give notice of a general meeting by posting on our website, provided we have notified the shareholder of the posting in a manner agreed with us. There are no limitations on nonresident or foreign shareholders' rights to own our securities or exercise voting rights where such rights are given under English company law. For holders of ADSs, please see "- Description of securities other than equity securities".

#### Equity Share Capital - Rights of Purchase and Redemption

Under English law, a company may issue redeemable shares if authorised by its articles of association and subject to the conditions stated therein. Our articles of association authorise the issue of redeemable shares. Although our cumulative irredeemable preference shares are not subject to redemption like our ordinary shares, our articles of association permit the purchase of our own shares and we may purchase our cumulative irredeemable preference shares. An English company may purchase its own shares, including any redeemable shares, if so authorised by its articles of association and provided that the purchase must be previously approved by a general or specific ordinary resolution of its shareholders in the case of an on-market purchase (although the Association of British Insurers prefers a special resolution), or a special resolution in the case of an off-market purchase. The shares may be redeemed or repurchased only if fully paid and, in the case of

public companies such as us, only out of distributable profits or the proceeds of a new issue of shares issued for the purpose of the purchase or redemption.

As with many other companies listed on the Official List of the UK Listing Authority, we regularly seek authority at annual general meetings to approve on-market purchases of our ordinary shares subject to specified limitations. When a company purchases its own shares wholly out of profits, an amount equal to the nominal amount of the shares purchased and subsequently cancelled must be transferred to the capital redemption reserve, which is generally treated as paid-up share capital. In addition, any amount payable by the company on purchase of its shares in excess of the par value may be paid out of the proceeds of a new issue of shares up to an amount equal to whichever is the lesser of (i) the aggregate of the original premiums received by the company on the issue of those shares or (ii) the amount of the company's share premium account as at the time of the repurchase, including any sum transferred to that account in respect of premiums on the new issue. The UK Listing Authority usually requires that on-market purchases of 15% or more of a company's equity share capital pursuant to a general shareholder authority must be made through either a tender or partial offer to all shareholders (or to all shareholders of the relevant class), and in the case of a tender offer, at a stated maximum or fixed price. Purchases pursuant to a general shareholder authority below the 15% threshold may be made through the market in the ordinary way, provided that the price is not more than 5% above the average of the market value of the company's shares for the five business days before the purchase date.

#### Winding Up

In the event of a winding up, holders of preference shares have priority over holders of ordinary shares. This applies to all types of preference shares. We are subject to the general insolvency law applicable to UK companies, which is described within "Shareholder Information - Regulation".

#### Dividends and Reserves

Our dividends are based on our profits and are paid out to shareholders for each share they hold, and do not generally have any restrictions. Our dividends are usually paid as cash to both UK and overseas shareholders. Our dividends can be paid by cheque or as a direct bank transfer

We generally pay any dividends on our ordinary shares twice a year following the announcement of our full year and half year results. We normally pay a final dividend in May and an interim dividend in November on our ordinary shares. Lost dividend cheques can be re-issued. A shareholder may obtain a replacement cheque from our registrar. We may declare dividends but no dividend may exceed the amount recommended by our Board. Our Board may pay to the shareholders such interim dividends (including the fixed dividends payable on any preference or other shares) as appear to our Board to be justified by our profits and, provided that our Board acts in good faith, it shall not incur any responsibility to the holders of any shares conferring a preference which may at any time be issued for any damage they may suffer by reason of the lawful payment of an interim dividend on any shares ranking after such preference shares. No dividend payable in respect of a share shall bear interest against the Company. Any dividend unclaimed after a period of twelve years from the date fixed for payment will be forfeited and revert to the Company. All dividends unclaimed may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company is not a trustee in respect of this. Our articles of association do not contain any sinking fund provisions. Further details regarding dividends for our ADSs are set out in "- Description of securities other than equity securities" and for our preference shares within "Financial statements IFRS - Note 29 - Preference Share Capital".

### General Meetings

We hold an annual general meeting within six months following our accounting reference date. English company law provides for shareholders to exercise their power to decide on corporate matters at general meetings. Our articles of association require that we hold a general meeting annually to declare dividends, to receive and consider the statutory accounts and the reports by the auditor and the directors, to elect directors, approve the appointment and remuneration of the auditor and approve the Directors' Remuneration Report. The quorum required for a general meeting is ten shareholders present in person or by proxy.

### Convening and Notice of Meetings

Our Board may convene a general meeting as our annual general meeting. Our Board may convene a general meeting whenever it thinks fit. The time and place of any annual general meeting or other general meeting called by our Board shall be decided by our Board.

Our Board will convene a general meeting upon receiving requests to do so from shareholders representing at least five percent of such of the paid-up capital of the Company as carries the right of voting at general meetings (excluding any paid-up capital held as treasury shares). A request to call a general meeting must state the general nature of the business to be dealt with at the proposed meeting. A request may include the text of a resolution, which may be properly moved at the proposed meeting. A request must be in hard copy or electronic form and must be authenticated by the person or persons making it.

Our Board will call any annual general meeting by at least twenty one days' notice in accordance with our articles of association. Any other general meeting will be called by at least fourteen days' notice also in accordance with our articles of association. The notice period calculation under our articles of association excludes the day of the relevant meeting and the day on which the notice of meeting is given. Notice of every general meeting will be given in any manner authorised by our articles of association to even/ shareholder holding shares conferring the right to attend and vote at the meeting who, at the time of the convening of the meeting, has paid all calls or other sums presently payable by such shareholder in respect of all shares held by such shareholder, the auditor and the directors.

### Constitution of Meetings

No business is transacted at a general meeting unless the requisite quorum is present at the commencement of the business. The quorum for all purposes of a general meeting is ten persons present and entitled to vote upon the business to be transacted, each being a shareholder, a person authorised to act as a representative (in relation to the meeting) of a corporation that is a shareholder or 3 person appointed as a proxy of a shareholder in relation to the meeting, except that two persons only acting as representatives of a single corporation that is a shareholder or two persons only appointed as proxies of a single shareholder does not constitute a requisite quorum.

### Voting

Under English law, the voting rights of shareholders are governed by the Company's articles of association, and are subject to the statutory rights of shareholders, including the right to demand a poll. Voting at any meeting of shareholders is by a show of hands unless a poll is demanded. On a show of hands, each shareholder present in person or by a corporate representative or proxy has one vote. On a poll, each shareholder who is present in person or by a corporate representative or by proxy has one vote for every ordinary share held. Subject to any special rights or restrictions attached to any class of shares and to the provisions of our articles of association, on a show of hands every shareholder present in person or by proxy will have one vote and on a poll every shareholder present in person or by proxy will have one vote for each 25 pence in nominal amount of share capital held by

such shareholder. A person entitled to more than one vote on a poll need not use all his or her votes or cast all his or her votes in the same way. Cumulative irredeemable preference shares entitle their holders to attend and vote at general meetings only when dividends on such shares are in arrears, however this does not apply to holders of Sterling New Preference Shares and Euro New Preference Shares. Only the holders of ordinary shares on which all sums payable have been paid are entitled to attend meetings and vote. If more than one joint holder votes, only the vote of the shareholder whose name appears first in the register is counted. Any shareholder who is entitled to attend and vote at a meeting is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf.

### Shareholder Proposals

Under English law, shareholders may requisition a resolution to be voted on at a general meeting if:

- the requisition is made by a holder or the holders of shares that represent not less than 5% of the total voting rights of all shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or
- the requisition is made by not less than 100 shareholders holding shares on which there has been paid up an average sum, per shareholder, of not less than £100.

The requisition must be deposited at the company's registered office not less than one week before the general meeting to which it relates unless the general meeting is called after the requisition is deposited. At any general meeting, the appointment of two or more persons as directors of a public company (such as us) by a single resolution (and not by a separate resolution for each proposed director) may not be proposed unless a resolution approving its proposal is passed by the general meeting with no dissenting votes.

### Proxies

A shareholder may appoint more than one proxy in relation to a general meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A form of proxy is, unless otherwise stated, valid for any adjournment of the meeting to which it relates. When two or more valid but differing forms of proxy are delivered or received for the same share for use at the same meeting, the one which is last validly delivered or received (regardless of its date or the date of its execution) is treated as replacing and revoking the other or others as regards that share. If we are unable to determine which form of proxy was last validly delivered or received, none of them is treated as valid.

### Accounts

Our Board decides whether and to what extent the accounts and books or any of them are to be open to the inspection of shareholders who are not directors. No shareholder who is not a director or an officer has any right of inspecting any account or book or document except as conferred by statute or authorised by our Board or by us in general meeting.

A copy of our annual accounts and reports is, not less than twenty-one days before the date of the meeting, sent or supplied to every shareholder and to every holder of debentures or debenture or loan stock and every person entitled to receive notice of general meeting. The required number of printed copies of every such document is at the same time sent to the London Stock Exchange and to any other stock exchange which has granted a quotation for, or a listing of, any of the shares, as required by their regulations.

### Notices

A notice, document or other information may be given to any shareholder either personally or by sending it in hard copy form by post to the shareholder at his or her registered address or, if



the shareholder has no registered address within the UK to the address (if any) in the UK supplied by the shareholder for the giving of notices to such shareholder or by advertisement or by giving notice in electronic form to an address supplied to us by the shareholder for that purpose or by any other means authorised in writing by the shareholder concerned.

#### Change of Control

There is no specific provision in our articles of association that would have an effect of delaying, deferring or preventing a change in control and that would operate only with respect to a merger, acquisition or corporate restructuring involving us or any of our subsidiaries.

However, English law provides for schemes of arrangement. These are arrangements or compromises between a company and its shareholders, creditors, any class of its shareholders, or any class of its creditors, and are used for certain types of reconstructions, amalgamations, capital reorganisations or takeovers. They require sanction of the court and the approval at a meeting of the company convened by an order of the court of a majority of the shareholders or creditors or class of shareholders or creditors representing not less than 75% in value of the capital or debt held by the shareholders or creditors or class present and voting, either in person or by proxy. Once the scheme becomes effective, all shareholders or creditors (or, if it applies to a class, the shareholders or creditors of the relevant class) are bound by the terms of the scheme.

Under the rules of the UK Listing Authority, shareholder approval is required for an acquisition or disposal by a listed company if the gross assets of the company or the business to be acquired or disposed of represent 25% or more of the gross assets of the company or if various other size ratios prescribed by the Listing Rules of the UK Listing Authority are satisfied. Shareholder approval is also required in some circumstances relating to the giving by the listed company of indemnities and similar arrangements. Where the size of the acquisition or disposal falls below the 25% threshold, information may nevertheless be required to be published. Shareholder approval may also be required for an acquisition or disposal of assets between a listed company and related parties including:

- directors of the company or its subsidiaries;
- holders of 10% or more of the nominal value of any class of the company's or any holding company's or subsidiary's shares having the right to vote in all circumstances at general meetings of the relevant company; or
- any associate of persons described in the two preceding bullet points above

English law also provides that where a takeover offer is made for the shares of a company incorporated in the UK and the offeror has acquired or unconditionally contracted to acquire not less than nine-tenths in value of the shares of any class to which the offer relates and, where the shares to which the offer relates are voting shares, not less than nine-tenths of the voting rights carried by those shares, the offeror may, within three months of the last day on which the offer could be accepted, by notice require shareholders who have not accepted the offer to transfer their shares to the offeror on the terms of the offer. A dissenting shareholder may apply to the court within six weeks of the date on which the notice was given objecting to the transfer or its proposed terms. The court is unlikely, absent unfair treatment, fraud or oppression, to exercise its discretion to order that the transfer shall not take effect, but it may specify the terms of the transfer as it finds appropriate. Where an offeror has reached such nine-tenths level, a minority shareholder is also entitled to require the offeror to acquire his shares on the terms of the offer ("sell-out right") within three months of the last day on which the offer could be accepted or, if later, three months from the date on which the offeror served notice on the minority shareholder notifying him of the sell-out right.

Mergers are sometimes effected through the use of a members' voluntary liquidation of a company pursuant to the Insolvency Act 1986, which provides for the transfer of the whole or part of the assets of that company to another company in return for shares in the transferee company. To effect the transfer, a resolution must be passed by at least 75% of shareholders conferring authority on the liquidator. Any shareholder who does not vote in favour of the resolution may express his dissent by writing to the liquidator within seven days after the passing of the resolution, requiring the liquidator either to abstain from carrying the resolution into effect or to purchase the shareholder's interest at a price to be determined by agreement or by arbitration under the Insolvency Act 1986. The liquidator may apply to the court if it disputes the shareholder's contention and the court may make such an order on the application as it thinks just.

#### Major Shareholding and Disclosure of Interests

Our articles of association do not contain any provisions requiring disclosure of shareholdings over and above that which is required by English law. Further details are available under "Major shareholders".

The basic disclosure requirement under English law and the Disclosure and Transparency Rules promulgated by the FSA imposes an obligation on a person to notify the FSA and us of the percentage of the voting rights in Aviva such person holds or controls directly or indirectly. The Disclosure and Transparency Rules set out the circumstances in which an obligation of disclosure arises as well as certain exemptions from those obligations for specified persons. This obligation is triggered if the percentage of voting rights reaches, exceeds or falls below three percent and any subsequent whole percentage figure as a result of an acquisition or disposal reaches, exceeds or falls below any such threshold as a result of any change in the number of voting rights attached to our shares. The Disclosure and Transparency Rules also deal with the disclosure by certain persons including directors, of interests in shares of the listed companies of which they are directors, and in derivatives and other financial instruments relating to those shares. We may, under English law require a person that we know or have cause to believe is or was during the three years preceding the date of notice interested in our shares to indicate whether or not that is the case and to provide certain information as is permitted under the law.

The City Code on Takeovers and Mergers also imposes strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company on all parties to a takeover and also on their respective associates during the course of an offer period.

#### Shareholder approval of equity compensation plans

The NYSE rules for U.S. companies require that shareholders must be given the opportunity to vote on all equity-compensation plans and material revisions to those plans. We comply with UK requirements, which are similar to the NYSE rules. As a result, the Board does not explicitly take into consideration the NYSE's detailed definition of what are considered "material revisions".

#### Exchange controls and other limitations affecting security holders

Other than requirements to report designated events and transactions under sanctions and other laws in effect from time to time, there are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange controls, or that affect the remittance of dividends or other payments to non-UK residents or to US holders of our securities except as otherwise set forth in "Taxation" below. There are no limitations under our articles of association restricting voting or shareholding.

## Taxation

This section discusses certain material US federal income tax and UK tax consequences to a US Holder that owns Aviva ordinary shares and ADSs.

For purposes of this description, a "US Holder" includes any beneficial owner of the Aviva ordinary shares or ADSs that is, for US federal income tax purposes-

- a citizen or individual resident of the United States;
- a corporation (or other entity treated as a corporation for US federal income tax purposes) created or organised in or under the laws of the United States or organised under the laws of any state thereof, or the District of Columbia; or
- an estate the income of which is subject to US federal income taxation regardless of its source; or a trust if (1) a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of the substantial decisions of such trust; or (2) such trust has a valid election in effect to be treated as a United States person for US federal income tax purposes

A "Non-US Holder" is any beneficial owner of the Aviva ordinary shares or ADSs that is not a US Holder.

This section does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor. This discussion assumes that you are familiar with the tax rules applicable to investments in securities generally, and with any special rules to which you may be subject. In particular, the discussion deals only with investors that will hold Aviva ordinary shares or ADSs as capital assets, and does not address the tax treatment of investors that are subject to special rules, such as banks, financial institutions, insurance companies, dealers or traders in securities or currencies, persons that elect mark-to-market treatment, tax-exempt entities (including 401 pensions plans), real estate investment trusts, regulated investment companies or grantor trusts, individual retirement and other tax-deferred accounts, persons that received Aviva ordinary shares or ADSs as compensation for the performance of services, persons who own, directly, indirectly through non-US entities or by attribution by application of the constructive ownership rules of section 958(b) of the US Internal Revenue Code, 10% or more of Aviva voting shares, persons that are residents of the United Kingdom for UK tax purposes or that conduct a business or have a permanent establishment in the United Kingdom, persons that hold Aviva ordinary shares or ADSs as a position in a straddle, hedging, conversion, integration, constructive sale, or other risk reduction transaction, certain former citizens or long-term residents of the United States, partnerships and their partners and persons whose functional currency is not the US dollar. The discussion is based on laws, treaties, judicial decisions, and regulatory interpretations in effect on the date hereof, all of which are subject to change. Beneficial owners of ADSs will be treated as owners of the underlying shares for US federal income tax purposes and for purposes of the double tax treaty between the United States and the United Kingdom which came into effect on 31 March 2003 (the "Treaty"). Deposits and withdrawals of shares in exchange for ADSs will not result in the realisation of gain or loss for US federal income tax purposes.

**You are urged to consult with your own advisers regarding the tax consequences of the acquisition, ownership, and disposition of Aviva ordinary shares or ADSs in the light of your particular circumstances, including the effect of any state, local, or other national laws.**

### UK Taxation of Dividends

Under current UK tax law, no tax is required to be withheld in the United Kingdom at source from cash dividends paid to US resident holders.

### UK Taxation of Capital Gains

Subject to the comments in the following paragraph, a holder of Aviva ordinary shares or ADSs who, for UK tax purposes, is neither resident nor, in the case of an individual, ordinarily resident, in the UK will not be liable for UK taxation on capital gains realised on the disposal of Aviva ordinary shares or ADSs unless at the time of the disposal:

- the holder carries on a trade, or in the case of an individual, a profession or vocation in the United Kingdom through, in the case of an individual, a branch or agency, or, in the case of a company, a permanent establishment, and
- the Aviva ordinary shares or ADSs are or have been used, held, or acquired for the purpose of such trade, profession, vocation, branch, agency or permanent establishment.

A holder of Aviva ordinary shares or ADSs who (1) is an individual who has ceased to be resident or ordinarily resident for UK tax purposes in the United Kingdom, (2) was resident or ordinarily resident for UK tax purposes in the United Kingdom for at least four out of the seven UK tax years immediately preceding the year in which he or she ceased to be both resident and ordinarily resident in the United Kingdom, (3) only remains non-resident and non-ordinarily resident in the United Kingdom for a period of less than five tax years and (4) disposes of his or her Aviva ordinary shares or ADSs during that period may also be liable, upon returning to the United Kingdom, for UK tax on capital gains, subject to any available exemption or relief, even though he or she was not resident or ordinarily resident in the United Kingdom at the time of the disposal.

### UK Inheritance Tax

Aviva ordinary shares are assets situated in the United Kingdom for the purposes of UK inheritance tax (the equivalent of US estate and gift tax). Aviva ADSs are likely to be treated in the same manner. Subject to the discussion of the UK-US estate tax treaty below, UK inheritance tax may apply if an individual who holds Aviva ordinary shares or ADSs gifts them or dies even if he or she is neither domiciled in the United Kingdom nor deemed to be domiciled there under UK law. For inheritance tax purposes, a transfer of Aviva ordinary shares or ADSs at less than full market value may be treated as a gift for these purposes.

Special inheritance tax rules apply (1) to gifts if the donor retains some benefit, (2) to close companies and (3) to trustees of settlements.

However, as a result of the UK-US estate tax treaty, Aviva ordinary shares or ADSs held by an individual who is domiciled in the United States for the purposes of the UK-US estate tax treaty and who is not a UK national will not be subject to UK inheritance tax on that individual's death or on a gift of the Aviva ordinary shares or ADSs unless the ordinary shares or ADSs

- are part of the business property of a permanent establishment in the United Kingdom, or
- pertain to a fixed base in the United Kingdom used for the performance of independent personal services

The UK-US estate tax treaty provides a credit mechanism if the Aviva ordinary shares or ADSs are subject to both UK inheritance tax and to US estate and gift tax.

**UK Stamp Duty and Stamp Duty Reserve Tax** UK stamp duty is payable on the transfer of Aviva ordinary shares to a nominee or agent of the depositary in exchange for Aviva ADRs representing ADSs.

Furthermore, UK stamp duty reserve tax is payable upon the transfer of Aviva ordinary shares to a nominee or agent of the depositary in exchange for Aviva ADRs representing ADSs. For this purpose, the current rate of stamp duty and stamp duty reserve tax is 1.5% (rounded up, in the case of stamp duty, to the nearest £5). The rate is applied, in each case, to the amount or value of the consideration given for the Aviva ordinary shares or, in some

circumstances, to the value of the Aviva ordinary shares at the time of transfer or issue. To the extent that such stamp duty is paid on any such transfer of Aviva ordinary shares, no stamp duty reserve tax should be payable on that transfer. Provided that the instrument of transfer is not executed in the United Kingdom and remains at all subsequent times outside the United Kingdom, no UK stamp duty will be required to be paid on any transfer of Aviva ADRs representing ADSs. An agreement to transfer Aviva ADRs will not give rise to a liability to stamp duty reserve tax.

The transfer for value of Aviva ordinary shares, as opposed to Aviva ADRs, will generally give rise to a charge to UK stamp duty or stamp duty reserve tax at the rate of 0.5% (rounded up, in the case of stamp duty, to the nearest £5, with transfers for a value not exceeding £1,000 being exempt). The rate is applied to the price payable for the relevant Aviva ordinary shares. Stamp duty reserve tax is generally the liability of the purchaser and UK stamp duty is usually paid by the purchaser.

#### US Taxation of Distributions

The gross amount of any distributions made by us to a US Holder will generally be subject to US federal income tax as dividend income to the extent paid or deemed paid out of our current or accumulated earnings and profits, as determined under US federal income tax principles. Such dividends will not be eligible for the dividends received deduction generally allowed to US corporations with respect to dividends received from other US corporations. To the extent that an amount received by a US Holder exceeds its allocable share of our current and accumulated earnings and profits, such excess would, subject to the discussion below, be treated first as a tax-free return of capital which will reduce such US Holder's tax basis in his Aviva ordinary shares or ADSs and then, to the extent such distribution exceeds such US Holder's tax basis, it will be treated as capital gain.

Subject to applicable holding period and other limitations, the US dollar amount of dividends received on the Aviva ordinary shares or ADSs in taxable years beginning prior to January 1, 2013 by certain non-corporate US Holders will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends" and certain other requirements are met. Dividends paid on the Aviva ordinary shares or ADSs will be treated as qualified dividends if: (i) we are eligible for the benefits of the Treaty or the ADSs are readily tradeable on an established US securities market and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). Although we currently believe that distributions on the Aviva ordinary shares or ADSs that are treated as dividends for US federal income tax purposes should constitute qualified dividends, no assurance can be given that this will be the case. US Holders should consult their tax advisers regarding the tax rate applicable to dividends received by them with respect to the Aviva ordinary shares or ADSs, as well as the potential treatment of any loss on a disposition of Aviva ordinary shares or ADSs as long-term capital loss regardless of the US Holders' actual holding period for the Aviva ordinary shares or ADSs.

We have not maintained and do not plan to maintain calculations of earnings and profits under US federal income tax principles. Accordingly, it is unlikely that US Holders will be able to establish whether a distribution by us is in excess of our accumulated earnings and profits (as computed under US federal income tax principles). If US Holders are unable to establish that distributions are in excess of our accumulated earnings and profits as determined under US federal income tax principles, any distribution by us may be treated as taxable in its

entirety as a dividend to US Holders for US federal income tax purposes.

For foreign tax credit computation purposes, dividends will generally constitute foreign source income, and with certain exceptions, will constitute "passive category income".

#### US Taxation of Capital Gains

Gain or loss realised by a US Holder on the sale or other disposition of Aviva ordinary shares or ADSs will be subject to US federal income taxation as capital gain or loss in an amount equal to the difference between the US Holder's adjusted tax basis in the Aviva ordinary shares or ADSs and the amount realised on the disposition. Such gain or loss generally will be treated as long-term capital gain or loss if the Aviva ordinary shares or ADSs have been held for more than one year. Any such gain or loss realised will generally be treated as US source gain or loss. In the case of a US Holder who is an individual, capital gains are currently subject to federal income tax at preferential rates if specified minimum holding requirements are met. The deductibility of capital losses is subject to significant limitations.

#### Passive Foreign Investment Company Considerations

We believe that we should not be treated as a PFIC for US federal income tax purposes for the current taxable year and do not expect to become a PFIC in future years. However, because PFIC status is determined on an annual basis and because our income and assets and the nature of our activities may vary from time to time, we cannot assure US Holders that we will not be considered a PFIC for any taxable year.

We would be a PFIC for US federal income tax purposes in any taxable year if 75% or more of our gross income would be passive income, or on average at least 50% of the gross value of our assets is held for the production of, or produces, passive income. In making the above determination, we are treated as earning our proportionate share of any income and owning our proportionate share of any asset of any company in which we are considered to own, directly or indirectly, 25% or more of the shares by value. If we were considered a PFIC at any time when a US Holder held the Aviva ordinary shares or ADSs, we generally should continue to be treated as a PFIC with respect to that US Holder, and the US Holder generally will be subject to special rules with respect to (a) any gain realised on the disposition of the Aviva ordinary shares or ADSs and (b) any "excess distribution" by us to the US Holder in respect of the Aviva ordinary shares or ADSs. Under the PFIC rules: (i) the gain or excess distribution would be allocated ratably over the US Holder's holding period for the Aviva ordinary shares or ADSs, (ii) the amount allocated to the taxable year in which the gain or excess distribution was realised or to any year before we became a PFIC would be taxable as ordinary income and (iii) the amount allocated to each other taxable year would be subject to tax at the highest tax rate in effect in that year and an interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year. Because a US Holder that is a direct (and in certain cases indirect) shareholder of a PFIC is deemed to own its proportionate share of interests in any lower-tier PFICs, US Holders should be subject to the foregoing rules with respect to any of our subsidiaries characterised as PFICs, if we are deemed a PFIC. A US Holder may be able to avoid many of these adverse tax consequences if it elects to mark the Aviva ordinary shares or ADSs to market on an annual basis. However, any such mark to market election would not be available for a lower-tier PFIC. US Holders are urged to consult their tax advisers about the PFIC rules, including the advisability, procedure and timing of making a mark-to-market election and the US Holder's eligibility to file such an election (including whether the Aviva ordinary shares or ADSs are treated as "publicly traded" for such purpose).

on, or proceeds of the sale or other disposition of, Aviva ordinary shares or ADSs unless such US Holder qualifies within certain categories of exempt recipients or provides a taxpayer identification number and certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. Amounts withheld under these rules may be credited against the US Holder's US federal income tax liability and a US Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate IRS forms and furnishing any required information. A US Holder who does not provide a correct taxpayer identification number may be subject to penalties imposed by the IRS.

A non-US Holder generally will not be subject to information reporting or backup withholding with respect to dividends on Aviva ordinary shares or ADSs, unless payment is made through a paying agent (or office) in the United States or through certain US-related financial intermediaries. However, a Non-US Holder generally may be subject to information reporting and backup withholding with respect to the payment within the United States of dividends on Aviva ordinary shares or ADSs, unless such non-US Holder provides a taxpayer identification number, certifies under penalties of perjury as to its foreign status, or otherwise establishes an exemption

### Where you can find more information

As a result of filing a registration statement with respect to our ADSs and ordinary shares, we are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and file reports and other information with the Securities and Exchange Commission. You may read and copy this information at the following location: Public Reference Room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Copies of these materials can also be obtained by mail at prescribed rates from the Public Reference Room and are available on the Securities and Exchange Commission's website at <http://www.sec.gov>.

Our ADSs are listed on the NYSE, and consequently, our periodic reports and other information filed by us with the SEC can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005, and on the NYSE's website at <http://www.nyse.com>.

We also file reports and other documents with the London Stock Exchange. This information may be viewed on the London Stock Exchange's website at <http://www.londonstockexchange.com> and those reports and documents not filed electronically may be viewed at the Document Viewing Facility, UK Listing Authority, Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS, UK. All reports and other documents filed with the London Stock Exchange are also published on our website at <http://www.aviva.com>.

### Description of securities other than equity securities

The ordinary shares underlying our "ADSs" were registered under the Securities Exchange Act of 1934, as amended, in October 2009. The ADSs are represented by "ADRs" for trading on the NYSE under the symbol "AV". One ADR represents two ordinary shares.

#### Fees and expenses for ADS holders

ADS holders will be required to pay the following service fees to the depositary bank:

Issuance of ADSs	Up to US 5c per ADS issued
Cancellation of ADSs	Up to US 5c per ADS cancelled
Distribution of cash dividends held or other cash distributions	Up to US 5c per ADS
Distribution of ADSs pursuant held to stock dividends, free stock distributions or exercise of rights.	Up to US 5c per ADS
Distribution of securities other held than ADSs or rights to purchase additional ADSs	Up to US 5c per ADS
Depository Services	Up to US 5c per ADS held on the applicable record date(s) established by the Depository

- Fees for the transfer and registration of ordinary shares charged by the registrar and transfer agent for the ordinary shares in England and Wales (i.e., upon deposit and withdrawal of ordinary shares),
- Expenses incurred for converting foreign currency into US dollars;
- Expenses for cable, telex and fax transmissions and for delivery of securities;
- Taxes and duties upon the transfer of securities (i.e., when ordinary shares are deposited or withdrawn from deposit),
- Fees and expenses incurred in connection with compliance with exchange control regulations or other regulatory requirements applicable to the ordinary shares, and
- Fees and expenses incurred in connection with the delivery or servicing of ordinary shares on deposit.

Depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary bank by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary bank and by the brokers (on behalf of their clients) delivering the ADSs to the depositary bank for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to holders and the depositary services fee are charged by the depositary bank to the holders of record of ADSs as of the applicable ADS record date.

The Depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary bank charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary bank sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary bank generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary banks.

In the event of refusal to pay the depositary fees, the depositary bank may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder.

Note that the fees and charges ADS holders may be required to pay may vary over time and may be changed by us and by the depositary bank. ADS holders will receive prior notice of such changes.

The depositary bank may reimburse us for certain expenses incurred by us in respect of the ADR programme established pursuant to the deposit agreement upon such terms and

ADS holders will also be responsible for paying certain fees and expenses incurred by the depositary bank and certain taxes and governmental charges such as:

## Additional disclosures for SEC continued

conditions as we and the depositary bank may agree from time to time.

**Depositary payment to Aviva pic**

The depositary bank may reimburse us for certain expenses incurred by us in respect of the ADR programme established pursuant to the deposit agreement upon such terms and conditions as we and the depositary bank may agree from time to time. From 1 January 2012 to 31 December 2012, we received from the depositary bank \$354,567.69 for standard out-of-pocket maintenance costs for the ADRs (consisting of the expenses of postage and envelopes for mailing for our annual general meeting, calculation of dividend payments, printing and distributing dividend cheques, electronic filing of US Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls) and legal fees.

The depositary bank has agreed to reimburse us for expenses as they occur in the future that are related to establishment and maintenance expenses of the ADR programme. The depositary bank has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing for the annual general meeting, calculation of dividend payments, printing and distributing dividend cheques, electronic filing of US Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls.

There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors.

**Purchase of equity securities by Aviva pic and affiliated purchasers**

The following table sets forth information with respect to purchases made by or on behalf of Aviva pic or any "affiliated purchasers" (as that term is defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Aviva's ordinary shares or ADSs for the year ended 31 December 2012.

Maximum Number of Shares that May Yet be Purchased Under the Plans or Programmes				Total	Number of
Total	Number of	Average	Purchased	as	Part of Publicly
Shares	Shares Purchased <sup>1,2</sup>	Price Paid per Share <sup>1</sup>	Part of Announced Plans	Publicly Announced Plans	Announced Plans
53,764		3.6	n/	n/	
51,121		1	a	a	
754,939		3.7	n/	n/	
63,529		5	a	a	
70,005		3.5	n/	n/	
68,430		4.3	a	a	
69,269		00	n/	n/	
58,080		2	a	a	
1,658,46		71	n/	n/	
7		2	a	a	
4,455,11		76	n/	n/	
8		28	a	a	

January  
February  
March  
April  
May  
June  
July  
August  
September  
October  
November

**December**

The shares listed in this column were acquired by employee benefit trusts during the year to satisfy future obligations to deliver shares under the Company's executive and employee share plans. This table includes Aviva pic shares purchased by investment funds managed by Aviva Investors in accordance with investment strategies that are established by Aviva Investors acting independently of Aviva pic.

**Statement of differences from NYSE corporate governance practices**

Under Section 303(A) of the NYSE Listed Company Manual, the Company must provide a brief description of any significant differences between its corporate governance practices, which are informed by UK law in the case of the Company, and those followed by US companies under the NYSE listing standards. The description need not set forth all differences between UK law and US law; rather, the focus is on the Company's practices. The Company's statement of differences is set out in the Governance section of this report on page 54.

**Legal proceedings**

We are involved in litigation in the ordinary course of business, including litigation in which plaintiffs seek compensatory or punitive damages and mass or class relief. Information on various legal proceedings is set out in "Financial Statements - Note 48 -Contingent liabilities and other risk factors".

The directors do not believe that any current pending or threatened litigation or dispute will have a material adverse effect on the Group's financial position, although there can be no assurance that losses resulting from any pending or threatened litigation or dispute will not materially affect the Group's financial position for any period.

**Employees**

Membership of our employees in trade unions varies from country to country, and we have entered into various collective bargaining agreements or appropriate employee consultation arrangements, or both, in most of the countries in which we operate where required. It is our practice to renew or replace our various labour arrangements relating to continuing operations as and when they expire and we are not aware of any material arrangement whose expiry is pending and which is not expected to be satisfactorily renewed or replaced in a timely manner. We have not experienced any significant work stoppages or strikes in the past three years. We believe that relations with our employees are generally good.

**Controls and procedures**

Disclosure controls and procedures  
Management has evaluated, with the participation of Aviva's Group chief executive officer and chief financial officer, the effectiveness of the disclosure controls and procedures as at 31 December 2012. Based upon Aviva's evaluation, the Group chief executive officer and chief financial officer concluded that, as of 31 December 2012, Aviva's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by Aviva in the reports which Aviva files and submits under the US Securities Exchange Act of 1934, as amended, is recorded, processed, summarised and reported, within the time periods specified in the applicable rules and forms and that it is accumulated and communicated to Aviva's management, including the Group chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure

Management's annual report on internal control over financial reporting

Management, including Aviva's Group chief executive officer and chief financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its financial statements for external purposes in accordance with IFRS

Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS, (iii) provide reasonable assurance that receipts and expenditures are being made only in accordance with the authorisation of management and directors of Aviva Group; and (iv) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of Aviva Group's assets that could have a material effect on the financial statements

Due to its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness of future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Aviva Group's management assessed the effectiveness of the internal control over financial reporting as at 31 December 2012 using the criteria set forth by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) in its report 'Internal Control - Integrated Framework' Based on its assessment, management concluded that, as at 31 December 2012, Aviva Group's internal control over financial reporting was effective based on the COSO criteria.

The effectiveness of Aviva Group's internal control over financial reporting as at 31 December 2012 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included on page 106

Changes in internal control over financial reporting There have been no significant changes in Aviva Group's internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, Aviva Group's internal control over financial reporting.

## Other information

In this section	
Glossary	259
Signatures	261
Exhibits	262

## Product definitions

### Annuities

A type of policy that pays out regular amounts of benefit, either immediately and for the remainder of a person's lifetime, or deferred to commence from a future date. Immediate annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of people. Deferred annuities are accumulation contracts, which may be used to provide benefits in retirement, and may be guaranteed, unit-linked or index-linked

### Bonds and savings

These are accumulation products with single or regular premiums and unit-linked or guaranteed investment returns.

### Critical illness cover

Pays out a lump sum if the insured person is diagnosed with a serious illness that meets the plan definition.

### Deferred annuities

An annuity (or pension) due to be paid from a future date or when the policyholder reaches a specified age. A deferred annuity may be funded by a policyholder by payment of a series of regular contributions or by a capital sum.

### Group pensions

A pension plan that covers a group of people, which is typically purchased by a company and offered to their employees

### Guaranteed annuities

A policy that pays out a fixed regular amount of benefit for a defined period.

### Income drawdown

The policyholder can transfer money from any pension fund to an income drawdown plan from which they receive an income. The remainder of the pension fund continues to be invested, giving it the potential for growth

### Investment sales

Comprise retail sales of mutual fund-type products such as unit trusts, individual savings accounts (ISAs) and open ended investment companies (OEICs).

### ISAs

Individual savings accounts - Tax-efficient plans for investing in stocks and shares, cash deposits or life insurance investment funds, subject to certain limits.

### Mortgage endowment

An insurance contract combining savings and protection elements which is designed to repay the principal of a loan or mortgage.

### Mortgage life insurance

A protection contract designed to pay off the outstanding amount of a mortgage or loan in the event of death of the insured.

### OEIC (Open ended investment company)

An collective investment fund structured as a limited company in which investors can buy and sell shares.

### Pensions

A means of providing income in retirement for an individual and possibly his/her dependants.

### Personal pensions

A pension plan tailored to the individual policyholder, which includes the options to stop, start or change their payments.

### Protection

An insurance contract that protects the policyholder or his/her dependants against financial loss on death or ill-health.

### Regular premium

A series of payments are made by the policyholder, typically monthly or annually, for part of or all of the duration of the contract.

### SICAVs

This is an open-ended investment fund, structured as a legally independent joint stock company, whose units are issued in the form of shares

### Single premium

A single lump sum is paid by the policyholder at commencement of the contract

### Stakeholder pensions

Low cost and flexible pension plans available in the UK, governed by specific regulations.

### Term assurance

A simple form of life insurance, offering cover over a fixed number of years during which a lump sum will be paid out if the life insured dies

### Unit trusts'

A form of open ended collective investment constituted under a trust deed, in which investors can buy and sell units.

### Unit-linked annuities

A type of deferred annuity which is invested in units of investment funds, whose value depends directly on the market value of assets in those funds

### Whole life

A protection policy that remains in force for the insured's whole life. Traditional whole life contracts have fixed premium payments that typically cannot be missed without lapsing the policy. Flexible whole life contracts allow the policyholder to vary the premium and/or amount of life cover, within certain limits.

### With-profits

A type of long-term savings and insurance product sold in the UK under with profits policies premiums are paid into a separate fund. Policyholders receive a return on their policies through bonuses, which "smooth" the investment return from the assets which premiums are invested in. Bonuses are declared on an annual and terminal basis. Shareholders have a participating interest in the with-profit funds and any declared bonuses. Generally, policyholder and shareholder participation in with-profit funds in the UK is split 90/10.



## General terms

### Adjusted operating profit

From continuing operations based on expected investment returns, stated before tax attributable to shareholders' profits and before non-operating items including, impairment of goodwill, exceptional and other items.

### Available for sale (AFS)

Securities that have been acquired neither for short-term sale nor to be held to maturity. These are shown at fair value on the statement of financial position and changes in value are taken straight to equity instead of the income statement

### Association of British Insurers (ABI)

A major trade association for UK insurance companies, established in July 1985.

### Acquired value of in force (AVIF)

The present value of future profits on a portfolio of long-term insurance and investment contracts, acquired either directly or through the purchase of a subsidiary.

### Bancassurance

An arrangement whereby banks and building societies sell insurance and investment products to their customers on behalf of other financial providers

### UK Corporate Governance Code

The code sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice

### Deferred acquisition costs (DAC)

The costs directly attributable to the acquisition of new business for insurance and investment contracts may be deferred to the extent that they are expected to be recoverable out of future margins in revenue on these contracts.

### Fair value

The amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### FSA

The UK's Financial Services Authority - Main regulatory body appointed by the government to oversee financial services industry in the UK. Since December 2001 it has been the single statutory regulator responsible for savings, insurance and investment business. From 1 April 2013, the FSA will split into two new regulatory bodies, the Prudential Regulation Authority (PRA), which will be a subsidiary of the Bank of England, and the Financial Conduct Authority (FCA)

### Funds under management

Represents all assets actively managed or administered by or on behalf of the Group including those funds managed by third parties

### Funds under management by Aviva

Represents all assets actively managed or administered by the fund management operations of the Group

### General insurance

Also known as non-life or property and casualty insurance. Property insurance covers loss or damage through fire, theft, flood, storms and other specified risks. Casualty insurance primarily covers losses arising from accidents that cause injury to other people or damage the property of others

### Gross written premiums

The total earnings or revenue generated by sales of insurance products, before any reinsurance is taken into account. Not all premiums written will necessarily be treated as income in the current financial year, because some of them could relate to insurance cover for a subsequent period.

### Independent Financial Advisers (IFAs)

A person or organisation authorised to give advice on financial matters and to sell the products of all financial service providers.

### IFRS

International Financial Reporting Standards These are accounting regulations designed to ensure comparable statement of financial position preparation and disclosure, and are the standards that all publicly listed companies in the European Union are required to use

### Inherited estate

In the UK, the assets of the long-term with-profit funds less the realistic reserves for non-profit policies written within the with-profit funds, less asset shares aggregated across the with-profit policies and any additional amounts expected at the valuation date to be paid to in-force policyholders in the future in respect of smoothing costs and guarantees

### Long-term and savings business

Collective term for life insurance, pensions, savings, investments and related business.

### Net written premiums

Total gross written premiums for the given period, minus premiums paid over or 'ceded' to reinsurers

### Net asset value per ordinary share

Net asset value divided by the number of ordinary shares in issue Net asset value is based on equity shareholders' funds.

### Present value of new business (PVNBP)

Present value of new regular premiums plus 100% of single premiums, calculated using assumptions consistent with those used to determine the value of new business under Market Consistent Embedded Value (MCEV) principles published by the CFO Forum

### Turnbull Guidance on Internal Control

The Turnbull Guidance sets out best practice on internal controls for UK listed companies, and provides additional guidance in applying certain sections of the UK Corporate Governance Code

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorised the undersigned to sign this annual report on its behalf.

Aviva pic  
(Registrant  
)

Dated 22 March 2013

Mark Wilson  
Group chief executive officer

# Exhibit

## The following exhibits have been filed as part of this Annual Report:

- Exhibit 1.1 Articles of Association of Aviva pic adopted by special resolution passed on 3 May 2012
- Exhibit 2.1 Form of Deposit Agreement among Aviva pic, Citibank, as depositary, and holders and beneficial owners from time to time of ADRs issued thereunder, including the form of ADR (incorporated by reference to Exhibit 2.1 of the Aviva pic Registration Statement on Form 20-F filed on 7 October 2009)
- Exhibit 2.2 The total amount of long term debt securities of Aviva pic authorised under any instrument does not exceed 10 percent of the total assets of the Company on a consolidated basis. Aviva pic hereby agrees to furnish to the Securities and Exchange Commission, upon its request, a copy of any instrument defining the rights of holders of long-term debt of Aviva pic or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed.
- Exhibit 4.1 Aviva Capital Accumulation plan rules (incorporated by reference to Exhibit 4.1 of the Aviva pic Registration Statement on Form 20-F filed on 7 October 2009)
  - Exhibit 4.1.1 Addendum Aviva Capital Accumulation plan rules (22 December 2010)
  - Exhibit 4.1.2 Addendum Aviva Capital Accumulation plan rules (8 December 2010)
- Exhibit 4.2 Aviva Executive Long Term Incentive plan 2011 rules (amended 2012)
- Exhibit 4.2.1 Rules of the Aviva Investors Holdings Limited 2009 Long term incentive plan (amended 2013)
- Exhibit 4.3 Aviva Executive Annual Bonus 2011 plan rules (amended 2012)
- Exhibit 4.4 Aviva Executive Share Option plan rules (incorporated by reference to Exhibit 4.7 of the Aviva pic of the 2009 Annual Report filed on Form 20-F on 30 March 2010)
- Exhibit 4.5 Rules of the Aviva recruitment and retention share award plan CFO
- Exhibit 4.6 Conditional Share Award Terms and Conditions - Trevor Matthews
- Exhibit 4.7 Rules of the Aviva recruitment and retention share award plan (amended 2012)
- Exhibit 8.1 Schedule of subsidiaries of Aviva pic
- Exhibit 11.1 Code of ethics (incorporated by reference to Exhibit 11.1 of the Aviva pic Registration Statement on Form 20-F filed on 7 October 2009)
- Exhibit 12.1 Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 12.2 Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 13.1 Certification of the Company's Chief Executive Officer pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- Exhibit 13.2 Certification of the Company's Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

# Exhibit 1.1

THE COMPANIES ACT 1985

THE COMPANIES ACT 2006

PUBLIC COMPANY LIMITED BY SHARES

ARTICLES OF  
ASSOCIATION OF AVIVA pic

as adopted by special resolution passed on 3 May 2012

## CONTENTS

PRELIMINARY .....	6
1. Interpretation .....	6

2.	Model articles or regulations not to apply .....	9
	LIABILITY OF MEMBERS.....	9
3.	Limited liability .....	9
	SHARE CAPITAL.....	9
4.	Special Share Rights.....	9
5.	Allotment and pre-emption.....	19
6.	Power to issue different classes of shares.....	19
7.	Rights and restrictions attaching to shares.....	19
8.	Commission.....	19
9.	Trusts not recognised.....	20
10.	Uncertificated shares .....	20
	SHARE CERTIFICATES.....	20
11.	Right to certificate .....	20
12.	Replacement certificates.....	21
	SHARE WARRANTS TO BEARER.....	21
13.	Share Warrants .....	21
	LIEN .....	22
14.	Company's lien on shares not fully paid.....	23
15.	Enforcement of lien by sale .....	23
16.	Application of proceeds of sale .....	23
	CALLS ON SHARES.....	23
17.	Calls.....	23
18.	Power to differentiate .....	24
19.	Interest on calls.....	24
20.	Payment in advance.....	24
21.	Amounts due on allotment or issue treated as calls .....	24
	FORFEITURE .....	24
22.	Notice if call not paid .....	24
23.	Forfeiture for non-compliance.....	25
24.	Notice after forfeiture .....	25
25.	Disposal of forfeited shares .....	25
26.	Arrears to be paid notwithstanding forfeiture.....	25
27.	Surrender .....	26
	UN TRACED SHAREHOLDERS .....	26
28.	Power of sale.....	26
29.	Application of proceeds of sale.....	27
	TRANSFER OF SHARES.....	27
30.	Method of transfer.....	27
31.	Right to refuse registration.....	28

32.	Fees on registration .....	29
	TRANSMISSION OF SHARES.....	29
33.	On death .....	29
34.	Election of person entitled by transmission .....	29
35.	Rights on transmission .....	30
	FRACTIONS OF SHARES.....	30
36.	Fractions.....	30
	GENERAL MEETINGS.....	31
37.	Annual general meetings.....	31
38.	Convening of general meetings by the Board .....	31
39.	Convening of general meetings by requirement of the members.....	31
40.	Length and form of notice.....	31
41.	Omission to send notice .....	32
42.	Postponement of general meetings .....	32
	PROCEEDINGS AT GENERAL MEETINGS .....	32
43.	Quorum .....	32
44.	No business to be transacted unless quorum present .....	32
45.	Procedure if quorum not present.....	33
46.	Chairman.....	33
47.	Right to attend and speak.....	33
48.	Power to adjourn .....	34
49.	Notice of adjourned meeting.....	34
50.	Business at adjourned meeting.....	34
51.	Accommodation of members at meeting .....	34
52.	Security .....	35
	VOTING.....	35
53.	Method of voting.....	3
	5	
54.	Procedure on a poll .....	36
55.	Votes of members .....	36
56.	No casting vote.....	37
57.	Restriction on voting rights for unpaid calls etc .....	38
	UK-2347585-V3D	
	. 2 - 70-40460356	
58.	Voting by proxy .....	38
59.	Appointment of proxy.....	39
60.	Validity of actions by proxy or representative of a corporation .....	40
61.	Corporate representatives .....	40
62.	Objections to and error in voting .....	41
63.	Amendments to special resolutions .....	41
64.	Amendments to ordinary resolutions.....	41
65.	Class meetings .....	41

66.	Failure to disclose interests in shares.....	42
	<b>APPOINTMENT, RETIREMENT AND REMOVAL OF DIRECTORS .....</b>	<b>43</b>
67.	Number of directors.....	44
68.	Power of the Company to appoint directors .....	44
69.	Power of the Board to appoint directors .....	44
70.	Managing and Executive Directors .....	44
71.	Eligibility of new directors .....	44
72.	Voting on resolution for appointment.....	45
73.	Retirement by rotation .....	45
74.	Directors subject to retirement.....	45
75.	Position of retiring director.....	46
76.	procedure if insufficient directors appointed.....	46
77.	provisions for meeting convened under article 76.....	46
78.	Deemed reappointment.....	46
79.	No retirement on account of age.....	47
80.	Removal by ordinary resolution .....	47
81.	Vacation of office by director.....	47
	<b>ALTERNATE DIRECTORS .....</b>	<b>48</b>
82.	Appointment .....	48
83.	Revocation of appointment.....	48
84.	Participation in Board meetings.....	48
85.	Responsibility .....	49
	<b>REMUNERATION, EXPENSES AND PENSIONS .....</b>	<b>49</b>
86.	Directors' fees .....	49
87.	Additional remuneration.....	49
88.	Expenses .....	49
89.	Remuneration and expenses of alternate directors .....	50
90.	Directors' pensions and other benefits .....	50
91.	Remuneration of executive directors .....	50

	<b>POWERS AND DUTIES OF THE BOARD.....</b>	<b>50</b>
92.	Powers of the Board .....	50
93.	Powers of directors being less than minimum required number .....	51
94.	Powers of executive directors.....	51
95.	Delegation to committees .....	51
96.	Agents.....	51
97.	Associate directors .....	52
98.	Exercise of voting powers .....	52
99.	Provision for employees.....	52
100.	Registers .....	52
101.	Borrowing powers .....	52

102.	Register of charges .....	55
103.	Directors'Interests .....	55
	<b>PROCEEDINGS OF DIRECTORS AND COMMITTEES .....</b>	<b>60</b>
104.	Board meetings.....	60
105.	Notice of Board meetings.....	60
106.	Quorum.....	60
107.	Chairman of Board .....	60
108.	Voting.....	61
109.	Participation by telephone .....	61
110.	Resolution in writing.....	61
111.	Proceedings of committees.....	61
112.	Records of proceedings .....	61
113.	Validity of proceedings of Board or committee .....	62
	<b>SECRETARY AND AUTHENTICATION OF DOCUMENTS .....</b>	<b>62</b>
114.	Secretary.....	62
115.	Authentication of documents.....	62
	<b>SEALS .....</b>	<b>62</b>
116.	Safe custody .....	62
117.	Application of seals.....	63
	<b>DIVIDENDS AND OTHER PAYMENTS .....</b>	<b>63</b>
118.	Declaration of dividends .....	63
119.	Interim dividends.....	63
120.	Entitlement to dividends.....	63
121.	Method of payment .....	64
122.	Dividends not to bear interest.....	65
123.	Reserves and Carry Forward .....	66
	<small>UK-2347585-V3D</small>	<small>. A _ 70-40460356</small>
124.	Calls or debts may be deducted from dividends etc .....	66
125.	Unclaimed dividends etc .....	66
126.	Uncashed dividends.....	66
127.	Payment of dividends in specie .....	66
128.	Payment of scrip dividends .....	67
129.	Capitalisation of profits .....	69
130.	Record dates .....	70
	<b>ACCOUNTS .....</b>	<b>70</b>
131.	Keeping and inspection of accounts.....	70
132.	Accounts to be sent to members etc .....	70
	<b>NOTICES AND COMMUNICATIONS .....</b>	<b>71</b>
133.	Form of notices and communications by the Company .....	71
134.	Notice by advertisement.....	71
135.	Deemed delivery of notices, documents and information .....	72



136.	Notice binding on transferees etc .....	72
137.	Notice in case of joint holders and entitlement by transmission .....	73
	MISCELLANEOUS .....	73
138.	Destruction of documents.....	73
139.	Winding up.....	74
140.	Indemnification of officers.....	74

UK-2347585-v3D

-5-

70-40460356

Company No. 2468686

THE COMPANIES ACT 1985

THE COMPANIES ACT 2006

PUBLIC COMPANY LIMITED BY SHARES

ARTICLES OF  
ASSOCIATION OF AVIVA pic

## PRELIMINARY

### 1. INTERPRETATION

1.1 In these articles, unless the context otherwise requires:

"Act" means the Companies Act 2006;

"articles" means these articles of association as altered from time to time;

"auditors" means the auditors from time to time of the Company;

"Board" means the board of directors from time to time of the Company or the directors present at a duly convened meeting of the directors at which a quorum is present;

"business day" means a day (not being a Saturday, Sunday or bank holiday) on which clearing banks are open for business in London;

"certificated" means, in relation to a share, a share which is not in uncertificated form;

"clear days" means, in relation to a period of notice, that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect;

UK-2347585-V3D

70-40460356

"Company" means Aviva pic incorporated in England and Wales with company number 2468686 and "company" includes any body corporate (not being a corporation sole) or association of persons, whether or not a company within the meaning of the Act;

"director" means a director of the Company;

"entitled by transmission" means, in relation to a share, entitled as a consequence of the death or bankruptcy of a member, or as a result of another event giving rise to a transmission of entitlement by operation of law;

"executed" includes, in relation to a document, execution under hand or under seal or by any other method permitted by law;

"holder" means, in relation to a share, the member whose name is entered in the register as the holder of that share;

"in writing" means in hard copy form or, to the extent permitted by the Act, in any other form;

"London Stock Exchange" means London Stock Exchange pic;

"member" means a member of the Company;

"office" means the registered office of the Company;

"paid", "paid up" and "paid-up" mean paid or credited as paid;

"qualifying person" means an individual who is a member of the Company, a person authorised under section 323 of the Act to act as the representative of a corporation in relation to a meeting or a person appointed as proxy of a member in relation to the meeting;

"register" means the register of members of the Company kept pursuant to section 113 of the Act or the issuer register of members and Operator register of members maintained pursuant to Regulation 20 of the Uncertificated Securities Regulations and, where the context requires, any register maintained by the Company or the Operator of persons holding any renounceable right of allotment of a share;

"seal" means the common seal of the Company or any official or securities seal that the Company may have or may be permitted to have under the Act;

"secretary" means the secretary of the Company and includes any joint, assistant or deputy secretary and a person appointed by the Board to perform the duties of the secretary;

"shares" means shares in the capital of the Company;

"Statutes" means the Act and all statutes and subordinate legislation for the time being in force concerning companies so far as they apply to the Company;

"UKLA" means the UK Listing Authority, a division of the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 or any successor enactment;

"uncertificated proxy instruction" means an instruction or notification sent by means of a relevant system and received by such participant in that system acting on behalf of the Company as the Board may prescribe, in such form and subject to such terms and conditions as may from time to time be prescribed by the Board (subject always to the facilities and requirements of the relevant system concerned);

"Uncertificated Securities Regulations" means the Uncertificated Securities Regulations 2001, as amended from time to time, including any provisions of or under the Act which alter or replace such regulations; and

"uncertificated" means, in relation to a share, that title to the share is recorded in the register as being held in uncertificated form and may, by virtue of the Uncertificated Securities Regulations, be transferred by means of a relevant system.

The expressions "issuer register of members", "Operator", "Operator-instruction", "Operator register of members", "participating issuer", "participating security" and "relevant system" have the same meaning as in the Uncertificated Securities Regulations.

- 1.2 Unless the context otherwise requires, words and expressions to which a particular meaning is given by the Act, as in force when the articles are adopted, shall have the same meaning in the articles, except where the word or expression is otherwise defined in the articles.
- 1.3 All references in the articles to the giving of instructions by means of a relevant system shall be deemed to relate to a properly authenticated dematerialised instruction given in accordance with the Uncertificated Securities Regulations. The giving of such instructions shall be subject to:
  - 1.3.1 the facilities and requirements of the relevant system;
  - 1.3.2 the Uncertificated Securities Regulations; and

- 1.3.3 the extent to which such instructions are permitted by or practicable under the rules and practices from time to time of the Operator of the relevant system.
- 1.4 Where an ordinary resolution of the Company is expressed to be required for any purpose, a special resolution is also effective for that purpose.
- 1.5 References to a "meeting" shall not be taken as requiring more than one person to be present if any quorum requirement can be satisfied by one person.
- 1.6 A member is "present" at a meeting if the member (being an individual) attends in person or if the member (being a corporation) attends by its duly authorised representative, who attends in person, or if the member attends by his or its duly appointed proxy, who attends in person.

- 1.7 The ejusdem generis principle of construction shall not apply. Accordingly, general words shall not be given a restrictive meaning by reason of their being preceded or followed by words indicating a particular class of acts, matters or things or by examples falling within the general words.
- 1.8 The headings in the articles do not affect the interpretation of the articles.
- 1.9 References to a "debenture" include debenture stock.
- 1.10 References to any statutory provision or statute include all modifications thereto and all re-enactments thereof (with or without modification) and all subordinate legislation made thereunder in each case for the time being in force. This article does not affect the interpretation of article 1.2.

## **2. MODEL ARTICLES OR REGULATIONS NOT TO APPLY**

No model articles or regulations contained in any statute or subordinate legislation including the regulations contained in Table A in the schedule to the Companies (Tables A to F) Regulations 1985 apply to the Company.

### **LIABILITY OF MEMBERS**

## **3. LIMITED LIABILITY**

The liability of the members of the Company is limited to the amount, if any, unpaid on the shares held by them.

### **SHARE CAPITAL**

## **4. SPECIAL SHARE RIGHTS**

- 4.1 Subject to any special rights previously conferred on the holders of any shares or class of shares, any share may be issued with, or have attached to them, such special rights or restrictions as the Company may by ordinary resolution determine or, in default of such determination, as the Board may determine.
- 4.2 If any class of shares has any preferential right to dividend or return of capital, the conferring on other shares of rights to either dividend or return of capital ranking in priority either before or pari passu with that class shall, unless otherwise expressly provided by the terms on which shares of that class are held, be deemed a variation of the rights attached to that class of shares.

4.3 Subject to section 630 of the Act and unless otherwise expressly provided by the terms on which shares of that class are held, all or any of the rights attached to any class of shares from time to time issued may, whether or not the Company is being wound up, be varied or abrogated with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of such shares validly held in accordance with article 65 and other relevant provisions of these articles.

4.4 Without prejudice to articles 5.1 and 6.2, the Company may by a resolution of the Board issue and allot:

4.4.1 Sterling New Preference Shares, which shall have such rights and terms (including, without limitation, such terms and manner as to redemption of such shares, ranking and entitlement as to dividend and capital) as the Board determines shall be in accordance with the requirements set out in condition 7(e) of the terms and conditions of the Sterling Direct Capital Instruments set out in the Offering Circular, as well as such further rights and terms (not being inconsistent with the aforementioned requirements) as may be determined by the Board prior to their issue; and

4.4.2 Euro New Preference Shares, which shall have such rights and terms (including, without limitation, such terms and manner as to redemption of such shares, ranking and entitlement as to dividend and capital) as the Board determines shall be in accordance with the requirements set out in condition 7(e) of the terms and conditions of the Euro Direct Capital Instruments set out in the Offering Circular, as well as such further rights and terms (not being inconsistent with the aforementioned requirements) as may be determined by the Board prior to their issue.

In this article 4.4:

4.4.3 "Sterling New Preference Shares" means the 500 million preference shares of £1 each created in the authorised share capital of the Company by a special resolution on 26 April 2005;

4.4.4 "Sterling Direct Capital Instruments" means the £500 million 5.9201 per cent. Fixed/Floating Rate Direct Capital Instruments issued by the Company on 25 November 2004;

4.4.5 "Euro New Preference Shares" means the 700 million preference shares of €1 each created in the authorised share capital of the Company by a special resolution on 26 April 2005;

4.4.6 "Euro Direct Capital Instruments" means the €700 million 4.7291 per cent. Fixed/Floating Rate Direct Capital Instruments issued by the Company on 25 November 2004; and

4.4.7 "Offering Circular" means the offering circular relating to the issue of the Sterling Direct Capital Instruments and the Euro Direct Capital Instruments dated 23 November 2004.

4.5 Without prejudice to articles 4.4, 5.1 and 6.2, the Company may by a resolution or resolutions of the Board issue and allot the New Preference Shares in one or more separate series, each of which may constitute a separate class, and the New Preference

Shares comprising each such series and/or class shall rank pari passu inter se but otherwise shall have such rights and terms (including, without limitation, such terms and manner as to redemption of such shares, ranking and entitlement to dividend and capital), and be subject to such restrictions, as may be attached by the directors prior to allotment not being inconsistent with the following provisions:

#### 4.5.1 Income

Out of the profits available for distribution and resolved to be distributed, the holders of any New Preference Shares shall be entitled, in priority to any payment of dividend to the holders of any other shares in the Company (other than the Existing Preference Shares in issue at such date), to be paid a cumulative (or, if the directors so determine prior to allotment thereof, non-cumulative) preferential dividend payable at such rate (which may be fixed, variable, or floating or to be determined by a specified procedure, mechanism or formula) and on such date or dates and on such other terms and conditions as may be determined by the directors prior to allotment thereof.

#### 4.5.2 Capital

- (a) On a return of capital on a winding up, the holders of any New Preference Shares shall be entitled to receive, out of the surplus assets of the Company remaining after payment of its liabilities, the repayment of any arrears of dividend on the Existing Preference Shares in issue at the date thereof and (unless the directors determine prior to allotment thereof that the New Preference Shares are to be ranked pari passu with such Existing Preference Shares) repayment of capital on the Existing Preference Shares in issue at the date thereof, an amount per New Preference Share equal to the nominal amount of a New Preference Share together with (a) such premium (if any) as may be determined by the directors (or by a procedure, mechanism or formula determined by the directors) prior to the allotment thereof (provided that any such premium shall not exceed such specified amount as may be determined by the directors prior to the allotment thereof) and (b) all arrears and accruals (if any) of the dividend payable thereon, whether or not such dividend has been earned or has become due and payable, to be calculated up to and including the day of the commencement of the winding up.
- (b) On a return of capital (otherwise than on a winding up or on a redemption or purchase by the Company of shares of any class), the holders of the New Preference Shares shall be entitled to receive an amount per New Preference Share equal to the nominal amount of a New Preference Share together with (a) such premium (if any) as may be determined by the directors (or by such procedure, mechanism or formula determined by the directors) prior to the allotment thereof (provided that any such premium shall not exceed such specified amount as may be determined by the directors prior to the allotment thereof) and (b) all arrears and accruals (if any) of the dividend payable thereon, whether or not such dividend has been earned or has become due and payable, to be calculated up to and including the day of such return of capital.
- (c) Any New Preference Shares (including all other shares of the Company ranking pari passu on a winding up) shall rank on a winding up in

priority to all other shares of the Company from time to time in issue (other than such of the Existing Preference Shares in issue at the

date thereof unless the directors determine prior to allotment that any such New Preference Shares shall be entitled to rank pari passu with such Existing Preference Shares).

#### 4.5.3 Redemption

- (a) Subject to the provisions of the Statutes, the directors may determine that any series of any class of New Preference Shares to be issued shall be redeemable in accordance with the following provisions. If the directors do not, or fail to, determine prior to the allotment thereof that such New Preference Shares shall be redeemable, that issue of New Preference Shares shall be non-redeemable.
- (b) Where the directors have determined that any series of any class of New Preference Shares are to be issued as redeemable ("Redeemable New Preference Shares"), the Company may redeem all or some only of any Redeemable New Preference Shares in issue. In the case of a redemption of some only of the Redeemable New Preference Shares in any series, the directors shall for the purpose of ascertaining the Redeemable New Preference Shares to be redeemed cause a drawing to be made at the Company's registered office (or at such other place as the directors may determine) in the presence of a representative of the Company's auditor for the time being.
- (c) A redemption is affected by giving to the holders of the Redeemable New Preference Shares to be redeemed not less than four weeks notice (a "redemption notice"). The redemption notice shall state:
  - (i) the Redeemable New Preference Shares to be redeemed;
  - (ii) the relevant Redemption Date (as defined below);
  - (iii) the price at which the Redeemable New Preference Shares are to be redeemed (together with any accrued and unpaid distribution determined by the directors prior to the Redemption Date); and
  - (iv) the procedures for redeeming certificated and uncertificated Redeemable New Preference Shares and the place or places where certificates can be presented for redemption.
- (d) "Redemption Date" means, in relation to any specific redemption of Redeemable New Preference Shares:
  - (i) the date fixed for redemption as determined by the directors; or
  - (ii) the date on or by which, or dates between which, a redemption must occur as determined by the directors.
- (e) The price at which the Redeemable New Preference Shares are to be redeemed is as follows:

- (i) the aggregate of: (x) the nominal amount of the Redeemable New Preference Shares; and (y) any premium paid on issue (the "Subscription Price"); plus
- (ii) any accrued and unpaid distribution determined by the directors prior to the Redemption Date; plus
- (iii) if so determined by the directors prior to the allotment of Redeemable New Preference Shares, a Redemption Premium (as defined below), if any.

(f) "Redemption Premium" means an amount calculated in accordance with that one of the following paragraphs as the directors may determine prior to the allotment of Redeemable New Preference Shares:

- (i) such amount as when added to the Subscription Price of the relevant Redeemable New Preference Share to be redeemed is equal to a price for such Redeemable New Preference Share at which the Gross Redemption Yield on such Redeemable New Preference Share on the Stated Date is equal to the Gross Redemption Yield (determined by reference to the middle market price) at 11.00 a.m. (London time) on that date of the Stated. Comparative Security. For the purposes of this paragraph:

"Gross Redemption Yield" means a yield calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Volume 105, Part 1 (1978), page 18 or any replacement basis of calculation published by the Institute of Actuaries from time to time;

"Stated Date" means the date three Business Days prior to the date on which the redemption notice is given; and

"Stated Comparative Security" means the UK gilt edged security which is due to be repaid on the date closest to the final date for redemption of the Redeemable New Preference Share to be redeemed, or, if the Redeemable New Preference Share to be redeemed has no final date for redemption, the UK gilt edged security which is due to be repaid on a date closest to 30 years from the Stated Date;

- (ii) an amount calculated in accordance with the following formula:

$P = 50\% - (n \times R)$  where:

P = the Redemption Premium expressed as a percentage of the Subscription Price;

n = the number of whole years elapsed between the date of allotment of the Redeemable New Preference Share and the Redemption Date;



R = one of the following percentages as the directors shall have determined prior to the allotment of the relevant Redeemable New Preference Share:

10%; 5%; 3%; 2.5%; 2%; 1%; 0.5%,

provided that if  $n \times R$  is greater than 50%, P shall be nil;

an amount calculated in accordance with the following formula:

$P = 33\% - (n \times R)$  where:

P = the Redemption Premium expressed as a percentage of the Subscription Price;

n = the number of whole years elapsed between the date of allotment of the relevant Redeemable New Preference Share and the Redemption Date;

R = one of the following percentages as the directors shall have determined prior to the allotment of the relevant Redeemable New Preference Share:

11%; 5.5%; 3.3%; 3%; 1.5%; 1%; 0.33%,

provided that if  $n \times R$  is greater than 33%, P shall be nil; or

an amount calculated in accordance with the following formula:

$v_i = 0$

$$(IR - MRR) \times \frac{1 - (1 + RR)^{-i_m}}{RR}$$

where:

$i_m$  = the total number of dividend payment dates from the Redemption Date to the Final Redemption Date;

IR = the amount of dividend payable annually on the relevant Redeemable New Preference Share to be redeemed excluding any associated tax credit expressed as a percentage of the Subscription Price of such relevant Redeemable New Preference Share;

MRR = the yield on the Stated Comparative Security for the period from the Redemption Date to the Final Redemption Date plus the difference between IR and the yield on the Stated

**Comparative Security at the date of allotment of the Redeemable New Preference Share (such difference being the "credit spread");**

RRi = the yield on the Stated Comparative Security for the period to the ith dividend payment date plus the credit spread.

For the purposes of this paragraph;

"Final Redemption Date" means the final date on which the Redeemable New Preference Shares can be redeemed in accordance with their terms of issue; and

"Stated Comparative Security" means the UK gilt edged security which is due to be repaid on the date closest to the final date for redemption of the Redeemable New Preference Share to be redeemed, or, if the Redeemable New Preference Share to be redeemed has no final date for redemption, the UK gilt edged security which is due to be repaid on a date closest to 30 years from the reference date.

In respect of both certificated and uncertificated Redeemable New Preference Shares:

- (i) on the relevant Redemption Date each holder whose Redeemable New Preference Shares are to be redeemed shall comply with the relevant procedures for redeeming those shares determined by the directors as set out in the redemption notice. After the holder has complied with those procedures, the Company shall pay the holder the redemption money due to him by such method as the Board decides;
- (ii) if a holder whose Redeemable New Preference Shares are to be redeemed under this paragraph (g) does not comply with the relevant procedures for redeeming those Redeemable New Preference Shares, the Company may retain the redemption money.

No person has a claim against the Company for interest on retained redemption money. The receipt by the holder of the redemption money payable on the redemption of Redeemable New Preference Shares shall constitute an absolute discharge to the Company.

As from the Redemption Date, all income (arising from any right to income attaching to the Redeemable New Preference Shares as may have been determined prior to their issue) ceases to accrue in respect of Redeemable New Preference Shares unless:

- (i) in the case of certificated Redeemable New Preference Shares, on the presentation of the certificate (or certificates) for the Redeemable New Preference Shares to be redeemed and a

receipt for the redemption money signed and authenticated in such manner as the Board requires, payment of the redemption money is improperly refused; or

- (ii) in the case of uncertificated Redeemable New Preference Shares, the procedures stated in the redemption notice have been complied with and payment of the redemption money is improperly refused.

#### 4.5.4 Voting and General Meetings

- (a) The holders of the New Preference Shares shall, by virtue of and in respect of their holdings of New Preference Shares, have the right to

receive notice of, attend, speak and vote at a general meeting of the Company only:

- (i) if and when, at the date of the notice convening such meeting, the preferential dividend on such shares for the dividend payment period immediately prior to the notice convening the relevant meeting is in arrears and it, and any arrears of deficiency of dividend in respect of any preceding dividend payment period has not been paid in full; or
- (ii) if a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holders of any New Preference Shares or for the winding up of the Company or for the reduction of capital of the Company (otherwise than on a redemption or purchase of shares), in which case they shall only be entitled to vote on such resolution; or
- (iii) in such other circumstances, and upon and subject to such terms as the directors may determine prior to the allotment of such New Preference Shares.

Save as aforesaid, the New Preference Shares shall not confer on the holders thereof the right to receive notice of, attend, speak or vote at any general meeting of the Company.

- (b) Whenever the holders of the New Preference Shares are entitled to vote at a general meeting of the Company upon any resolution proposed at such a general meeting, on a show of hands every holder thereof who is present in person or (being a corporation) by a representative shall have one vote and on a poll every holder thereof who is present in person or by proxy or (being a corporation) by a representative shall have one vote in respect of each complete £1 nominal of New Preference Shares registered in the name of such holder or such other entitlement to votes as may be determined by the directors prior to allotment.

#### 4.5.5 Limitations

No New Preference Share shall:

- (a) save as may be determined by the directors prior to allotment, confer any right to participate in the profits or assets of the Company other than set out in articles 4.5.1 and 4.5.2;
- (b) subject to the Act, confer any right to participate in any offer or invitation by way or rights or otherwise to subscribe for additional shares in the Company;
- (c) confer any right of conversion; or
- (d) confer any right to participate in any issue of bonus shares.

#### 4.5.6 Purchase

- (a) Subject to the provisions of the Act, the Company may at any time purchase any New Preference Shares upon such terms, as the directors shall determine.
- (b) Upon the purchase and cancellation of any New Preference Shares the nominal amount of such shares comprised in the capital of the Company may thereafter be divided into, and reclassified as, New Preference Shares without any further resolution or consent.

#### 4.5.7 Further issues

- (a) Unless the directors determine otherwise prior to allotment, save with such consent or sanction on the part of the holders of any of the New Preference Shares as is required for a variation of the special rights attaching to such shares, the directors shall not authorise or create, or increase the amount of, any shares of any class or any securities convertible into any shares of any class ranking as regards participation in the profits or assets of the Company (otherwise than on a redemption or purchase by the Company of any such share) in priority to any New Preference Shares.
- (b) The special rights attached to the New Preference Shares allotted or in issue shall not (unless otherwise provided by their terms of issue) be deemed to be varied by the allotment or issue of any further preference shares (in this paragraph called "Further Preference Shares") ranking as regards participation in the profits and assets of the Company *pari passu* with (but not in priority to) the New Preference Shares, provided that, at the date of the allotment of the Further Preference Shares (the "Relevant Date"), the aggregate of the nominal amount (together with any premium paid or payable on issue) of the New Preference Shares, and of any other shares ranking *pari passu* with or in priority to the New Preference Shares allotted or in issue on the Relevant Date and, immediately following such issue, of the Further Preference Shares would not exceed such amount as may be determined by the directors

(or by a procedure, mechanism or formula determined by the directors) prior to the allotment of the relevant New Preference Shares. Any such Further Preference Shares may either carry rights and restrictions as regards participation in the profits and assets of the Company which are identical in all respects with the New Preference Shares or with any other series of Further Preference Shares or rights and restrictions differing therefrom in any respect including, but without prejudice to the generality of the foregoing:

- (i) the rate of and/or the basis of calculation of dividend may differ and may be cumulative or non-cumulative;
- (ii) the Further Preference Shares may rank for dividend from such date as may be provided by the terms of issue thereof and the dates for payment of dividend may differ;
- (iii) a premium may be payable on a return of capital or there may be no such premium;
- (iv) the Further Preference Shares may be redeemable on such terms and conditions as may be prescribed by the terms of the issue thereof or may be non-redeemable; and

- (v) the Further Preference Shares may be convertible into ordinary shares or any other class of shares ranking as regards participation in the profits and assets of the Company pari passu with or after the New Preference Shares in each case on such terms and conditions as may be determined by the terms of issue thereof.

#### 4.5.8 Restrictions of the Company

Unless the directors determine otherwise prior to allotment, the terms of the New Preference Shares shall provide that, save with such consent or sanction on the part of the holders of any New Preference Shares as is required for a variation of the special rights attached to such shares, the directors shall not capitalise any part of the profits of the Company available for distribution or purchase or redeem any shares of the Company if either (i) the preferential dividend on the New Preference Shares for the dividend payment period immediately prior to the date of the proposed capitalisation purchase or redemption is in arrears and it, and any arrears or deficiency of dividend in respect of any preceding dividend payment periods, has not been paid in full or (ii) after such capitalisation, purchase or redemption the amount of the profits of the Company available for distribution would be less than the amount produced by applying to the aggregate amount of the annual dividends (exclusive of any imputed tax credit) payable on the New Preference Shares and any other preference shares then in issue ranking as regards dividends pari passu with or in priority to the New Preference Shares such multiple or other formula as may be determined by the directors prior to allotment.

#### 4.5.9 Definitions

For the purposes of this article 4.5:

- (a) "New Preference Shares" means the 500,000,000 new preference shares of £1 each created in the authorised share capital of the Company by a special resolution dated 10 May 2006; and
- (b) "Existing Preference Shares" means the 100,000,000 83/8% cumulative irredeemable preference shares of £1 each, the 100,000,000 83/4% cumulative irredeemable preference shares of £1 each, the Sterling New Preference Shares and the Euro New Preference Shares of the Company.

### 5. ALLOTMENT AND PRE-EMPTION

- 5.1 Subject to the Act and relevant authority given by the Company in general meeting, the Board has general and unconditional authority to allot, grant options over, or otherwise dispose of, unissued shares of the Company or rights to subscribe for or convert any security into shares, to such persons, at such times and on such terms as the Board may decide, except that no share may be issued at a discount.
- 5.2 The Board may at any time after the allotment of a share, but before a person has been entered in the register as the holder of the share, recognise a renunciation of the share by the allottee in favour of another person and may grant to an allottee a right to effect a renunciation on such terms and conditions as the Board thinks fit.

## **6. POWER TO ISSUE DIFFERENT CLASSES OF SHARES**

- 6.1 Subject to the Act and to the rights attached to existing shares, new shares may be issued with, or have attached to them, such rights or restrictions as either the Company may by ordinary resolution decide, or, if no such resolution is passed or so far as any pertinent resolution does not make specific provision, as the Board may decide.
- 6.2 Subject to the Act and to the rights attached to existing shares, shares may be issued on terms that they are to be redeemed or, at the option of the Company or the holder, are liable to be redeemed, and the directors may determine the terms, conditions and manner of redemption of any such shares.

## **7. RIGHTS AND RESTRICTIONS ATTACHING TO SHARES**

If rights and restrictions attaching to shares are determined by ordinary resolution or by the directors pursuant to article 6, those rights and restrictions shall apply in place of any rights or restrictions that would otherwise apply by virtue of the Act in the absence of any provisions in the articles, as if those rights and restrictions were set out in the articles.

## **8. COMMISSION**

The Company may exercise all the powers conferred or permitted by the Act of paying commission or brokerage. Subject to the Act, any such commission or

brokerage may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or partly in one way and partly in the other.

## **9. TRUSTS NOT RECOGNISED**

Except as ordered by a court of competent jurisdiction or as required by law, the Company shall not recognise a person as holding a share on trust and shall not be bound by or otherwise compelled to recognise (even if it has notice of it) any interest in any share other than an absolute right in the holder to the whole of the share.

## **10. UNCERTIFICATED SHARES**

- 10.1 Subject to the Act and to the Uncertificated Securities Regulations, the Board has the power to resolve that a class of shares shall become a participating security and/or that a class of shares shall cease to be a participating security.
- 10.2 Uncertificated shares of a class are not to be regarded as forming a separate class from certificated shares of that class.
- 10.3 A member may, in accordance with the Uncertificated Securities Regulations, change a share of a class which is a participating security from a certificated share to an uncertificated share and from an uncertificated share to a certificated share.
- 10.4 The Company may give notice to a member requiring the member to change uncertificated shares to certificated shares by the time stated in the notice. The notice may also state that the member may not change certificated shares to uncertificated shares. If the member does not comply with the notice, the Board may authorise a person to change the uncertificated shares to certificated shares in the name and on behalf of the member.
- 10.5 While a class of shares is a participating security, the articles only apply to an uncertificated share of that class to the extent that they are consistent with:

- 10.5.1 the holding of shares of that class in uncertificated form;
- 10.5.2 the transfer of title to shares of that class by means of a relevant system; and
- 10.5.3 the Uncertificated Securities Regulations.

## SHARE CERTIFICATES

### 11. RIGHT TO CERTIFICATE

- 11.1 A person (except a person to whom the Company is not required by law to issue a certificate) whose name is entered in the register as a holder of a certificated share is entitled, without charge, to receive within two months of allotment or lodgement with the Company of a transfer to him of those shares or within two months after the relevant Operator-instruction is received by the Company (or within any other period as the terms of issue of the shares provide) one certificate for all the certificated shares of a class registered in his name or, in the case of certificated shares of more than one class being registered in his name, to a separate certificate for each class of shares.

UK-2347585-V30

-20-

70-40460356

- 11.2 Where a member transfers part of his shares comprised in a certificate he is entitled, without charge, to one certificate for the balance of certificated shares retained by him.
- 11.3 The Company is not bound to issue more than one certificate for certificated shares held jointly by two or more persons and delivery of a certificate to one joint holder is sufficient delivery to all joint holders.
- 11.4 A certificate shall specify the number and class and the distinguishing numbers (if any) of the shares in respect of which it is issued and the amount paid up on the shares and shall otherwise comply with the requirements of the UKLA. It shall be issued in such manner as the Board may approve, having regard to the terms of allotment or issue of the shares.

### 12. REPLACEMENT CERTIFICATES

- 12.1 Where a member holds two or more certificates for shares of one class, the Board may at his request, on surrender of the original certificates and without charge, cancel the certificates and issue a single replacement certificate for certificated shares of that class.
- 12.2 At the request of a member, the Board may cancel a certificate and issue two or more in its place (representing certificated shares in such proportions as the member may specify), on surrender of the original certificate and on payment of such reasonable sum as the Board may decide.
- 12.3 Where a certificate is worn out or defaced the Board may require the certificate to be delivered to it before issuing a replacement and cancelling the original. If a certificate is lost or destroyed, the Board may cancel it and issue a replacement certificate on such terms as to provision of evidence and indemnity and to payment of any exceptional out-of-pocket expenses incurred by the Company in the investigation of that evidence and the preparation of that indemnity as the Board may decide.

## SHARE WARRANTS TO BEARER

### 13. SHARE WARRANTS

- 13.1 Subject to the Statutes, the Company may issue share warrants with respect to any shares that are fully paid up upon written request by a member. The written request

shall be in such form, and authenticated by such statutory declaration or other evidence as to identity of the person making the request, as the Board may from time to time require.

- 13.2 Before the issue of a share warrant, the certificate (if any) for the shares intended to be included in it shall be delivered to the Company and the applicant shall pay to the Company the amount of the stamp duty (if any) on such warrant. The Board shall issue a share warrant within fourteen days of the deposit of the certificate.
- 13.3 Share warrants shall state that the bearer is entitled to the shares specified in the warrant, and may provide (by coupons or otherwise) for the payment of future dividends or other moneys on and for the distribution of other benefits in respect of the specified shares.

- 13.4 Subject to the provisions of the Statutes and these articles, the bearer of a share warrant shall be deemed to be a member of the Company and shall be entitled to the same rights and privileges as he would have had if his name had been included in the register as the holder of the shares specified in such warrant.
- 13.5 No bearer of a share warrant will be entitled to attend or vote or exercise any of the rights of a member at any general meeting of the Company, or sign any requisition for, or give notice of intention to submit a resolution to, a meeting, unless at least three days prior to the day appointed for the meeting in the first case, and unless before the requisition or notice is left at the office in the second case, that person shall have deposited the share warrant in respect of which he claims to act, attend or vote at the office (or such other place as the Board may determine), together with a statement in writing of his name and address, and unless the share warrant shall remain so deposited until after the meeting or any adjournment thereof shall have been held. Not more than one name shall be received as that of the holder of a share warrant.
- 13.6 A voting certificate will be delivered to the person depositing a share warrant stating his name and address and describing the shares represented by the deposited share warrant, which will entitle him or his proxy to attend and vote at any general meeting in the same way as if he were the registered holder of the shares specified in the certificate. The relevant share warrant to which the voting certificate relates shall be returned upon delivery of the voting certificate.
- 13.7 Except as otherwise provided for in this article 13, no bearer of any share warrant will be entitled to exercise any of the rights of a member without producing the warrant and stating his name and address.
- 13.8 Where any share warrant or coupon is worn out or defaced the Board may require the share warrant or coupon to be delivered to it before issuing a replacement and cancelling the original. If any share warrant or coupon is lost or destroyed, the Board may cancel it and issue a replacement on such terms as to provision of evidence and indemnity and to payment of exceptional out-of-pocket expenses incurred by the Company in the investigation of that evidence and the preparation of that indemnity as the Board may decide.
- 13.9 The shares included in any share warrant shall be transferred by the delivery of the warrant without any written transfer and without registration, and the provisions of these articles with reference to the transfer of shares, and to the lien of the Company on shares, shall not apply to the shares included in the share warrant.
- 13.10 Upon the surrender of a share warrant to the Company for cancellation, the bearer of a share warrant shall be entitled to have his name entered as a member in the register in



respect of the shares included in the warrant, but the Company shall not be responsible for any loss incurred by any person by reason of the Company entering in the register upon the surrender of a warrant the name of any person not the true and lawful owner of the warrant surrendered. A share certificate for the share warrant so surrendered shall be issued within fourteen days of deposit of the warrant.

## LIEN

UK-2347585-V3  
D

-22-

70-40460356

### **14. COMPANY'S LIEN ON SHARES NOT FULLY PAID**

- 14.1 The Company has a first and paramount lien on all partly paid shares for an amount payable in respect of the share, whether the due date for payment has arrived or not. The lien applies to all dividends from time to time declared or other amounts payable in respect of the share.
- 14.2 The Board may either generally or in a particular case declare a share to be wholly or partly exempt from the provisions of this article. Unless otherwise agreed with the transferee, the registration of a transfer of a share operates as a waiver of the Company's lien (if any) on that share.

### **15. ENFORCEMENT OF LIEN BY SALE**

- 15.1 For the purpose of enforcing the lien referred to in article 0, the Board may sell shares subject to the lien in such manner as it may decide provided that:
- 15.1.1 the due date for payment of the relevant amounts has arrived; and
- 15.1.2 the Board has served a written notice on the member concerned (or on any person entitled by transmission to the shares) stating the amounts due, demanding payment thereof and giving notice that if payment has not been made within 14 clear days after the service of the notice that the Company intends to sell the shares.
- 15.2 To give effect to a sale, the Board may authorise a person to transfer the shares in the name and on behalf of the holder (or any person entitled by transmission to the shares), or to cause the transfer of such shares, to the purchaser or his nominee. The purchaser is not bound to see to the application of the purchase money and the title of the transferee is not affected by an irregularity in or invalidity of the proceedings connected with the sale.

### **16. APPLICATION OF PROCEEDS OF SALE**

The net proceeds of a sale effected under article 15, after payment of the Company's costs of the sale, shall be applied in or towards satisfaction of the amount in respect of which the lien exists. Any residue shall (on surrender to the Company for cancellation of any certificate for the shares sold, or the provision of an indemnity as to any lost or destroyed certificate required by the Board and subject to a like lien for amounts not presently payable as existed on the shares before the sale) be paid to the member (or person entitled by transmission to the shares) immediately before the sale.

## CALLS ON SHARES

### **17. CALLS**

The Board may make calls on members in respect of amounts unpaid on the shares held by them respectively (whether in respect of the nominal value or a premium) and not by the terms of issue thereof made payable on a fixed date. Each member shall (on receiving at least 14 clear days' notice specifying when and where payment is to be made) pay to the Company at the time and place specified, the amount called as required by the notice. A call may be made payable by instalments and may, at any

time before receipt by the Company of an amount due, be revoked or postponed in whole or in part as the Board may decide. A call is deemed made at the time when the resolution of the Board authorising it is passed. A person on whom a call is made remains liable to pay the amount called despite the subsequent transfer of the share in respect of which the call is made. The joint holders of a share are jointly and severally liable for payment of a call in respect of that share.

18. POWER TO DIFFERENTIATE

The Board may make arrangements on the allotment or, subject to the terms of the allotment, on the issue of shares for a difference between the allottees or holders in the amounts and times of payment of a call on their shares.

19. INTEREST ON CALLS

If the whole of the amount called is not paid on or before the date fixed for payment, the person from whom it is payable shall pay interest on the unpaid amount. This interest will run from the day the unpaid amount is due until the day it has been paid. The interest rate may be fixed by the terms of allotment or issue of the share or, if no rate is fixed, at such rate as the Board may decide. The Board may waive payment of the interest in whole or in part.

20. PAYMENT IN ADVANCE

The Board may, if it thinks fit, receive from a member all or part of the amounts uncalled and unpaid on shares held by him. A payment in advance of calls extinguishes to the extent of the payment the liability of the member on the shares in respect of which it is made. The Company may pay interest on the amount paid in advance, or on so much of it as from time to time exceeds the amount called on the shares in respect of which the payment in advance has been made, at such rate as the Board may decide.

21. AMOUNTS DUE ON ALLOTMENT OR ISSUE TREATED AS CALLS

An amount (whether in respect of nominal value or a premium) which by the terms of issue of a share becomes payable on allotment or issue or on a fixed date shall be deemed to be a call. In case of non-payment, the provisions of these articles as to payment of interest, forfeiture or otherwise apply as if that amount had become payable by virtue of a call.

FORFEITURE

22. NOTICE IF CALL NOT PAID

If a member fails to pay the whole of a call or an instalment of a call by the date fixed for payment, the Board may serve notice on the member or on a person entitled by transmission to the share in respect of which the call was made demanding payment of the unpaid amount, on a date not less than 7 clear days from the date of the notice, together with any interest that may have accrued on it and all costs, charges and expenses incurred by the Company by reason of the non-payment. The notice shall state:

- (a) the place where payment is to be made; and
- (b) that if the notice is not complied with the share in respect of which the call was made will be liable to be forfeited.

### **23. FORFEITURE FOR NON-COMPLIANCE**

If the notice referred to in article 22 is not complied with, a share in respect of which it is given may, at any time before the payment required by the notice (including interest, costs, charges and expenses) has been made, be forfeited by a resolution of the Board. All dividends declared or other amounts due in respect of the forfeited share and not paid before the forfeiture shall also be forfeited.

### **24. NOTICE AFTER FORFEITURE**

When a share has been forfeited, the Company shall serve notice of the forfeiture on the person who was before forfeiture the holder of the share or the person entitled by transmission to the share but no forfeiture is invalidated by an omission to give such notice. An entry of the fact and date of forfeiture shall be made in the register.

### **25. DISPOSAL OF FORFEITED SHARES**

- 25.1 A forfeited share and all rights attaching to it shall become the property of the Company and may be sold, re-allotted or otherwise disposed of, either to the person who was before such forfeiture the holder thereof or to another person, on such terms and in such manner as the Board may decide. The Company may receive any consideration given for the share on any such sale, re-allotment or other disposal thereof and, to give effect to any such sale or other disposal, the Board may authorise a person to execute a transfer of the share in favour of the person to whom the share is to be sold or otherwise disposed of. The transferee or allottee shall thereupon be registered as the holder of the share and shall not be bound to see to the application of any consideration nor shall his title to the share be affected by any irregularity or invalidity in the proceedings connected with the forfeiture or disposal.
- 25.2 The Board may before a forfeited share has been sold, re-allotted or otherwise disposed of annul the forfeiture on such conditions as it thinks fit.
- 25.3 A statutory declaration that the declarant is a director or the secretary and that a share has been forfeited or sold to satisfy a lien of the Company on the date stated in the declaration is conclusive evidence of the facts stated in the declaration against all persons claiming to be entitled to the share. The declaration (subject if necessary to the transfer of the share) constitutes good title to the share and the person to whom the share is sold, re-allotted or disposed of is not bound to see to the application of the consideration (if any). His title to the share is not affected by an irregularity in or invalidity of the proceedings connected with the forfeiture or disposal.

### **26. ARREARS TO BE PAID NOTWITHSTANDING FORFEITURE**

A person whose share has been forfeited ceases on forfeiture to be a member in respect thereof and if that share is in certificated form, shall surrender to the Company for cancellation any certificate for the forfeited share. A person remains liable to pay all calls, interest, costs, charges and expenses owing in respect of such share at the

time of forfeiture, with interest, from the time of forfeiture until payment, at such rate as may be fixed by the terms of allotment or issue of such share or, if no rate is fixed, at such rate as the Board may decide. The Board may if it thinks fit enforce payment without allowance for the value of such share at the time of forfeiture or for any consideration received on its disposal.

## **27. SURRENDER**

The Board may accept the surrender of a share liable to be forfeited and in that case references in the articles to forfeiture include surrender.

### UNTRACED SHAREHOLDERS

## **28. POWER OF SALE**

28.1 Subject to the Uncertificated Securities Regulations, the Company may sell the share of a member or of a person entitled by transmission at the best price reasonably obtainable at the time of sale, if:

- 28.1.1 during a period of not less than 12 years prior to the exercise of such power of sale (the "relevant period") at least three cash dividends have become payable in respect of the share;
- 28.1.2 throughout the relevant period no cheque, warrant or money order payable on the share has been presented by the holder of, or the person entitled by transmission to, the share to the paying bank of the relevant cheque, warrant or money order, no payment made by the Company by any other means permitted by article 121.1 has been claimed or accepted and, so far as any director of the Company at the end of the relevant period is then aware, the Company has not at any time during the relevant period received any communication from the holder of, or person entitled by transmission to, the share;
- 28.1.3 on expiry of the relevant period the Company has sent a notice to the last known address the Company has for the holder of, or the person entitled by transmission to, the share stating that it intends to sell the share, the Company being satisfied that prior to sending such notice it has employed such steps as it, in its sole discretion, deems reasonable in the circumstances to trace such holder of, or the person entitled to transmission of, the share which may include, but is not limited to, employing a professional asset reunification company or other tracing agent and/or giving notice of its intention to sell the share by advertisement in a national newspaper and in a newspaper circulating in the area of the address of the holder of, or person entitled by transmission to, the share shown in the register;
- 28.1.4 the Company has not, so far as the Board is aware, during a period of three months' after the date of sending the notice to the last known address the Company has for the holder of, or the person entitled by transmission to, the share as referred to in article 28.1.3 and before the exercise of the power of sale received a communication from the holder of, or person entitled by transmission to, the share.

- 28.2 Where a power of sale is exercisable over a share pursuant to article 28.1 (a "Sale Share"), the Company may at the same time also sell any additional share issued in right of such Sale Share or in right of such an additional share previously so issued provided that the requirements of articles 28.1.2 to 28.1.4 (as if the words "throughout the relevant period" were omitted from article 28.1.2 and the words "on expiry of the

relevant period" were omitted from article 28.1.3 of this article) shall have been satisfied in relation to the additional share.

- 28.3 To give effect to a sale pursuant to articles 28.1 or 28.2, the Board may authorise a person to transfer the share in the name and on behalf of the holder of, or the person entitled by transmission to, the share, or to cause the transfer of such share, to the purchaser or his nominee and in relation to an uncertificated share may require the Operator to convert the share into certificated form in accordance with the Uncertificated Securities Regulations. The purchaser is not bound to see to the application of the purchase money and the title of the transferee is not affected by an irregularity or invalidity in the proceedings connected with the sale of the share.

## **29. APPLICATION OF PROCEEDS OF SALE**

The Company shall be indebted to the member or other person entitled by transmission to the share for the net proceeds of sale and shall carry any amount received on sale to a separate account. The Company is deemed to be a debtor and not a trustee in respect of that amount for the member or other person. Any amount carried to the separate account may either be employed in the business of the Company or invested as the Board may think fit. No interest is payable on that amount and the Company is not required to account for money earned on it.

## **TRANSFER OF SHARES**

### **30. METHOD OF TRANSFER**

- 30.1 A member may transfer all or any of his certificated shares by instrument of transfer in writing in any usual form or in any other form approved by the Board, and the instrument shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid) by or on behalf of the transferee.
- 30.2 A member may transfer all or any of his uncertificated shares in accordance with the Uncertificated Securities Regulations.
- 30.3 Subject to the provisions of the Uncertificated Securities Regulations, the transferor of a share is deemed to remain the holder of the share until the name of the transferee is entered in the register in respect of it.
- 30.4 An authority to sign any instrument of transfer granted by a member for the purpose of transferring shares that may be lodged with the Company at its office shall, as between the Company and the member, be deemed to remain in full force and effect, and the Company may allow it to be acted on, until such time as the relevant member gives written notice of its revocation. Notwithstanding notice of revocation has been given, the Company may give effect to any instrument signed under the authority to sign and certified by any officer of the Company as bearing a date earlier than the notice of revocation. The Company shall not be bound to allow the exercise of any

act or matter by an agent for a member unless a duly certified copy of such agent's authority has been deposited with the Company at the office.

### **31. RIGHT TO REFUSE REGISTRATION**

- 31.1 Subject to this article and article 66, shares of the Company are free from any restriction on transfer. In exceptional circumstances approved by the UKLA, the Board may refuse to register a transfer of certificated shares provided that such refusal would not disturb the market in those shares. Subject to the requirements of the listing rules of

the UKLA, the Board may, in its absolute discretion, refuse to register the transfer of a certificated share which is not fully paid or the transfer of a certificated share on which the Company has a lien.

31.2 The Board may also, in its absolute discretion, refuse to register the transfer of a certificated share or a renunciation of a renounceable letter of allotment unless all of the following conditions are satisfied:

31.2.1 it is in respect of only one class of shares;

31.2.2 it is in favour of (as the case may be) a single transferee or renounee or not more than four joint transferees or renounees;

31.2.3 it is duly stamped (if required); and

31.2.4 it is delivered for registration to the office or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates (except in the case of a person to whom the Company is not required by sections 769, 776, 777 or 778 of the Act to issue a certificate, or in the case of a renunciation) and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution by him of the transfer or renunciation or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

31.3 If the Board refuses to register the transfer of a certificated share it shall, as soon as practicable and in any event within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee together with its reasons for the refusal. An instrument of transfer which the Board refuses to register shall (except in the case of suspected fraud) be returned to the person depositing it. Subject to article 138, the Company may retain all instruments of transfer which are registered.

31.4 In accordance with and subject to the provisions of the Uncertificated Securities Regulations, the Operator of the relevant system shall register a transfer of title to any uncertificated share or any renounceable right of allotment of a share which is a participating security held in uncertificated form unless the Uncertificated Securities Regulations permit the Operator of the relevant system to refuse to register such a transfer in certain circumstances in which case the said Operator may refuse such registration.

31.5 In accordance with the Uncertificated Securities Regulations, if the Operator of the relevant system refuses to register the transfer of an uncertificated share or of any such uncertificated renounceable right of allotment of a share it shall, as soon as practicable and in any event within two months after the date on which the relevant system-member instruction or issuer instruction (as the case may be) was received by the Operator, send notice of the refusal to the relevant system-member or participating issuer (as the case may be).

31.6 In accordance with and subject to the provisions of the Uncertificated Securities Regulations, where title to an uncertificated share is transferred by means of a relevant system to a person who is to hold such share in certificated form thereafter, the Company as participating issuer shall register the transfer in accordance with the relevant Operator-instruction, but so that the Company may refuse to register such a transfer in any circumstance permitted by the Uncertificated Securities Regulations.

31.7 In accordance with the Uncertificated Securities Regulations, if the Company as participating issuer refuses to register the transfer of title to an uncertificated share transferred by means of a relevant system to a person who is to hold such share in certificated form thereafter, it shall, as soon as practicable and in any event within two months after the date on which the Operator-instruction was received by the Company, send notice of the refusal to the transferee.

## 32. FEES ON REGISTRATION

The Company will not charge a fee for registering the transfer of a share or the renunciation of a renounceable letter of allotment or other document or instructions relating to or affecting the title to a share or the right to transfer it or for making any other entry in the register. The Company shall be entitled, if the Board thinks fit, to charge such reasonable fees as the Board may determine for the acceptance and operation of designated accounts in the register.

## TRANSMISSION OF SHARES

### 33. ON DEATH

33.1 The Company shall recognise only the personal representative or representatives of a deceased member as having title to a share held by that member alone or to which he alone was entitled. In the case of a share held jointly by more than one person, the Company may recognise only the survivor or survivors as being entitled to it.

33.2 Nothing in the articles releases the estate of a deceased member from liability in respect of a share which has been solely or jointly held by him.

### 34. ELECTION OF PERSON ENTITLED BY TRANSMISSION

34.1 A person becoming entitled by transmission to a share may, on production of such evidence as, subject to the Act, the Board may require as to his entitlement, elect either to be registered as a member or to have a person nominated by him registered as a member.

34.2 If he elects to be registered himself, he shall give notice to the Company to that effect. If he elects to have another person registered, he shall:

UK-2347585-v3D

-29-

70-40460356

34.2.1 if it is a certificated share, execute an instrument of transfer of the share to that person; or

34.2.2 if it is an uncertificated share:

(a) procure that instructions are given by means of a relevant system to effect transfer of the share to that person; or

(b) change the share to a certificated share and execute an instrument of transfer of the share to that person.

34.3 All the provisions of the articles relating to the transfer of certificated shares apply to the notice or instrument of transfer (as the case may be) as if it were an instrument of transfer executed by the member and his death, bankruptcy or other event giving rise to a transmission of entitlement had not occurred.

34.4 The Board may give notice requiring a person to make the election referred to in article 34.1. If that notice is not complied with within 90 days, the Board may withhold

payment of all dividends and other amounts payable in respect of the share until notice of election has been made.

### **3 5. RIGHTS ON TRANSMISSION**

Where a person becomes entitled by transmission to a share, the rights of the holder in relation to that share cease. The person entitled by transmission may, however, give a good discharge for dividends and other amounts payable in respect of the share and, subject to articles 34 and 121, has the rights to which he would be entitled if he were the holder of the share. The person entitled by transmission is not, however, before he is registered as the holder of the share entitled in respect of it to receive notice of or exercise rights conferred by membership in relation to meetings of the Company or a separate meeting of the holders of a class of shares.

### **FRACTIONS OF SHARES**

### **36. FRACTIONS**

36.1 If, as the result of consolidation and division or sub-division of shares, members would become entitled to fractions of a share, the Board may on behalf of the members deal with the fractions as it thinks fit. Subject to the Act and to the Uncertificated Securities Regulations, the Board may, in effecting divisions and/or consolidations, treat a member's shares held in certificated form and uncertificated form as separate holdings. In particular, the Board may:

36.1.1 sell any shares representing fractions to a person (including, subject to the Act, to the Company) and distribute the net proceeds of sale in due proportion amongst the persons entitled or, if the Board decides, some or all of the sum raised on a sale may be retained for the benefit of the Company; or

36.1.2 subject to the Act, allot or issue to a member credited as fully paid by way of capitalisation the minimum number of shares required to round up his holding of shares to a number which, following consolidation and division or sub-division, leaves a whole number of shares (such allotment or issue being

UK-2347585-v3D

**-30-**

70-40460356

deemed to have been effected immediately before consolidation or sub-division, as the case may be).

36.2 To give effect to a sale pursuant to article 36.1.1 the Board may arrange for the shares representing the fractions to be entered in the register as certificated shares. The Board may also authorise a person to transfer the shares to, or to the direction of, the purchaser. The purchaser is not bound to see to the application of the purchase money and the title of the transferee to the shares is not affected by an irregularity or invalidity in the proceedings connected with the sale.

36.3 If shares are allotted or issued pursuant to article 36.1.2, the amount required to pay up those shares may be capitalised as the Board thinks fit out of amounts standing to the credit of reserves (including a share premium account, capital redemption reserve and profit and loss account), whether or not available for distribution, and applied in paying up in full the appropriate number of shares. A resolution of the Board capitalising part of the reserves has the same effect as if the capitalisation had been declared by ordinary resolution of the Company pursuant to article 129. In relation to the capitalisation the Board may exercise all the powers conferred on it by article 129 without an ordinary resolution of the Company.

### **GENERAL MEETINGS**



37. ANNUAL GENERAL MEETINGS

Subject to the Act, the Company shall hold an annual general meeting in each period of 6 months beginning with the day following its accounting reference date. Such meetings shall be convened by the Board at such time and place as it thinks fit.

**38. CONVENING OF GENERAL MEETINGS BY THE BOARD**

The Board may convene a general meeting whenever it thinks fit.

**39. CONVENING OF GENERAL MEETINGS BY REQUIREMENT OF THE MEMBERS**

39.1 The Board, on the requirement of members pursuant to the Act, shall call a general meeting: (i) within 21 days from the date on which the Board becomes subject to the requirement; and (ii) to be held on a date not more than 28 days after the date of the notice convening the meeting. At a meeting convened on a requisition or by requisitionists no business may be transacted except that stated by the requisition or proposed by the Board. A general meeting may also be convened in accordance with article 93.

**40. LENGTH AND FORM OF NOTICE**

40.1 An annual general meeting shall be called by not less than 21 clear days' notice. All other general meetings shall be called by not less than 14 clear days' notice.

40.2 The notice of meeting shall be given to the members (other than any who, under the provisions of the articles or the terms of allotment or issue of shares, are not entitled to receive notice), to the directors and to the auditors.

40.3 The Board may determine that persons entitled to receive notices of meeting are those persons entered on the register at the close of business on a day determined by the Board, provided that, if the Company is a participating issuer, the day determined by the Board may not be more than 21 days before the day that the relevant notice of meeting is being sent.

40.4 The notice of meeting shall also specify a time (which shall not be more than 48 hours (excluding any part of a day that is not a working day)) before the time fixed for the meeting) by which a person must be entered on the register in order to have the right to attend or vote at the meeting. Changes to entries on the register after the time so specified in the notice shall be disregarded in determining the rights of any person to so attend or vote.

**41. OMISSION TO SEND NOTICE**

The accidental omission to give notice of a general meeting or to send, supply or make available any document or information relating to the meeting, or the non-receipt of any such notice, document or information by a person entitled to receive any such notice, document or information shall not invalidate the proceedings at that meeting.

**42. POSTPONEMENT OF GENERAL MEETINGS**

Subject to the Act, if the Board, in its absolute discretion, considers that it is impractical or unreasonable for any reason to hold a general meeting at the time, date or place specified in the notice calling the general meeting, it may move and/or postpone the general meeting to another time, date and/or place. Subject to the Act, when a meeting

is so moved and/or postponed, notice of the time, date and place of the moved and/or postponed meeting shall (if practical) be placed in at least two national newspapers in the United Kingdom. Notice of the business to be transacted at such moved and/or postponed meeting is not required. The Board must take reasonable steps to ensure that members trying to attend the general meeting at the original time, date and/or place are informed of the new arrangements for the general meeting. Proxy forms can be delivered as specified in article 59. Any postponed and/or moved meeting may also be postponed and/or moved under this article.

#### PROCEEDINGS AT GENERAL MEETINGS

#### 43. QUORUM

Subject to the Act, the quorum for a general meeting is ten qualifying persons present and entitled to vote.

#### 44. NO BUSINESS TO BE TRANSACTED UNLESS QUORUM PRESENT

No business may be transacted at a general meeting unless a quorum is present. The absence of a quorum does not prevent the appointment of a chairman in accordance with the articles, which shall not be treated as part of the business of the meeting.

#### 45. PROCEDURE IF QUORUM NOT PRESENT

45.1 If a quorum is not present within thirty minutes (or such longer time as the chairman decides to wait) after the time fixed for the start of the meeting or if there is no longer a quorum present at any time during the meeting, the meeting, if convened by or on the requisition of members, is dissolved, In any other case it stands adjourned to such other day (being not less than 14 nor more than 28 days later) and at such other time and/or place as may have been specified for the purpose in the notice convening the meeting. Where no such arrangements have been specified, the meeting stands adjourned to such other day (being not less than 14 nor more than 28 days later) and at such other time and/or place as the chairman (or, in default, the Board) decides.

45.2 At an adjourned meeting the quorum is one person present and entitled to vote. If a quorum is not present within five minutes from the time fixed for the start of the meeting, the adjourned meeting shall be dissolved.

45.3 Subject to article 45.1, save where the time, date and place for the adjourned meeting has been specified for the purpose in the notice convening the meeting as referred to in article 45.1 (in which case notice of the adjourned meeting need not be given), the Company shall give not less than seven clear days' notice of any meeting adjourned for the lack of a quorum and the notice shall state the quorum requirement.

#### 46. CHAIRMAN

46.1 The chairman (if any) of the Board or, in his absence, the deputy chairman (if any) shall preside as chairman at a general meeting. If there is no chairman or deputy chairman, or if at a meeting neither is present within fifteen minutes after the time fixed for the start of the meeting or neither is willing and able to act, the directors present shall select one of their number to be chairman. If only one director is present and willing and able to act, he shall be chairman. In default, the members present and entitled to vote shall choose one of their number to be chairman.

46.2 Without prejudice to any other power which he may have under the provisions of the articles or at common law, the chairman may take such action as he thinks fit to promote the orderly conduct of the business of the meeting as specified in the notice of meeting and the chairman's decision on matters of procedure or arising incidentally from the business of the meeting shall be final, as shall be his determination as to whether any matter is of such a nature.

#### **47. RIGHT TO ATTEND AND SPEAK**

47.1 Each director shall be entitled to attend and speak at a general meeting and at a separate meeting of the holders of a class of shares or debentures whether or not he is a member.

47.2 The chairman may invite any person to attend and speak at any general meeting of the Company where he considers that this will assist in the deliberations of the meeting.

#### **48. POWER TO ADJOURN**

48.1 The chairman may, with the consent of a meeting at which a quorum is present (and shall, if so directed by the meeting), adjourn a meeting from time to time and from place to place or for an indefinite period.

48.2 Without prejudice to any other power which he may have under the provisions of the articles or at common law, the chairman may, without the consent of the meeting, interrupt or adjourn a meeting from time to time and from place to place or for an indefinite period if he decides that it has become necessary to do so in order to:

48.2.1 secure the proper and orderly conduct of the meeting;

48.2.2 give all persons entitled to do so a reasonable opportunity of speaking and voting at the meeting; or

48.2.3 ensure that the business of the meeting is properly disposed of.

#### **49. NOTICE OF ADJOURNED MEETING**

49.1 Whenever a meeting is adjourned for 28 days or more or for an indefinite period pursuant to article 48, at least seven clear days' notice shall be given to the members (other than any who, under the provisions of the articles or the terms, of allotment or issue of the shares, are not entitled to receive notice), the directors and the auditors. Except in these circumstances it is not necessary to give notice of a meeting adjourned pursuant to article 48 or of the business to be transacted at the adjourned meeting.

49.2 The Board may determine that persons entitled to receive notice of an adjourned meeting in accordance with this article are those persons entered on the register at the close of business on a day determined by the Board, provided that, if the Company is a participating issuer, the day determined by the Board may not be more than 21 days before the day that the relevant notice of meeting is being sent.

49.3 The notice of an adjourned meeting given in accordance with this article shall also specify a time (which shall not be more than 48 hours (excluding any part of a day that is not a working day) before the time fixed for the meeting) by which a person must be

entered on the register in order to have the right to attend or vote at the meeting. Changes to entries on the register after the time so specified in the notice shall be disregarded in determining the rights of any person to so attend or vote.

## **50. BUSINESS AT ADJOURNED MEETING**

No business may be transacted at an adjourned meeting other than the business which might properly have been transacted at the meeting from which the adjournment took place.

## **51. ACCOMMODATION OF MEMBERS AT MEETING**

If it appears to the chairman that the meeting place specified in the notice convening the meeting is inadequate to accommodate all members entitled and wishing to attend, the meeting shall be duly constituted and its proceedings valid if the chairman is

UK-2347585-v3  
D

-34-

70-40460356

satisfied that adequate facilities are available to ensure that a member who is unable to be accommodated is able to:

- (a) participate in the business for which the meeting has been convened;
- (b) hear and see all persons present who speak (whether by the use of microphones, loud-speakers, audio-visual communications equipment or otherwise), whether in the meeting place or elsewhere; and
- (c) be heard and seen by all other persons present in the same way.

## **52. SECURITY**

The Board may make any arrangement and impose any restriction it considers appropriate to ensure the security of a meeting including the searching of a person attending the meeting and the restriction of the items of personal property that may be taken into the meeting place. The Board may authorise one or more persons, who shall include a director or the secretary or the chairman of the meeting to:

- (a) refuse entry to a meeting to a person who refuses to comply with these arrangements or restrictions; and
- (b) eject from a meeting any person who causes the proceedings to become disorderly.

## **VOTING**

### **53. METHOD OF VOTING**

53.1 At a general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is properly demanded by:

53.1.1 the chairman of the meeting;

53.1.2 not less than five members entitled to vote on the resolution;

53.1.3 a member or members representing in aggregate not less than ten per cent, of the total voting rights of all the members having the right to vote on the

resolution (excluding any voting rights attached to any shares in the Company held as treasury shares);

53.1.4 a member or members holding shares conferring a right to vote on the resolution, being shares on which an aggregate sum has been paid up equal to not less than ten per cent, of the total sum paid up on all the shares conferring that right (excluding shares in the Company conferring a right to vote on the resolution which are held as treasury shares); or

53.1.5 by any member present in person or by proxy in the case of a resolution approving an off-market purchase of the Company's own shares pursuant to section 694 of the Act.

For the purposes of article 53.1.2 above, a demand by a proxy counts as a demand by the member. For the purposes of article 53.1.3 above, a demand by a proxy counts as a demand by a member representing the voting rights that the proxy is authorised to exercise. For the purposes of article 53.1.4 above, a demand by a proxy counts as a demand by a member holding the shares to which those rights are attached.

53.2 On a vote on a resolution at a meeting on a show of hands a declaration by the chairman that the resolution has or has not been passed, or has or has not been passed by a particular majority, is conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against the resolution. An entry in respect of such a declaration in minutes of the meeting recorded in accordance with section 355 of the Act is also conclusive evidence of that fact without such proof.

#### **54. PROCEDURE ON A POLL**

54.1 If a poll is properly demanded, it shall be taken in such manner as the chairman directs. He may appoint scrutineers, who need not be members, and may fix a time, date and place for declaring the result of the poll. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

54.2 A poll demanded on the election of a chairman or on any question of adjournment shall be taken at the meeting and without adjournment. A poll demanded on another question shall be taken at such time, date and place as the chairman decides, either at once or after an interval or adjournment (but not more than 30 clear days after the date of the demand).

54.3 No notice need be given of a poll not taken immediately if the time, date and place at which it is to be taken are announced at the meeting at which it is demanded. In any other case at least seven clear days' notice shall be given specifying the time, date and place at which the poll shall be taken.

54.4 The demand for a poll may be withdrawn but only with the consent of the chairman. A demand withdrawn in this way validates the result of a show of hands declared before the demand was made. If a poll is demanded before the declaration of the result of a show of hands and the demand is duly withdrawn, the meeting shall continue as if the demand had not been made.

54.5 The demand for a poll (other than on the election of the chairman or on a question of adjournment) does not prevent the meeting continuing for the transaction of business other than the question on which a poll has been demanded.

54.6 On a poll taken at a general meeting of the Company, a member present and entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

## 55. VOTES OF MEMBERS

55.1 Subject to special rights or restrictions as to voting attached to any class of shares by or in accordance with the articles, on a vote on a resolution:

55.1.1 on a show of hands at a meeting:

UK-2347585-v3D

-36-

70-40460356

- (a) every member present (not being present by proxy) and entitled to vote on the resolution has one vote; and
- (b) every proxy present who has been duly appointed by a member entitled to vote on the resolution has one vote, except where:
  - (i) that proxy has been duly appointed by more than one member entitled to vote on the resolution; and
  - (ii) the proxy has been instructed:
    - (A) by one or more of those members to vote for the resolution and by one or more of those members to vote against the resolution; or
    - (B) by one or more of those members to vote in the same way on the resolution (whether for or against) and one or more of those members has permitted the proxy discretion as to how to vote, in which case, the proxy has one vote for and one vote against the resolution; and

55.1.2 on a poll taken at a meeting, every member present and entitled to vote on the resolution has one vote in respect of each share held by the relevant member.

55.2 In the case of joint holders of a share, only the vote of the senior holder, who votes (and any proxy duly authorised by him) may be counted by the Company. For the purposes of this article, the senior holder of a share is determined by the order in which the names of the joint holders appear in the register.

55.3 A member in respect of whom an order has been made by a court or official having jurisdiction (whether in the United Kingdom or elsewhere) that he is or may be suffering from mental disorder or is otherwise incapable of running his affairs may vote, whether on a show of hands or on a poll, by his guardian, receiver, curator bonis or other person authorised for that purpose and appointed by the court. A guardian, receiver, curator bonis or other authorised and appointed person may, on a poll, vote by proxy if evidence (to the satisfaction of the Board) of the authority of the person claiming to exercise the right to vote is received at the office (or at another place specified in accordance with the articles for the delivery or receipt of forms of appointment of a proxy) or in any other manner specified in the articles for the appointment of a proxy within the time limits prescribed by the articles for the appointment of a proxy for use at the meeting, adjourned meeting or poll at which the right to vote is to be exercised.

## 56. NO CASTING VOTE

In the case of an equality of votes whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall not be entitled to a casting vote.

**57. RESTRICTION ON VOTING RIGHTS FOR UNPAID CALLS ETC.**

Unless the Board otherwise decides, no member is entitled in respect of a share held by him to be present or to vote, either in person or by proxy, at a general meeting or at a separate meeting of the holders of any class of shares or on a poll, or to exercise other rights conferred by membership in relation to the meeting or poll, if a call or other amount due and payable in respect of the share is unpaid. This restriction ceases on payment of the amount outstanding and all costs, charges and expenses incurred by the Company by reason of the non-payment.

**58. VOTING BY PROXY**

58.1 Subject to article 58.2, an instrument appointing a proxy shall be in writing in any usual form (or in another form approved by the Board) executed under the hand of the appointor or his duly constituted attorney or, if the appointor is a company, under its seal or under the hand of its duly authorised officer or attorney or other person authorised to sign.

58.2 Subject to the Act, the Board may accept the appointment of a proxy received by electronic means on such terms and subject to such conditions as it considers fit. The appointment of a proxy received by electronic means shall not be subject to the requirements of article 58.1.

58.3 For the purposes of articles 58.1 and 58.2, the Board may require such reasonable evidence it considers necessary to determine:

58.3.1 the identity of the member and the proxy; and

58.3.2 where the proxy is appointed by a person acting on behalf of the member, the authority of that person to make the appointment.

58.4 A member may appoint another person as his proxy to exercise all or any of his rights to attend and to speak and to vote (both on a show of hands and on a poll) on a resolution or amendment of a resolution, or on other business arising, at a meeting or meetings of the Company. Unless the contrary is stated in it, the appointment of a proxy shall be deemed to confer authority to exercise all such rights, as the proxy thinks fit.

58.5 A proxy need not be a member.

58.6 A member may appoint more than one proxy in relation to a meeting, provided that each proxy is appointed to exercise the rights attached to different shares held by the member. When two or more valid but differing appointments of proxy are delivered or received for the same share for use at the same meeting, the one which is last validly delivered or received (regardless of its date or the date of its execution) shall be treated as replacing and revoking the other or others as regards that share. If the Company is unable to determine which appointment was last validly delivered or received, none of them shall be treated as valid in respect of that share.

58.7 Delivery or receipt of an appointment of proxy does not prevent a member attending and voting in person at the meeting or an adjournment of the meeting or on a poll.

58.8 The appointment of a proxy shall (unless the contrary is stated in it) be valid for an adjournment of the meeting as well as for the meeting or meetings to which it relates. The appointment of a proxy shall be valid for 12 months from the date of execution or,



in the case of an appointment of proxy delivered by electronic means, for 12 months from the date of delivery unless otherwise specified by the Board.

- 58.9 Subject to the Act and the requirements of the listing rules and disclosure and transparency rules of the UKLA, the Company may send a form of appointment of proxy to all or none of the persons entitled to receive notice of and to vote at a meeting. If sent, the form shall provide for three-way voting on all resolutions (other than procedural resolutions) set out in the notice of meeting.

## 59. APPOINTMENT OF PROXY

- 59.1 The form of appointment of a proxy and any reasonable evidence required by the Board in accordance with article 58.3 shall be:

59.1.1 subject to articles 59.1.3 and 59.1.4, in the case of an instrument of proxy in hard copy form, delivered to the office, or another place in the United Kingdom specified in the notice convening the meeting or in the form of appointment of proxy or other accompanying document sent by the Company in relation to the meeting not less than 48 hours (excluding any part of a day that is not a working day) before the time for holding the meeting or adjourned meeting at which the person named in the form of appointment of proxy proposes to vote;

59.1.2 subject to articles 59.1.3 and 59.1.4, in the case of an appointment of a proxy sent by electronic means, where the Company has given an electronic address:

- (a) in the notice calling the meeting;
- (b) in an instrument of proxy sent out by the Company in relation to the meeting;
- (c) in an invitation to appoint a proxy issued by the Company in relation to the meeting; or
- (d) on a website maintained by or on behalf of the Company on which any information relating to the meeting is required by the Act to be kept,

received at such address not less than 48 hours (excluding any part of a day that is not a working day) before the time for holding the meeting or adjourned meeting at which the person named in the form of appointment of proxy proposes to vote;

59.1.3 in the case of a meeting adjourned for less than 28 days but more than 48 hours or in the case of a poll taken more than 48 hours after it is demanded, delivered or received as required by articles 59.1.1 or 59.1.2 not less than 24 hours (excluding any part of a day that is not a working day) before the time appointed for the holding of the adjourned meeting or the taking of the poll; or

59.1.4 in the case of a meeting adjourned for not more than 48 hours or in the case of a poll not taken immediately but taken not more than 48 hours after it was demanded, delivered at the adjourned meeting or at the meeting at which the poll was demanded to the chairman or to the secretary or to any director.

An appointment of proxy not delivered or received in accordance with this article is invalid.

59.2 Without limiting the foregoing, in relation to any shares which are held in uncertificated form, the Board may from time to time permit appointments of a proxy to be made by electronic means in the form of an uncertificated proxy instruction and may in a similar manner permit supplements to, or amendments or revocations of, any such uncertificated proxy instruction to be so made. The Board may in addition prescribe the method of determining the time at which any such uncertificated proxy instruction (and/or other instruction or notification) is to be treated as received by the Company or a participant acting on its behalf. The Board may treat any such uncertificated proxy instruction which purports to be or is expressed to be sent on behalf of a holder of a share as sufficient evidence of the authority of the person sending that instruction to send it on behalf of that holder.

## **60. VALIDITY OF ACTIONS BY PROXY OR REPRESENTATIVE OF A CORPORATION**

60.1 The Company is not obliged to verify that a proxy or representative of a corporation has acted in accordance with the terms of his appointment and any failure to so act in accordance with the terms of his appointment shall not affect the validity of any proceedings at a meeting of the Company.

60.2 The termination of the authority of a person to act as proxy or as the duly authorised representative of a member which is a corporation does not affect whether he counts in deciding whether there is a quorum at a meeting, the validity of anything he does as chairman of a meeting, the validity of a poll demanded by him at a meeting, or the validity of a vote given by that person unless notice of the termination was received by the Company at the office or, in the case of a proxy, any other place specified for delivery or receipt of the form of appointment of proxy or, where the appointment of proxy was sent by electronic means, at the address at which the form of appointment was received, not later than the last time at which an appointment of proxy should have been delivered or received in order to be valid for use at the relevant meeting or adjourned meeting or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for use on the holding of the poll at which the vote is cast.

## **61. CORPORATE REPRESENTATIVES**

In accordance with the Act, a corporation which is a member may, by resolution of its directors or other governing body, authorise a person or persons to act as its representative or representatives at any meeting of the Company (a "representative"). A director, the secretary or other person authorised for the purpose by the secretary may require a representative to produce a certified copy of the resolution of authorisation before permitting him to exercise his powers.

**62. OBJECTIONS TO AND ERROR IN VOTING**

No objection may be made to the qualification of a voter or to the counting of, or failure to count, a vote, except at the meeting or adjourned meeting at which the vote objected to is tendered or at which the error occurs. An objection properly made shall be referred to the chairman and only invalidates the decision of the meeting on any resolution if, in the opinion of the chairman, it is of sufficient magnitude to affect the decision of the meeting. The decision of the chairman on such matters is conclusive and binding on all concerned.

**63. AMENDMENTS TO SPECIAL RESOLUTIONS**

No amendment to a resolution duly proposed as a special resolution (other than an amendment to correct a patent error) may be considered or voted on.

**64. AMENDMENTS TO ORDINARY RESOLUTIONS**

No amendment to a resolution duly proposed as an ordinary resolution (other than an amendment to correct a patent error) may be considered or voted on unless either:

- (a) at least 48 hours before the time appointed for holding the meeting or adjourned meeting at which the ordinary resolution is to be considered, notice of the terms of the amendment and intention to move it has been lodged at the office; or
- (b) the chairman in his absolute discretion decides that the amendment may be considered or voted on.

If an amendment proposed to a resolution under consideration is ruled out of order by the chairman the proceedings on the substantive resolution are not invalidated by an error in his ruling.

**65. CLASS MEETINGS**

Save for the circumstances set out in section 334(2) and section 334(2A) of the Act, a separate meeting for the holders of a class of shares shall be convened and conducted as nearly as possible in the same way as a general meeting, except that:

- (a) no member is entitled to notice of it or to attend unless he is a holder of shares of that class;
- (b) no vote may be cast except in respect of a share of that class;
- (c) the quorum at a meeting (other than an adjourned meeting) is two qualifying persons present and entitled to vote and holding, representing or authorised to exercise voting rights in respect of, at least one-third in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares);
- (d) the quorum at an adjourned meeting is one qualifying person present and entitled to vote and holding, representing or authorised to exercise voting rights in respect of, shares of that class;

- (e) where a person is present by proxy or proxies, that person shall be treated as holding only the shares in respect of which those proxies are authorised to exercise voting rights; and

- (f) any holder of shares of that class present and entitled to vote may demand a poll.

## **66. FAILURE TO DISCLOSE INTERESTS IN SHARES**

66.1 Having regard to the requirements of the listing rules of the UKLA, where notice is served by the Company under section 793 of the Act (a "section 793 notice") on a member, or another person appearing to be interested in shares held by that member, and the member or other person has failed in relation to any shares (the "default shares", which expression includes any shares allotted or issued after the date of the section 793 notice in respect of those shares) to give the Company the information required within the prescribed period from the date of service of the section 793 notice, the following sanctions apply, unless the Board otherwise decides:

66.1.1 the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by proxy) at a general meeting or at a separate meeting of the holders of a class of shares or on a poll; and

66.1.2 where the default shares represent at least 0.25 per cent, in nominal value of the issued shares of their class (excluding any share of their class held as treasury shares):

- (a) a dividend (or any part of a dividend) or other amount payable in respect of the default shares shall be withheld by the Company, which has no obligation to pay interest on it, and the member shall not be entitled to elect, pursuant to article 128, to receive shares instead of a dividend; and
- (b) no transfer of any certificated default shares shall be registered unless the transfer is an excepted transfer or:
  - (i) the member is not himself in default in supplying the information required; and
  - (ii) the member proves to the satisfaction of the Board that no person in default in supplying the information required is interested in any of the shares the subject of the transfer.

66.2 For the purpose of enforcing the sanction in article 66.1.2(b), the Board may give notice to the member requiring the member to change default shares held in uncertificated form to certificated form by the time stated in the notice. The notice may also state that the member may not change any default shares held in certificated form to uncertificated form. If the member does not comply with the notice, the Board may require the Operator to convert default shares held in uncertificated form into certificated form in the name and on behalf of the member in accordance with the Uncertificated Securities Regulations.

66.3 The sanctions under article 66.1 cease to apply seven days after the earlier of:

66.3.1 receipt by the Company of notice of an excepted transfer, but only in relation to the shares thereby transferred; and

66.3.2 receipt by the Company, in a form satisfactory to the Board, of all the information required by the section 793 notice.

66.4 Where, on the basis of information obtained from a member in respect of a share held by him, the Company issues a section 793 notice to another person, it shall at the same

time send a copy of the section 793 notice to the member, but the accidental omission to do so, or the non-receipt by the member of the copy, does not invalidate or otherwise affect the application of articles 66.1 or 66.2.

66.5 For the purposes of this article 66:

66.5.1 a person, other than the member holding a share, shall be treated as appearing to be interested in that share if the member has informed the Company that the person is or may be interested, or if the Company (after taking account of information obtained from the member or, pursuant to a section 793 notice, from anyone else) knows or has reasonable cause to believe that the person is or may be so interested;

66.5.2 "interested" shall be construed as it is for the purpose of section 793 of the Act;

66.5.3 reference to a person having failed to give the Company the information required by a section 793 notice, or being in default in supplying such information, includes (a) reference to his having failed or refused to give all or any part of it, and (b) reference to his having given information' which he knows to be false in a material particular or having recklessly given information which is false in a material particular;

66.5.4 the "prescribed period" means 14 days;

66.5.5 an "excepted transfer" means, in relation to shares held by a member:

- (a) a transfer pursuant to acceptance of a takeover offer for the Company (within the meaning of section 974 of the Act); or
- (b) a transfer in consequence of a sale made through a recognised investment exchange (as defined in the Financial Services and Markets Act 2000) or another stock exchange outside the United Kingdom on which shares in the capital of the Company are normally traded; or
- (c) a transfer which is shown to the satisfaction of the Board to be made in consequence of a sale of the whole of the beneficial interest in the shares to a person who is unconnected with the member and with any other person appearing to be interested in the shares.

66.6 The provisions of this article are in addition and without prejudice to the provisions of the Act.

#### APPOINTMENT, RETIREMENT AND REMOVAL OF DIRECTORS

**67. NUMBER OF DIRECTORS**

Unless and until otherwise decided by the Company by ordinary resolution the number of directors must not be less than six and must not be more than twenty.

**68. POWER OF THE COMPANY TO APPOINT DIRECTORS**

Subject to the articles, the Company may by ordinary resolution appoint a person who is willing to act to be a director, either to fill a vacancy or as an addition to the Board, but the total number of directors may not exceed any maximum number fixed in accordance with the articles.

**69. POWER OF THE BOARD TO APPOINT DIRECTORS**

Without prejudice to the power of the Company to appoint a person to be a director pursuant to the articles, the Board may appoint a person who is willing to act as a director, either to fill a vacancy or as an addition to the Board, but the total number of directors may not exceed any maximum number fixed in accordance with the articles. A director appointed in this way may hold office only until the dissolution of the next annual general meeting after his appointment unless he is reappointed during that meeting. He is not required, and is not taken into account in determining the number of directors who are, to retire by rotation at the meeting.

**70. MANAGING AND EXECUTIVE DIRECTORS**

70.1 The Board may from time to time appoint one or more directors to be Managing Director, Executive Director, joint Managing Directors or joint Executive Directors of the Company either for a fixed or an indefinite term and may from time to time, without prejudice to the terms of any agreement entered into in any particular case, remove or dismiss such persons and appoint others in their place.

70.2 A Managing Director or Executive Director shall, without prejudice to the terms of any agreement between him and the Company, be subject to the same provisions as to retirement by rotation, resignation and removal as the other directors and, if for any reason he ceases to hold the office of director, he shall immediately cease to be a Managing Director or Executive Director (as the case may be), but without prejudice to any claims for damages for any breach of contract of service between him and the Company.

70.3 A Managing Director or Executive Director shall receive such remuneration (whether by way of salary, commission and/or participation in profits, and whether in substitution for or in addition to his remuneration as a director) as the Board may decide.

**71. ELIGIBILITY OF NEW DIRECTORS**

71.1 No person other than a director retiring (by rotation or otherwise) may be appointed or reappointed a director at a general meeting unless:

71.1.1 he is recommended by the Board; or

71.1.2 not less than seven nor more than 21 days before the date fixed for the meeting, notice has been given to the Company by a member (other than the person to be proposed) qualified to vote at the meeting of the intention to propose that person

for appointment or reappointment. The notice shall (a) state the particulars which would, if the proposed director were appointed or reappointed, be required to be included in the Company's register of directors, (b) be accompanied by notice given by the proposed director of his willingness to be appointed or reappointed, and (c) be lodged at the office.

71.2 A director need not be a member.

## **72. VOTING ON RESOLUTION FOR APPOINTMENT**

A resolution for the appointment of two or more persons as directors by a single resolution is void unless an ordinary resolution that the resolution for appointment is proposed in this way has first been agreed to by the meeting without a vote being given against it.

## **73. RETIREMENT BY ROTATION**

73.1 Subject to article 73.2, at each annual general meeting one-third of the directors who are subject to retirement by rotation or, if their number is not three or a multiple of three, the number nearest to but not less than one-third, shall retire from office provided that if there are fewer than three directors who are subject to retirement by rotation, one shall retire from office provided always that the Board may determine that the proportion of the directors to retire by rotation shall be greater than one-third in which event this article 73.1 and article 73.2 shall be read and construed accordingly.

73.2 If any one or more directors:

73.2.1 were last appointed or reappointed three years or more prior to the meeting;

73.2.2 were last appointed or reappointed at the third immediately preceding annual general meeting; or

73.2.3 at the time of the meeting will have served more than eight years as a non-executive director of the Company (excluding as the chairman of the Board),

he or they shall retire from office and shall be counted in obtaining the number required to retire at the meeting, provided that the number of directors required to retire under article 73.1 shall be increased to the extent necessary to comply with this article.

## **74. DIRECTORS SUBJECT TO RETIREMENT**

Subject to the Act and the articles, the directors to retire by rotation at an annual general meeting include, so far as necessary to obtain the number required, first, a director who wishes to retire and not offer himself for reappointment, and, second, those directors who have been longest in office since their last appointment or reappointment. As between two or more who have been in office an equal length of

time, the director to retire shall, in default of agreement between them, be determined by lot. The directors to retire on each occasion (both as to number and identity) shall be determined on the basis of the composition of the Board at the start of business on the date of the notice convening the annual general meeting, disregarding a change in the number or identity of the directors after that time but before the close of the meeting.

## **75. POSITION OF RETIRING DIRECTOR**

A director who retires at an annual general meeting (whether by rotation or otherwise) may, if willing to act, be reappointed. If he is not reappointed or deemed reappointed, he may retain office until the meeting appoints someone in his place or, if it does not do so, until the end of the meeting.

#### **76. PROCEDURE IF INSUFFICIENT DIRECTORS APPOINTED**

If:

76.1.1 any resolution or resolutions for the appointment or re-appointment of the persons eligible for appointment or re-appointment as directors are put to the annual general meeting and lost; and

76.1.2 at the end of that meeting the number of directors is fewer than any minimum number of directors required under article 67, all retiring directors who stood for re-appointment at that meeting (the "retiring directors") shall be deemed to have been re-appointed as directors and shall remain in office, but the retiring directors may only:

- (a) act for the purpose of filling vacancies and convening general meetings of the Company; and
- (b) perform such duties as are appropriate to maintain the Company as a going concern and to comply with the Company's legal and regulatory obligations.

#### **77. PROVISIONS FOR MEETING CONVENED UNDER ARTICLE 76**

77.1 The retiring directors shall convene a general meeting as soon as reasonably practicable following the meeting referred to in article 76 and they shall retire from office at that meeting if the number of directors appointed or ratified by the Company at that meeting is equal to or more than the minimum number of directors required under article 67.

77.2 If at the end of the meeting convened under article 77.1 the number of directors is fewer than any minimum number of directors required under article 67, the provisions of article 76 and 77 shall also apply in respect of such meeting.

#### **78. DEEMED REAPPOINTMENT**

At a general meeting at which a director retires by rotation the Company may fill the vacancy and, if it does not do so, the retiring director shall be, if willing, deemed

reappointed unless it is expressly resolved not to fill the vacancy or a resolution for the reappointment of the director is put to the meeting and lost.

#### **79. NO RETIREMENT ON ACCOUNT OF AGE**

No person is incapable of being appointed a director by reason of his having reached the age of 70 or another age.

#### **80. REMOVAL BY ORDINARY RESOLUTION**

In addition to any power of removal conferred by the Act, the Company may by ordinary resolution remove a director before the expiry of his period of office (without prejudice to a claim for damages for breach of contract or otherwise) and may (subject



to the articles) by ordinary resolution appoint another person who is willing to act to be a director in his place. A person appointed in this way is treated, for the purposes of determining the time at which he or another director is to retire, as if he had become a director on the date on which the person in whose place he is appointed was last appointed or reappointed a director.

## **81. VACATION OF OFFICE BY DIRECTOR**

- 81.1 Without prejudice to the provisions for retirement (by rotation or otherwise) contained in the articles, the office of a director is vacated if:
- 81.1.1 he resigns by notice delivered to the secretary at the office or tendered at a Board meeting;
  - 81.1.2 where he has been appointed for a fixed term, the term expires;
  - 81.1.3 he ceases to be a director by virtue of a provision of the Act, is removed from office pursuant to the articles or becomes prohibited by law from being a director;
  - 81.1.4 he becomes bankrupt or compounds with his creditors generally or he applies to the court for an interim order under section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement under that Act;
  - 81.1.5 he is or has been suffering from mental ill health or becomes a patient for the purpose of any statute relating to mental health or any court claiming jurisdiction on the ground of mental disorder (however stated) makes an order for his detention or for the appointment of a guardian, receiver or other person (howsoever designated) to exercise powers with respect to his property or affairs, and in any such case the Board resolves that his office be vacated;
  - 81.1.6 both he and his alternate director appointed pursuant to the provisions of the articles (if any) are absent, without the permission of the Board, from Board meetings for six consecutive months and the Board resolves that his office be vacated; or
  - 81.1.7 at a meeting of the Board specially convened for the purpose of considering the same a resolution to the effect that he ceases to be a director shall be

UK-2347585-v3  
D

-47-

70-40460356

passed by a majority consisting of not less than three-quarters of the whole number of directors.

- 81.2 A resolution of the Board declaring a director to have vacated office under the terms of this article is conclusive as to the fact and grounds of vacation stated in the resolution.
- 81.3 If the office of a director is vacated for any reason, he shall cease to be a member of any committee of the Board.

## **ALTERNATE DIRECTORS**

## **82. APPOINTMENT**

- 82.1 A director (other than an alternate director) may by notice delivered to the secretary at the office or tabled at a meeting of the Board, or in any other manner approved by the Board, appoint as his alternate director:

82.1.1 another director, or

82.1.2 another person approved by the Board and willing to act.

No appointment of an alternate director who is not already a director shall be effective until his consent to act as a director in the form prescribed by the Act has been received at the office or tabled at a meeting of the Board.

82.2 An alternate director need not be a member and shall not be counted in reckoning the number of directors for the purpose of article 67.

### **83. REVOCATION OF APPOINTMENT**

A director may by notice delivered to the secretary at the office or tabled at a meeting of the Board revoke the appointment of his alternate director and, subject to the provisions of article 82, appoint another person in his place. If a director ceases to hold the office of director or if he dies, the appointment of his alternate director automatically ceases. If a director retires but is reappointed or deemed reappointed at the meeting at which his retirement takes effect, a valid appointment of an alternate director which was in force immediately before his retirement continues to operate after his reappointment as if he had not retired. The appointment of an alternate director ceases on the happening of an event which, if he were a director otherwise appointed, would cause him to vacate office.

### **84. PARTICIPATION IN BOARD MEETINGS**

An alternate director shall be, if he gives the Company an address in the United Kingdom at which notices may be served on him or an address at which notices may be served on him by electronic means, entitled to receive notice of all meetings of the Board and all committees of the Board of which his appointor is a member and, in the absence from those meetings of his appointor, to attend and vote at the meetings and to exercise all the powers, rights, duties and authorities of his appointor. A director acting as alternate director has a separate vote at meetings of the Board and

committees of the Board for each director for whom he acts as alternate director but he counts as only one for the purpose of determining whether a quorum is present.

### **85. RESPONSIBILITY**

A person acting as an alternate director shall be an officer of the Company, shall alone be responsible to the Company for his acts and defaults, and shall not be deemed to be the agent of his appointor.

## **REMUNERATION, EXPENSES AND PENSIONS**

### **86. DIRECTORS' FEES**

86.1 Unless otherwise decided by the Company by ordinary resolution, the Company shall pay to the directors (but not alternate directors) for their services as directors such amount of aggregate fees as the Board decides (not exceeding £2,000,000 per annum or such larger amount as the Company may by ordinary resolution decide). The aggregate fees shall be divided among the directors in such proportions and manner as the Board decides or, if no decision is made, equally. A fee payable to a director pursuant to this article is distinct from any salary, remuneration or other amount payable to him pursuant to other provisions of the articles or otherwise and accrues from day to day.

86.2 Subject to the Act and to the articles and the requirements of the listing rules of the UKLA, the Board may arrange for part of a fee payable to a director under this article to be provided in the form of fully-paid shares in the capital of the Company. The amount of the fee payable in this way shall be at the discretion of the Board and shall be applied in the purchase or subscription of shares on behalf of the relevant director. In the case of a subscription of shares, the subscription price per share shall be deemed to be the closing middle-market quotation for a fully-paid share of the Company of that class as published in the Daily Official List of the London Stock Exchange (or such other quotation derived from such other source as the Board may deem appropriate) on the day of subscription.

**87. ADDITIONAL REMUNERATION**

A director who, at the request of the Board, goes or resides abroad, makes a special journey or performs a special service on behalf of the Company or its business may be paid such reasonable additional remuneration (whether by way of salary, percentage of profits or otherwise) and expenses as the Board may decide.

**88. EXPENSES**

A director is entitled to be repaid all reasonable travelling, hotel and other expenses incurred by him in the performance of his duties as director including expenses incurred in attending meetings of the Board or of committees of the Board or general meetings or separate meetings of the holders of a class of shares or debentures. Subject to the Act, the directors shall have the power to make arrangements to provide a director with funds to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties as an officer of the Company or to enable him to avoid incurring any such expenditure.

**89 REMUNERATION AND EXPENSES OF ALTERNATE DIRECTORS**

An alternate director is not entitled to a fee from the Company for his services as an alternate director. The fee payable to an alternate director is payable out of the fee payable to his appointor and consists of such portion (if any) of the fee as he agrees with his appointor. The Company shall, however, repay to an alternate director expenses incurred by him in the performance of his duties if the Company would have been required to repay the expenses to him under article 88 had he been a director.

**90. DIRECTORS' PENSIONS AND OTHER BENEFITS**

90.1 The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (by insurance or otherwise) for a person who is or has at any time been a director of:

90.1.1 the Company;

90.1.2 a company which is or was a subsidiary undertaking of the Company;

90.1.3 a company which is or was allied to or associated with the Company or a subsidiary undertaking of the Company; or

90.1.4 a predecessor in business of the Company or of a subsidiary undertaking of the Company,

(or, in each case, for any member of his family, including a spouse or former spouse, or a person who is or was dependent on him). For this purpose the Board may establish, maintain, subscribe and contribute to any scheme, trust or fund and pay premiums. The Board may arrange for this to be done by the Company alone or in conjunction with another person.

90.2 A director or former director is entitled to receive and retain for his own benefit a pension or other benefit provided under article 90.1 and is not obliged to account for it to the Company.

**91. REMUNERATION OF EXECUTIVE DIRECTORS**

The salary or other remuneration of a director appointed to hold employment or executive office in accordance with the articles may be a fixed sum of money, or wholly or in part governed by business done or profits made, or as otherwise decided by the Board, and may be in addition to or instead of a fee payable to him for his services as director pursuant to the articles.

**POWERS AND DUTIES OF THE BOARD**

**92. POWERS OF THE BOARD**

Subject to the Act, the articles and to directions given by the Company in general meeting of the Company, the business and affairs of the Company shall be managed by the Board which may exercise all the powers of the Company whether relating to the management of the business or not. No alteration of the articles and no direction

given by the Company shall invalidate a prior act of the Board which would have been valid if the alteration had not been made or the direction had not been given. The

provisions of the articles giving specific powers to the Board do not limit the general powers given by this article.

**93. POWERS OF DIRECTORS BEING LESS THAN MINIMUM REQUIRED NUMBER**

If the number of directors is less than the minimum prescribed by the articles or decided by the Company by ordinary resolution, the remaining director or directors may act only for the purposes of appointing an additional director or directors to make up that minimum or convening a general meeting of the Company for the purpose of making such appointment. If no director or directors is or are able or willing to act, two members may convene a general meeting for the purpose of appointing directors. An additional director appointed in this way holds office (subject to the articles) only until the dissolution of the next annual general meeting after his appointment unless he is reappointed during the meeting.

**94. POWERS OF EXECUTIVE DIRECTORS**

The Board may delegate to a director holding executive office any of its powers, authorities and discretions for such time and on such terms and conditions as it thinks fit. In particular the Board may grant the power to sub-delegate, and may retain or exclude the right of the Board to exercise the delegated powers, authorities or discretions collaterally with the director. The Board may at any time revoke the delegation or alter its terms and conditions.

**95. DELEGATION TO COMMITTEES**

The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) to a committee consisting of one or more persons (whether a member or members of the Board or not) as it thinks fit. A committee may exercise its power to sub-delegate by sub-delegating to any person or persons (whether or not a member or members of the Board or of the committee). The Board may retain or exclude its right to exercise the delegated powers, authorities or discretions collaterally with the committee. The Board may at any time revoke the delegation or alter any terms and conditions or discharge the committee in whole or in part. Where a provision of the articles refers to the exercise of a power, authority or discretion by the Board (including the power to pay fees, remuneration, additional remuneration, expenses and pensions and other benefits pursuant to articles 70 or 86 to 91) and that power, authority or discretion has been delegated by the Board to a committee, the provision shall be construed as permitting the exercise of the power, authority or discretion by the committee.

**96. AGENTS**

The Board may by power of attorney or otherwise appoint a person to be the agent of the Company and may delegate to that person any of its powers, authorities and discretions for such purposes, for such time and on such terms and conditions (including as to remuneration) as it thinks fit. In particular the Board may grant the power to sub-delegate and may retain or exclude the right of the Board to exercise the

delegated powers, authorities or discretions collaterally with the agent. The Board may at any time revoke or alter the terms and conditions of the appointment or delegation.

**97. ASSOCIATE DIRECTORS**

The Board may appoint a person (not being a director) to an office or employment having a designation or title including the word "director" or attach to an existing office

or employment that designation or title and may terminate the appointment or use of that designation or title. The inclusion of the word "director" in the designation or title of an office or employment does not imply that the person is, or is deemed to be, or is empowered to act as, a director for any of the purposes of the Act or the articles.

#### **98. EXERCISE OF VOTING POWERS**

Subject to article 101, the Board may exercise or cause to be exercised the voting powers conferred by shares in the capital of another company held or owned by the Company, or a power of appointment to be exercised by the Company, in any manner it thinks fit (including the exercise of the voting power or power of appointment in favour of the appointment of a director as an officer or employee of that company).

#### **99. PROVISION FOR EMPLOYEES**

The Board may exercise the powers conferred on the Company by the Act to make provision for the benefit of a person (other than a director, former director or shadow director) employed or formerly employed by the Company or any of its subsidiary undertakings (or any member of his family, including a spouse or former spouse, or any person who is or was dependent on him) in connection with the cessation or the transfer to a person of the whole or part of the undertaking of the Company or the subsidiary undertaking.

#### **100. REGISTERS**

Subject to the Act and the Uncertificated Securities Regulations, the Board may exercise the powers conferred on the Company with regard to the keeping of an overseas, local or other register and may make and vary regulations as it thinks fit concerning the keeping of such a register.

#### **101. BORROWING POWERS**

101.1 Subject as hereinafter provided, the Board may exercise all the powers of the Company to borrow money, and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures and other securities, whether outright or as security for any debt, liability or obligation of the Company or of any third party.

101.2 The Board shall procure that the Company and its subsidiary undertakings shall not, without a previous sanction of the Company in general meeting, exercise their powers to borrow money (but in relation to its subsidiary undertakings only insofar as by the exercise of voting or other rights or powers of control the Company is able so to procure) if immediately thereafter the aggregate of the borrowings of the Company

and its subsidiary undertakings (excluding borrowings between subsidiary undertakings and between the Company and its subsidiary undertakings) exceed twice the aggregate of Share Capital and Consolidated Reserves. For the purposes of the said limit the issue of debentures shall be deemed to constitute borrowing notwithstanding that the same may be issued in whole or part for a consideration other than cash.

.3 "Share Capital and Consolidated Reserves" means the aggregate of:

101.3.1 the amount paid up or credited as paid up on the share capital of the Company;  
and

101.3.2 the aggregate amounts of the consolidated capital and revenue reserves (including share premium account, capital redemption reserve and profit and loss account) of the Company and its subsidiary undertakings,

all as shown by the then latest audited consolidated balance sheet of the Company and its subsidiary undertakings but:

- (a) adjusted as may be appropriate and practicable in respect of (i) any subsequent variation in the paid up share capital or share premium account of the Company, and so that for this purpose if the Company has issued any shares for cash and the issue has been underwritten then the amount (including any premium) of the subscription moneys (not being moneys payable later than three months after the date of allotment) shall be deemed to have been paid up at the date when the underwriting became unconditional; (ii) any unconsolidated subsidiary undertaking; (iii) any companies which since the date of such balance sheet have become or have ceased to be subsidiary undertakings; and (iv) any companies which will become or cease to be subsidiary undertakings as a result of the transaction in relation to which the calculation falls to be made;
- (b) after making an appropriate deduction in respect of any distribution other than to the Company or another subsidiary undertaking out of profits earned prior to the date of such balance sheet and not provided for therein;
- (c) deducting any amounts attributable to goodwill or other intangible assets;
- (d) excluding any amounts set aside for taxation and any amounts attributable to minority interests in subsidiary undertakings;
- (e) deducting a sum equivalent to any debit balance on profit and loss account;
- (f) adding an appropriate sum equivalent to any credit balance representing unallocated divisible surplus in relation to the long term insurance liabilities of the Company and its subsidiary undertakings;

- (g) adding an appropriate sum equivalent to the Company's share of the embedded value arising from future after tax profits on in force covered long term business written by the Company and its subsidiary undertakings;
- (h) after making such adjustments as the Board may consider appropriate in relation to any surplus or deficit on any retirement benefit scheme; and
- (i) after making such adjustments as may be necessary to avoid any duplicative effect produced by the making of any of the adjustments prescribed above, and such other adjustments (if any) as the Board in agreement with the auditors may consider appropriate.

101.4 For the purposes of article 101.2, the following shall be deemed not to be borrowings:

101.4.1 borrowings in connection with the investment assets of ordinary long-term insurance funds;

101.4.2 moneys deposited with the Company or any of its subsidiary undertakings in connection with insurance business or with any staff saving scheme;

101.4.3 amounts secured by policies, guarantees, indemnities, bonds or contracts issued or given by the Company or any of its subsidiary undertakings in the course of its business as an insurance company;

101.4.4 moneys deposited with, borrowings made by or amounts secured by guarantees, indemnities, bonds or contracts issued or given by the Company or any of its subsidiary undertakings in connection with banking business;

101.4.5 borrowings by any subsidiary undertaking the shares of which are listed on any stock exchange; and

101.4.6 monies borrowed by way of subordinated debt if and to the extent that the Board considers that it would be inappropriate to categorise those monies as borrowings for the purpose of this article on the basis of the extent to which the terms of the debt issued have characteristics equivalent to equity.

101.5 For the purposes of article 101.2, borrowings expressed in a currency other than sterling shall be converted into sterling as follows:

101.5.1 as regards a borrowing shown as outstanding in whole or in part in the then latest audited consolidated balance sheet of the Company and its subsidiary undertakings, at the rate of exchange adopted for the purpose of that balance sheet;

101.5.2 as regards a borrowing shown as outstanding in whole or in part in the then latest audited balance sheet of an unconsolidated subsidiary undertaking, at the rate of exchange adopted for the purpose of that balance sheet or, if that balance sheet is not written in sterling, at the rate of exchange ruling in London at the close of business on the date of such balance sheet; and

101.5.3 as regards other borrowings (that is to say those borrowings no part of which was outstanding at the date of the relevant balance sheet) at the rates of exchange ruling in London at the close of business on the date upon which they were incurred; but so that

101.5.4 an overdraft or other borrowing on current account expressed in a currency other than sterling shall be converted:

- (a) if at the date of the relevant balance sheet any amount was outstanding on that overdraft or current account, at the rates indicated in paragraphs 101.5.1 or 101.5.2 of this article 101.5; and
- (b) if no such amount was then outstanding at the rates of exchange ruling in London at the close of business on the date upon which, since the date of such balance sheet, the overdraft or current account was first in debit, notwithstanding, in either case, its subsequent repayment and a later borrowing on the same account.



For the purposes of this article, "sterling" means the lawful currency of the United Kingdom and the certificate of the auditors as to any relevant rate of exchange shall be conclusive and binding.

- 101.6 No lender or other person dealing with the Company shall be concerned to see or enquire whether this limit is observed. No debt incurred or security given in excess of such limit shall be invalid or ineffectual except in the case of express notice to the lender or the recipient of the security at the time when the debt was incurred or security given that the limit hereby imposed had been or was thereby exceeded.
- 101.7 Any certificate of the auditors as to the amount of Share Capital and Consolidated Reserves or of borrowings (including any adjustments required or permitted by this article) shall be conclusive and binding on all concerned.

#### 102. REGISTER OF CHARGES

The Company shall keep a register of charges in accordance with the Act and the fee to be paid by a person other than a creditor or member for each inspection of the register of charges is the maximum sum prescribed by or under the Act or, failing which, decided by the Board.

#### 103. DIRECTORS' INTERESTS

- 103.1 A director who is in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company or arrangement or proposed arrangement with which the Company or any subsidiary is connected shall declare the nature of his interest to the other directors as soon as reasonably practicable, subject to article 103.5.
- 103.2 The Board may authorise any matter proposed or declared to it which would, if not so authorised, involve a breach of duty by a director under section 175 of the Act. In giving any authorisations under this article, the Board may impose such limits or conditions as it thinks fit and may vary or terminate any such authorisation at any time.

103.3 For the purposes of this article 103, a conflict of interest includes a conflict of interest and duty and a conflict of duties, and interest includes both direct and indirect interests.

103.4 Any authorisation under article 103.2 will be effective only if:

103.4.1 any requirement as to quorum at the meeting at which the matter is considered is met without counting the director in question or any other director interested in the matter under consideration; and

103.4.2 the matter was agreed to without such director(s) voting or would have been agreed to if the votes(s) of such director(s) had not been counted.

103.5 A director need not declare an interest under this article 103:

103.5.1 if his interest cannot reasonably be regarded as likely to give rise to a conflict of interest;

103.5.2 if, or to the extent that, the other directors are already aware of it (and for this purpose the other directors are treated as aware of anything of which they ought reasonably to be aware);

103.5.3if, or to the extent that, his interest concerns terms of his service contract that have been or are to be considered by a meeting of the directors or by a committee of the directors appointed for the purpose under these articles; or

103.5.4if the director is not aware of his interest or is not aware of the contract, arrangement, transaction or proposal in question (and for this purpose a director is treated as being aware of matters which he ought reasonably to be aware).

103.6 If a director has declared to the Board the nature and extent of any direct or indirect interest of his where required in accordance with this article 103 or where no declaration of interest is required pursuant to article 103.5, the director may (subject to compliance with any applicable requirements of the Act), notwithstanding his office:

103.6.1may be a party to, or otherwise be interested in a contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise directly or indirectly interested;

103.6.2act by himself or through his firm in a professional capacity for the Company (otherwise than as auditor), and in any such case on such terms as to remuneration and otherwise as the Board may decide; and

103.6.3be a director or other officer of, or employed by, or be otherwise interested in, any body corporate in which the Company is otherwise directly or indirectly interested.

103.7 A director may not vote on or be counted in the quorum in relation to a resolution of the Board concerning a transaction or arrangement to which the Company is or is to be a party and in which he has a direct or indirect interest which is, to his knowledge,

a material interest (otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company), but this prohibition does not apply to a resolution concerning any of the following matters:

103.7.1the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;

103.7.2the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security ;

103.7.3a transaction or arrangement concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub underwriting of which he is to participate;

103.7.4a transaction or arrangement to which the Company is or is to be a party concerning another company (including a subsidiary undertaking of the Company) in which he and any persons connected with him is interested (directly or indirectly) whether as an officer, shareholder, creditor or otherwise (a "relevant company"), if he does not to his knowledge hold an interest in shares (as that term is used in sections 820 to 825 of the Act) representing one per cent, or more of either any class of the equity share capital (excluding any

shares of that class held as treasury shares) of or the voting rights in the relevant company;

103.7.5a transaction or arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings (including any pension fund or retirement, death or disability scheme) which does not award him a privilege or benefit not generally awarded to the employees to whom it relates; and

103.7.6a transaction or arrangement concerning the purchase or maintenance of any insurance policy for the benefit of directors or for the benefit of persons including directors.

103.8 A director may not vote on or be counted in the quorum in relation to a resolution of the Board or committee of the Board concerning his own appointment (including, without limitation, fixing or varying the terms of his appointment or its termination) as the holder of an office or place of profit with the Company or any company in which the Company is directly or indirectly interested. Where proposals are under consideration concerning the appointment (including, without limitation, fixing or varying the terms of appointment or its termination) of two or more directors to offices or places of profit with the Company or a company in which the Company is interested, such proposals shall be divided and a separate resolution considered in relation to each director. In that case, each of the directors concerned (if not otherwise debarred from voting under this article 103) is entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

UK-2347585-v  
3D

-57-

70-40460356

103.9 The Board may exercise the voting rights conferred by the shares in any other company held or owned by the Company in such manner in all respects as the Board thinks fit, including the exercise of such voting rights in favour of any resolution appointing the Company or all or any of the directors as directors or officers of any such company or providing for the payment of remuneration to the directors or officers of such other company.

103.10 If a question arises at a meeting as to the materiality of a director's interest (other than the interest of the chairman of the meeting) or as to the entitlement of a director (other than the chairman) to vote or be counted in a quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or being counted in the quorum, the question shall be referred to the chairman of the meeting and his ruling in relation to the director concerned is conclusive and binding on all concerned.

103.11 If a question arises at a meeting as to the materiality of the interest of the chairman of the meeting or as to the entitlement of the chairman to vote or be counted in a quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or being counted in the quorum, the question shall be decided by resolution of the directors or committee members present at the meeting (excluding the chairman) whose majority vote is conclusive and binding on all concerned.

103.12 A director shall be under no duty to the Company with respect to any information which he obtains or has obtained otherwise than as a director and in respect of which he owes a duty of confidentiality to another person. In particular:

103.12.1 he will be under no obligation to disclose any such information to the Board or to any director or other officer or employee of the Company; and

103.12.2 any failure on his part to use or apply any such information in performing his duties as a director will not constitute a breach by him of his duty under section 172 or section 174 of the Act.

However, to the extent that his relationship with that other person gives rise to an interest of his which conflicts, or possibly may conflict, with the interests of the Company, this article 103.12 applies only if the existence of that relationship has been authorised by the Board pursuant to article 103.2. This article 103.12 is without prejudice to any equitable principle or rule of law which may excuse the director from disclosing information in circumstances where disclosure would otherwise be required under this article 103.

103.13 Where a director finds himself in a situation in which he has an interest which conflicts, or possibly may conflict, with an interest of the Company, the general duties which he owes to the Company by virtue of sections 171 to 177 of the Act will not be infringed by anything done (or omitted to be done) in accordance with the following provisions. The director may, for so long as he reasonably believes the situation subsists:

103.13.1 absent himself from meetings of the Board or from the discussion of any matter at a meeting; and/or

UK-2347585-v3  
D

-58-

70-40460356

103.13.2 make such arrangements as he sees fit for board papers to be received and read by a professional adviser on his behalf; and/or

103.13.3 behave in any other way authorised by any guidance which may from time to time be issued by the Board.

This article 103.13 is without prejudice to any equitable principle or rule of law which may excuse the director from disclosing information in circumstances where disclosure would otherwise be required under this article 103.

103.14 For the purposes of this article 103, any interest of a person who is for the purposes of the Act connected with (within the meaning of section 252 of the Act) a director is treated as the interest of the director and, in relation to an alternate director, the interest of his appointor is treated as the interest of the alternate director in addition to any interest which the alternate director otherwise has. This article 103 applies to an alternate director as if he were a director otherwise appointed.

103.15 A director shall not be accountable to the Company for any remuneration or other benefit which he derives from any office or employment or from any transaction or arrangement or from any interest in any body corporate:

103.15.1 the acceptance, entry into or existence of which has been approved by the Board pursuant to article 103.2 (subject, in any such case, to any limits or conditions to which such approval was subject); or

103.15.2 which he is permitted to hold or enter into by virtue of article 103.6,

nor shall the receipt of any such remuneration or other benefit constitute a breach of his duty under section 176 of the Act. No transaction or arrangement approved or permitted pursuant to this article 103 shall be liable to be avoided on the ground of any such interest or benefit.

103.16 The acceptance of a benefit from a third party by a director will not constitute a breach of section 176 of the Act if:

103.16.1 the receipt of the benefit is disclosed to and approved by the Board within a reasonable time of its receipt; or

103.16.2 the amount or (where the benefit is not a cash sum) the value of the benefit is such that its acceptance cannot reasonably be regarded as likely to give rise to a conflict of interest,

even if the benefit was conferred by reason of his being a director. For the purposes of this article 103.16, the Board may from time to time prescribe an amount below which, in its view, the amount or value of a benefit is such that its acceptance cannot reasonably be regarded as likely to give rise to a conflict of interest.

103.17 Any declaration required by this article 103 may be made at a meeting of the Board or by notice in writing in accordance with section 184 of the Act or by general notice in accordance with section 185 of the Act or otherwise in accordance with section 177 of the Act.

103.18 Subject to the Act, the Company may by ordinary resolution suspend or relax the provisions of this article 103 to any extent or ratify any contract, arrangement, transaction or proposal not properly authorised by reason of a contravention of this article 103.

## PROCEEDINGS OF DIRECTORS AND COMMITTEES

### **104. BOARD MEETINGS**

Subject to the articles, the Board may meet for the despatch of business, adjourn and otherwise regulate its proceedings as it thinks fit.

### **105. NOTICE OF BOARD MEETINGS**

Two directors may and, on the request of two directors the secretary shall summon a Board meeting at any time. Notice of a Board meeting is deemed to be duly given to a director if it is given to him personally or by word of mouth or by electronic means to an address given by him to the Company for that purpose or sent in writing to him at his last-known address or another address given by him to the Company for that purpose. A director may waive the requirement that notice be given to him of a Board meeting, either prospectively or retrospectively. A director absent or intending to be absent from the United Kingdom may request that notices of Board meetings during his absence be sent in hard copy form or by electronic means to him to an address given by him to the Company for that purpose. If no request is made (and/or if no such non-United Kingdom address is given) it is not necessary to give notice of a Board meeting to a director who is absent from the United Kingdom.

### **106. QUORUM**

The quorum necessary for the transaction of business may be decided by the Board and until otherwise decided is four directors present in person or by alternate director. A duly convened meeting of the Board at which a quorum is present is competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Board.

### **107. CHAIRMAN OF BOARD**

The Board may appoint one of its body as chairman to preside at every board meeting at which he is present and one or more deputy chairman or chairmen and decide the

period for which he is or they are to hold office (and may at any time remove him or them from office). If no chairman or deputy chairman is elected, or if at a meeting neither the chairman nor a deputy chairman is present within fifteen minutes of the time fixed for the start of the meeting, the directors and alternate directors (in the absence of their appointors) present shall choose one of their number to be chairman. If two or more deputy chairmen are present, the senior of them shall act as chairman, seniority being determined by length of office since their last appointment or reappointment or deemed reappointment. As between two or more who have held office for an equal length of time, the deputy chairman to act as chairman shall be decided by those directors and alternate directors (in the absence of their appointors) present. A chairman or deputy chairman may hold executive office or employment with the Company.

**108 VOTING**

Questions arising at a meeting of the Board are determined by a majority of votes. In case of an equality of votes the chairman has a second or casting vote.

**109. PARTICIPATION BY TELEPHONE**

A director or his alternate director may participate in a meeting of the Board or a committee of the Board through the medium of conference telephone, video teleconference or similar form of communication equipment if all persons participating in the meeting are able to hear and speak to each other throughout the meeting. A person participating in this way is deemed to be present in person at the meeting and is counted in the quorum and entitled to vote. Subject to the Act, all business transacted in this way by the Board or a committee of the Board is for the purposes of the articles deemed to be validly and effectively transacted at a meeting of the Board or a committee of the Board although fewer than two directors or alternate directors are physically present at the same place. The meeting is deemed to take place where the largest group of those participating is assembled or, if there is no such group, where the chairman of the meeting then is.

**110. RESOLUTION IN WRITING**

A resolution in writing executed by all directors for the time being entitled to receive notice of a Board meeting, who would have been entitled to vote on the resolution at the meeting and not being less than a quorum, or by all members of a committee of the Board for the time being entitled to receive notice of a committee meeting, who would have been entitled to vote on the resolution at the meeting and not being less than a quorum, is as valid and effective for all purposes as a resolution passed at a meeting of the Board (or committee, as the case may be). The resolution in writing may consist of several documents in the same form each executed by one or more of the directors or members of the relevant committee. The resolution in writing need not be executed by an alternate director if it is executed by his appointor and a resolution executed by an alternate director need not be executed by his appointor.

**111. PROCEEDINGS OF COMMITTEES**

111.1 Proceedings of any committee of the Board consisting of two or more members shall be conducted in accordance with terms prescribed by the Board (if any). Subject to those terms and article 111.2, proceedings shall be conducted in accordance with applicable provisions of the articles regulating the proceedings of the Board.

111.2 Where the Board resolves to delegate any of its powers, authorities and discretions to a committee and that resolution states that the committee shall consist of any one or more unnamed directors, it is not necessary to give notice of a meeting of that committee to directors other than the director or directors who form the committee.

**112. RECORDS OF PROCEEDINGS**

112.1 The Board shall cause minutes to be made in books kept for the purpose:

112.1.1 of all appointments of officers and committees made by the Board and of any remuneration fixed by the Board; and

112.1.2 of all proceedings of general meetings of the Company, of the holders of any class of shares in the Company, and of the Board, and of committees of the Board, including the names of the directors present at each such meeting.

- 112.2 If purporting to be signed by the chairman of the meeting at which the proceedings were held or by the chairman of the next succeeding meeting, minutes are evidence of the proceedings at the meeting.
- 112.3 The Board shall cause records to be made in books kept for the purpose of all directors' written resolutions.
- 112.4 All such minutes and written resolutions must be kept for at least 10 years from the date of the meeting or written resolution, as the case may be.

### **113. VALIDITY OF PROCEEDINGS OF BOARD OR COMMITTEE**

All acts done by a meeting of the Board, or of a committee of the Board, or by a person acting as a director, alternate director or member of a committee shall be valid notwithstanding that it is afterwards discovered that there was a defect in the appointment of a person or persons acting, or that they or any of them were or was disqualified from holding office, or had ceased to hold office, or were not entitled to vote on the matter in question.

### SECRETARY AND AUTHENTICATION OF DOCUMENTS

#### **114. SECRETARY**

- 114.1 Subject to the Act, the Board shall appoint a secretary or joint secretaries and may appoint one or more persons to be an assistant or deputy secretary on such terms and conditions (including remuneration) as it thinks fit. The Board may remove a person appointed pursuant to this article from office and appoint another or others in his place.
- 114.2 Any provision of the Act or of the articles requiring or authorising a thing to be done by or to a director and the secretary is not satisfied by its being done by or to the same person acting both as director and as, or in the place of, the secretary.

#### **115. AUTHENTICATION OF DOCUMENTS**

A director or the secretary or another person appointed by the Board for the purpose may authenticate documents affecting the constitution of the Company (including the articles) and resolutions passed by the Company or holders of a class of shares or the Board or a committee of the Board and books, records, documents and accounts relating to the business of the Company, and to certify copies or extracts as true copies or extracts.

### SEALS

#### **116. SAFE CUSTODY**

The Board shall provide for the safe custody of every seal.



117 **APPLICATION OF SEALS**

A seal may be used only by the authority of a resolution of the Board or of a committee of the Board. The Board may decide who will sign an instrument to which a seal is affixed (or, in the case of a share certificate, on which the seal may be printed) either generally or in relation to a particular instrument or type of instrument. The Board may also decide, either generally or in a particular case, that a signature may be dispensed with or affixed by mechanical means. Unless otherwise decided by the Board:

- (a) share certificates and certificates issued in respect of debentures or other securities (subject to the provisions of the relevant instrument) need not be signed or, if signed, a signature may be applied by mechanical or other means or may be printed; and
- (b) every other instrument to which a seal is affixed shall be signed by one director and by the secretary or a second director, or by one director in the presence of a witness who attests his signature.

**DIVIDENDS AND OTHER PAYMENTS**

**118. DECLARATION OF DIVIDENDS**

Subject to the Act and the articles, the Company may by ordinary resolution declare a dividend to be paid to the members according to their respective rights and interests, but no dividend may exceed the amount recommended by the Board.

**119. INTERIM DIVIDENDS**

Subject to the Act, the Board may declare and pay such interim dividends (including a dividend payable at a fixed rate) as appear to it to be justified by the profits of the Company available for distribution. No interim dividend shall be declared or paid on shares which do not confer preferred rights with regard to dividend if, at the time of declaration, any dividend on shares which do confer a right to a preferred dividend is in arrears. If the Board acts in good faith, it does not incur any liability to the holders of shares conferring preferred rights for a loss they may suffer by the lawful payment of an interim dividend on shares ranking after those with preferred rights.

**120. ENTITLEMENT TO DIVIDENDS**

120.1 Except as otherwise provided by the rights attached to, or the terms of issue of, shares:

120.1.1 a dividend shall be declared and paid according to the amounts paid up or credited as paid up on the shares in respect of which the dividend is declared and paid, but no amount paid up or credited as paid up on a share in advance of a call may be treated for the purpose of this article as paid up on the share; and

120.1.2 dividends shall be apportioned and paid proportionately to the amounts paid up on the shares or credited as paid up during any portion or portions of the period in respect of which the dividend is paid.

120.2 Except as otherwise provided by the rights attached to shares, dividends may be declared or paid in any currency. The Board may agree with any member that dividends which may at any time or from time to time be declared or become due on his shares in one currency shall be paid or satisfied in another, and may agree the basis of conversion to be applied and how and when the amount to be paid in the other

currency shall be calculated and paid and for the Company or any other person to bear any costs involved.

- 120.3 In ascertaining the profits of the Company or of any class or branch of business of the Company, the Board may act upon any valuation or estimate of the Company's outstanding risks or obligations whether based upon the experience of the Company or any other company or otherwise arrived at.
- 120.4 No dividends shall be paid otherwise than out of the Company's profits available for distribution under the provisions of the Act and the Board's declaration as to the amount of the profits shall be conclusive.

## **121. METHOD OF PAYMENT**

121.1 Any dividend, interest or other amount payable in respect of a share shall be paid by such method as the Board in its sole and absolute discretion, may decide. Different methods of payment may apply to different holders or group of holders (such as overseas holders). Without limiting any method of payment which the Company may adopt, the Board may decide that payment can be made wholly or partly:

121.1.1 in cash;

121.1.2 by cheque, warrant or money order made payable to or to the order of the person entitled to the payment (and may, at the Company's option, be crossed "account payee" where appropriate);

121.1.3 by inter-bank transfer, bank or other funds transfer system, electronic means or by such other means approved by the Board to an account designated in writing (or as the Board may otherwise agree) by the person entitled to the payment;

121.1.4 if the Board so decides, by means of a relevant system in respect of an uncertificated share, subject to any procedures established by the Board to enable a holder of uncertificated shares to elect not to receive dividends by means of a relevant system and to vary or revoke any such election. Without prejudice to the generality of the foregoing, in respect of shares in uncertificated form, such payment may include the sending by the Company or by any person on its behalf of an instruction to the Operator to credit the cash memorandum account of the holder or joint holders, or of such person as the holder or joint holders may direct in writing or as the Board may otherwise decide; or

121.1.5 by such other method as the person entitled to the payment may in writing direct and the Board may agree or by such other means as the Board may otherwise decree.

If the Board decides that payments will be made by electronic transfer to an account (of a type approved by the directors) nominated by the person entitled to the payment, but no such account is nominated by the person entitled to the payment or an electronic transfer into a nominated account is rejected or refunded, the Company may credit the amount payable to an account of the Company to be held until the person entitled to the payment nominates a valid account.

121.2 The Company may send a cheque, warrant or money order by post:

121.2.1 in the case of a sole holder, to his registered address;

- 121.2.2 in the case of joint holders, to the registered address of the person whose name appears first in the register;
- 121.2.3 in the case of a person or persons entitled by transmission to a share, as if it were a notice given in accordance with article 137.2; or
- 121.2.4 in any case, to a person and address that the person or persons entitled to the payment may in writing, direct.
- 121.3 Where a share is held jointly or two or more persons are jointly entitled by transmission to a share:
- 121.3.1 the Company may pay any dividend, interest or other amount, payable in respect of that share to any one joint holder, or any one person entitled by transmission to the share, and in either case that holder or person may give an effective receipt for the payment; and
- 121.3.2 for any of the purposes of this article 121, the Company may rely in relation to a share on the written direction or designation of any one joint holder of the share, or any one person entitled by transmission to the share.
- 121.4 Every cheque, warrant or money order sent by post is sent at the risk, of the person entitled to the payment. If payment is made by bank or other funds transfer, by means of a relevant system or by another method at the direction of the person entitled to payment, the Company is not responsible for amounts lost or delayed in the course of making that payment.
- 121.5, Without prejudice to article 66, the Board may withhold payment of a dividend (or part of a dividend) payable to a person entitled by transmission to a share until he has provided such evidence of his right as the Board may reasonably require.
- 121.6 The Company may, at the request of a member, issue to that member a duplicate tax voucher in respect of any dividend, interest or other money payable in respect of shares held by him and shall be entitled to charge a fee as the Board shall from time to time determine in respect of each duplicate tax voucher.

## **122. DIVIDENDS NOT TO BEAR INTEREST**

No dividend or other amount payable by the Company in respect of a share bears interest as against the Company unless otherwise provided by the rights attached to the share.

123 **RESERVES AND CARRY FORWARD**

The Board may, before recommending any dividend, set aside out of the Company's profits and carry to reserve such sums as it thinks proper which shall, in the Board's discretion, be applicable for any purpose to which the Company's profits may be properly applied and, pending such application, may, in its discretion, either be employed in the Company's business or be invested in such investments (other than shares of the Company) as the Board may from time to time think fit. The Board may divide the reserve into separate accounts for special purposes and may consolidate into one reserve fund any such separate accounts (whether in whole or in part). Any part of the reserve which the Board may at any time declare to be in excess of the amount necessary to be retained may be applicable as profits available for dividends. The Board may also, without placing such profits to reserve, carry forward any profits which it may think inexpedient to divide.

124. **CALLS OR DEBTS MAY BE DEDUCTED FROM DIVIDENDS ETC.**

The Board may deduct from a dividend or other amounts payable to a person in respect of a share amounts due from him to the Company on account of a call or otherwise in relation to a share.

125. **UNCLAIMED DIVIDENDS ETC.**

Any unclaimed dividend, interest or other amount payable by the Company in respect of a share may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. A dividend unclaimed for a period of 1\*2 years from the date it was declared or became due for payment is forfeited and ceases to remain owing by the Company. The payment of an unclaimed dividend, interest or other amount payable by the Company in respect of a share into a separate account does not constitute the Company a trustee in respect of it.

126. **UNCASHED DIVIDENDS**

If, in respect of a dividend or other amount payable in respect of a share, on three consecutive occasions:

- (a) a cheque, warrant or money order is returned undelivered or left uncashed; or
- (b) a transfer made by a bank or other funds transfer system is not accepted,

and reasonable enquiries have failed to establish another address or account of the person entitled to the payment, the Company is not obliged to send or transfer a dividend or other amount payable in respect of that share to that person until he notifies the Company of an address or account to be used for that purpose.

127. **PAYMENT OF DIVIDENDS IN SPECIE**

Without prejudice to article 66, the Board may, with the prior authority of an ordinary resolution of the Company, direct that payment of a dividend may be satisfied wholly or in part by the distribution of specific assets and in particular of paid-up shares or debentures of another company. Where a difficulty arises in connection with the distribution, the Board may settle it as it thinks fit and in particular, may:

- (a) issue fractional certificates (or ignore fractions);
- (b) fix the value for distribution of the specific assets (or any part of them);

- (c) decide that a cash payment be made to a member on the basis of the value so fixed, in order to secure equality of distribution; and
- (d) vest assets in trustees on trust for the persons entitled to the dividend as seems expedient to the Board.

## **128. PAYMENT OF SCRIP DIVIDENDS**

- 128.1 Subject to the Act, but without prejudice to article 66, the Board may, with the prior authority of an ordinary resolution of the Company, allot to those holders of a particular class of shares who have elected to receive them further shares of that class or ordinary shares in either case credited as fully paid ("new shares") instead of cash in respect of all or part of a dividend or dividends specified by the resolution, subject to any exclusions, restrictions or other arrangements the Board may in its absolute discretion deem necessary or expedient to deal with legal or practical problems under the laws of, or the requirements of a recognised regulatory body or a stock exchange in, any territory.
- 128.2 Where a resolution under article 128.1 is to be proposed at a general meeting and the resolution relates in whole or in part to a dividend to be declared at that meeting, then the resolution declaring the dividend is deemed to take effect at the end of that meeting.
- 128.3 A resolution under article 128.1 may relate to a particular dividend or to all or any dividends declared or paid within a specified period, but that period may not end later than the beginning of the fifth annual general meeting following the date of the meeting at which the resolution is passed.
- 128.4 The Board shall determine the basis of allotment of new shares so that, as nearly as may be considered convenient without involving rounding up of fractions, the value of the new shares (including a fractional entitlement) to be allotted (calculated by reference to the average quotation, or the nominal value of the new shares, if greater) equals (disregarding an associated tax credit) the amount of the dividend which would otherwise have been received by the holder (the "relevant dividend"). For this purpose the "average quotation" of each of the new shares is the average of the middle-market quotations for a fully-paid share of the Company of that class derived from the Daily Official List of the London Stock Exchange (or such other average value derived from such other source as the Board may deem appropriate) for the business day on which the relevant class of shares is first quoted "ex" the relevant dividend (or such other date as the Board may deem appropriate) and the four subsequent business days or shall be as determined by or in accordance with the resolution under article 128.1. A certificate or report by the auditors as to the value of the new shares to be allotted in respect of any dividend shall be conclusive evidence of that amount.

- 128.5 The Board may make any provision it considers appropriate in relation to an allotment made or to be made pursuant to this article (whether before or after the passing of the resolution under article 128.1), including:

128.5.1 the giving of notice to holders of the right of election offered to them;

128.5.2 the provision of forms of election (whether in respect of a particular dividend or dividends generally);

- 128.5.3determination of the procedure for making and revoking elections;
- 128.5.4the place at which, and the latest time by which, forms of election and other relevant documents must be lodged in order to be effective; and
- 128.5.5the disregarding or rounding up or down or carrying forward of fractional entitlements, in whole or in part, or the accrual of the benefit of fractional entitlements to the Company (rather than to the holders concerned).
- 128.6 The dividend (or that part of the dividend in respect of which a right of election has been offered) is not declared or payable on shares in respect of which an election has been duly made (the "elected shares"); instead new shares are allotted to the holders of the elected shares on the basis of allotment calculated as in article 128.4. For that purpose, the Board may resolve to capitalise out of amounts standing to the credit of reserves (including a share premium account, capital redemption reserve and profit and loss account), whether or not available for distribution, a sum equal to the aggregate nominal amount of the new shares to be allotted and apply it in paying up in full the appropriate number of new shares for allotment and distribution to the holders of the elected shares. A resolution of the Board capitalising part of the reserves has the same effect as if the Board had resolved to effect the capitalisation with the authority of an ordinary resolution of the Company pursuant to article 129. In relation to the capitalisation the Board may exercise all the powers conferred on it by article 129 without an ordinary resolution of the Company.
- 128.7 The new shares rank *pari passu* in all respects with each other and with the fully-paid shares of the same class in issue on the record date for the dividend in respect of which the right of election has been offered, but they will not rank for a dividend or other distribution or entitlement which has been declared or paid by reference to that record date.
- 128.8 In relation to any particular proposed dividend, the Board may in its absolute discretion decide:
- 128.8.1that shareholders shall not be entitled to make any election in respect thereof and that any election previously made shall not extend to such dividend; or
- 128.8.2at any time prior to the allotment of the new shares which would otherwise be allotted in lieu thereof, that all elections to take ordinary shares in lieu of such dividend shall be treated as not applying to that dividend, and if so the dividend shall be paid in cash as if no elections had been made in respect of it.

## **129. CAPITALISATION OF PROFITS**

Subject to the Act, the Board may, with the authority of an ordinary resolution of the Company:

- (a) resolve to capitalise an amount standing to the credit of reserves (including a share premium account, capital redemption reserve and profit and loss account), whether or not available for distribution;
- (b) appropriate the sum resolved to be capitalised to the members in proportion to the nominal amount of ordinary shares (whether or not fully paid) held by them respectively and apply that sum on their behalf in or towards:

- (i) paying up the amounts (if any) for the time being unpaid on shares held by them respectively; or
- (ii) paying up in full unissued shares or debentures of a nominal amount equal to that sum,

and allot the shares or debentures, credited as fully paid, to the members (or as they may direct) in those proportions, or partly in one way and partly in the other, but the share premium account, the capital redemption reserve and profits which are not available for distribution may, for the purposes of this article, only be applied in paying up unissued shares to be allotted to members credited as fully paid;

- (c) make any arrangements it thinks fit to resolve a difficulty arising in the distribution of a capitalised reserve and in particular where shares or debentures become distributable in fractions the Board may deal with the fractions as it thinks fit, including issuing fractional certificates, disregarding fractions or selling shares or debentures representing the fractions to a person for the best price reasonably obtainable and distributing the net proceeds of the sale in due proportion amongst the members (except that if the amount due to a member is less than £5, or such other sum as the Board may decide, the sum may be retained for the benefit of the Company);
- (d) authorise a person to enter (on behalf of all the members concerned) an agreement with the Company providing for either:
  - (i) the allotment to the members respectively, credited as fully paid, of shares or debentures to which they may be entitled on the capitalisation, or
  - (ii) the payment by the Company on behalf of the members (by the application of their respective proportions of the reserves resolved to be capitalised) of the amounts or part of the amounts remaining unpaid on their existing shares,

an agreement made under the authority being effective and binding on all those members; and

- (b) generally do all acts and things required to give effect to the resolution.

130 **RECORD  
DATES**

Notwithstanding any other provision of the articles, but subject to the Act and rights attached to shares, the Company or the Board may fix any date as the record date for a dividend, distribution, allotment or issue. The record date may be on or at any time before or after a date on which the dividend, distribution, allotment or issue is declared, made or paid.

**ACCOUNTS**

**131. KEEPING AND INSPECTION OF ACCOUNTS**

131.1 The Board shall ensure that accounting records are kept in accordance with the Act.

131.2 The accounting records shall be kept at the office or, subject to the Act, at another place decided by the Board and shall be available during business hours for the inspection of the directors and other officers. No member (other than a director or other officer) has the right to inspect an accounting record or other document except if that right is conferred by the Act or he is authorised by the Board or by an ordinary resolution of the Company.

**132. ACCOUNTS TO BE SENT TO MEMBERS ETC.**

132.1 In respect of each financial year, a copy of the Company's annual accounts, the directors' report, the directors' remuneration report, the auditors' report on those accounts and on the auditable part of the directors' remuneration report shall be sent or supplied to:

132.1.1 every member (whether or not entitled to receive notices of general meetings);

132.1.2 every holder of debentures (whether or not entitled to receive notices of general meetings); and

132.1.3 every other person who is entitled to receive notices of general meetings,

not less than 21 clear days before the date of the meeting at which copies of those documents are to be laid in accordance with the Act. This article does not require copies of the documents to which it applies to be sent or supplied to:

132.1.4 a member or holder of debentures of whose address the Company is unaware;  
or

132.1.5 more than one of the joint holders of shares or debentures.

132.2 The Board may determine that persons entitled to receive a copy of the Company's annual accounts, the directors' report, the directors' remuneration report, the auditors' report on those accounts and on the auditable part of the directors' remuneration report are those persons entered on the register at the close of business on a day determined by the Board, provided that, if the Company is a participating issuer, the day determined by the Board may not be more than 21 days before the day that the relevant copies are being sent.

132.3 Where permitted by the Act, a summary financial statement derived from the Company's annual accounts, the directors' report and the directors' remuneration report in the form and containing the information prescribed by the Act may be sent or



supplied to a person so electing in place of the documents required to be sent or supplied by article 132.1.

## NOTICES AND COMMUNICATIONS

### **133. FORM OF NOTICES AND COMMUNICATIONS BY THE COMPANY**

- 133.1 A notice, document or other information may be given to any member either personally or by sending it in hard copy form by post to him at his registered address or (if he has no registered address within the United Kingdom) to the address (if any) in the United Kingdom supplied by him to the Company for the giving of notices to him or by advertisement (in accordance with these articles) or by giving it to him in electronic form to an address for the time being notified to the Company by the member for that purpose or by any other means authorised in writing by the relevant member.
- 133.2 Except where these articles expressly require otherwise, any notice, document or information to be sent or supplied by the Company may be sent or supplied in accordance with the Act (whether authorised or required to be sent or supplied by the Act or otherwise) in hard copy form, in electronic form or by means of a website.
- 133.3 If the Company sends notices, documents or information, whether immediately preceding or at any time after the adoption of these articles, to a member on two consecutive occasions over a period of at least twelve months and each of those documents is returned undelivered, or the Company receives notification that each of them has not been delivered, that member ceases to be entitled to receive notices from the Company. A member who has ceased to be entitled to receive notices from the Company shall become entitled to receive such notices again by sending the Company:
- 133.3.1a new address to be recorded in the register of members; or
- 133.3.2(if the member has agreed that the Company should use a means of communication other than sending notices, documents or information to such an address), the information that the Company needs to use that other means of communication effectively.
- 133.4 A notice exhibited at the office shall constitute valid notice to any member who is not entitled to notices from the Company under article 133.3 or any other provision of these articles, and shall be deemed to have been given on the date when it is first exhibited. The Company will not remove any notice so exhibited until it is no longer relevant to exhibit.

### **134. NOTICE BY ADVERTISEMENT**

If by reason of the suspension or curtailment of postal services in the United Kingdom the Company is unable effectively to convene a general meeting by notices sent by post, subject to the Act, the Board may, in its absolute discretion and as an alternative to any other method of service permitted by the articles, resolve to convene a general

meeting by a notice advertised in at least one United Kingdom national newspaper. In this case, the Company shall send confirmatory copies of the notice to those members by post if at least seven clear days before the meeting the posting of notices to addresses throughout the United Kingdom again becomes practicable.

### **135. DEEMED DELIVERY OF NOTICES, DOCUMENTS AND INFORMATION**

- 135.1 A notice, document or information sent by post and addressed to a member at his registered address or address for service in the United Kingdom is deemed to be given to or received by the intended recipient 24 hours after it was put in the post if pre-paid as first class post and 48 hours after it was put in the post if pre-paid as second class post, and in proving service it is sufficient to prove that the envelope containing the notice, document or information was properly addressed, pre-paid and posted.
- 135.2 A notice, document or information sent or supplied by electronic means to an address specified for the purpose by the member is deemed to have been given to or received by the intended recipient 24 hours after it was sent, and in proving service it is sufficient to prove that the communication was properly addressed and sent.
- 135.3 A notice, document or information sent or supplied by means of a website is deemed to have been given to or received by the intended recipient when (i) the material was first made available on the website or (ii) if later, when the recipient received (or, in accordance with this article 135, is deemed to have received) notification of the fact that the material was available on the website.
- 135.4 A notice, document or information not sent by post but delivered by hand (which includes delivery by courier) to a registered address or address for service in the United Kingdom is deemed to be given on the day it is left.
- 135.5 Where notice is given by newspaper advertisement, the notice is deemed to be given to all members and other persons entitled to receive it at noon on the day when the advertisement appears or, where notice is given by more than one advertisement and the advertisements appear on different days, at noon on the last of the days when the advertisements appear.
- 135.6 A notice, document or information served or delivered by the Company by any other means authorised in writing by the member concerned is deemed to be served when the Company has taken the action it has been authorised to take for that purpose.
- 135.7 A member present at a meeting of the holders of a class of shares is deemed to have received due notice of the meeting and, where required, of the purposes for which it was called.

**136. NOTICE BINDING ON TRANSFEREES ETC.**

A person who becomes entitled to a share by transmission, transfer or otherwise is bound by a notice in respect of that share (other than a notice served by the Company under section 793 of the Act) which, before his name is entered in the register, has been properly served on a person from whom he derives his title.

**137. NOTICE IN CASE OF JOINT HOLDERS AND ENTITLEMENT BY TRANSMISSION**

- 137.1 Subject to article 133, in the case of joint holders of a share, a notice, document or information shall be validly sent or supplied to all joint holders if sent or supplied to whichever of them is named first in the register in respect of the joint holding. Anything to be agreed or specified in relation to a notice, document or information to be sent or supplied to joint holders, may be agreed or specified by the joint holder who is named first in the register in respect of the joint holding.

137.2 Where a person is entitled by transmission to a share, the Company may give a notice, document or information to that person as if he were the holder of a share by addressing it to him by name or by the title of representative of the deceased or trustee of the bankrupt member (or by similar designation) at an address in the United Kingdom supplied for that purpose by the person claiming to be entitled by transmission. Until an address has been supplied, a notice, document or information may be given in any manner in which it might have been given if the death or bankruptcy or other event had not occurred. The giving of notice in accordance with this article is sufficient notice to any other person interested in the share.

## MISCELLANEOUS

### 138. DESTRUCTION OF DOCUMENTS

138.1 The Company may destroy:

138.1.1 a share certificate which has been cancelled at any time after one year from the date of cancellation;

138.1.2 a mandate for the payment of dividends or other amounts or a variation or cancellation of a mandate or a notification of change of name or address at any time after two years from the date the mandate, variation, cancellation or notification was recorded by the Company;

138.1.3 an instrument of transfer of shares (including a document constituting the renunciation of an allotment of shares) which has been registered at any time after six years from the date of registration; and

138.1.4 any other document on the basis of which any entry in the register is made at any time after ten years from the date an entry in the register was first made in respect of it.

138.2 It is presumed conclusively in favour of the Company that every share certificate destroyed was a valid certificate validly cancelled, that every instrument of transfer destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed was a valid and effective document in accordance with the recorded particulars in the books or records of the Company, but:

138.2.1 the provisions of this article apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of the document is relevant to a claim;

138.2.2 nothing contained in this article imposes on the Company liability in respect of the destruction of a document earlier than provided for in this article or in any case where the conditions of this article are not fulfilled; and

138.2.3 references in this article to the destruction of a document include reference to its disposal in any manner.

### 139. WINDING UP

On a voluntary winding up of the Company the liquidator may, on obtaining any sanction required by law, divide among the members in kind the whole or any part of the assets of the Company, whether or not the assets consist of property of one kind or of different kinds, and vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he, with the like sanction, shall determine. For

this purpose the liquidator may set the value he deems fair on a class or classes of property, and may determine on the basis of that valuation and in accordance with the then existing rights of members how the division is to be carried out between members or classes of members. The liquidator may not, however, distribute to a member without his consent an asset to which there is attached a liability or potential liability for the owner.

140. INDEMNIFICATION OF OFFICERS

140.1 Subject to the provisions of and so far as may be consistent with the Act, every director, secretary or other officer of the Company shall be entitled to be indemnified by the Company out of its own funds against all costs, charges, losses, expenses and liabilities incurred by him in the actual or purported execution and/or discharge of his duties and/or exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office.

140.2 Without prejudice to the provisions of article 140.1, the directors shall have power to purchase and maintain insurance for, or for the benefit of, any persons who are or were at any time directors, alternate directors, secretaries or other officers or employees of the Company, or of any other company which is or was a subsidiary undertaking of the Company or in which the Company has or had an interest (whether direct or indirect) or which is in any way allied to or associated with the Company, or of any subsidiary undertaking of the Company or of any such other company, or who are or were at any time trustees of any pension fund or other retirement benefits scheme in which employees of the Company or of any such other company or subsidiary undertaking are interested, including (without prejudice to the generality of the foregoing) insurance against any liability incurred by such persons for negligence, default, breach of duty or breach of trust or other liability that may lawfully be insured against by the Company.

**EXHIBIT 4.1.1 DATED 22**

**DECEMBER 2010**

**RBC CEES TRUSTEE  
LIMITED**

## DEED OF VARIATION

Deloitte LLP I  
Wood borough Road  
Nottingham NG1 3FG

Tel: 0115 950 0511

THIS DEED is made on the 22<sup>nd</sup> day of \_\_\_\_\_ 2010 \_\_\_\_\_  
by **RBC cees Trustee Limited whose registered office is situated at 19-21 Broad Street, St Helier, Jersey, Channel Islands, JE1 3PB ("the Trustee"), in its capacity as Trustee of the Aviva Capital Accumulation Plan ("the Trust").**

### SUPPLEMENTAL TO:

- (A) **A declaration of trust made by the Trustee on 25 April 2006 ("the Declaration of Trust");**
- (B) The revocable declarations and instruments of appointment made by the Trustee on each of 27 April 2006, 6 June 2006, 8 June 2006, 7 July 2006, 20 December 2006, 26 April 2007, 2 May 2008, 6 May 2009, 27 July 2009 and 17 May 2010 (together "the Instruments"); and
- (C) **A deed of variation made by the Trustee on 8 December 2010 ("the Deed of Variation").**

### WHEREAS:

- (A) In exercise of its power under Clause 2 of the Declaration of Trust the Trustee has executed the Instruments so that those parts of the Trust Fund specified in the Instruments and the income thereof is held upon Trust for the benefit of the Restricted Beneficiaries on the terms set out in the Instruments;
- (B) The Trustee has been notified that some members of the class of Restricted Beneficiaries have become resident in the United States of America and that this may give rise to obligations to make reports on the assets of the Trust Fund to the Internal Revenue Service of the United States of America if such Restricted Beneficiaries are able to benefit from distributions made in the course of the exercise of the Trustee's discretion;
- (C) The Trustee has also been advised that some of the wording of the Instruments may not be in conformity with the requirements of section 409A of the United States Internal Revenue Code;
- (D) In accordance Clause 14 of the Declaration of Trust the Trustee has power, with the consent of Aviva Pic ("the Company"), to restrict the future exercise of any powers conferred on it by the Trust or by law.
- (E) By the Deed of Variation the Trustee has limited its power to invest in certain residential property.
- (F) The Trustee wishes to restrict its power to make payments or to transfer assets for the benefit of a Restricted Beneficiary who is a US Beneficiary as defined below.
- (G) The Trustee has determined that the terms of the Instruments shall be amended in the manner set out below.
- (H) The Company has given its consent to the Trustee.

**NOW THIS DEED OF VARIATION WITNESSES:**

**1 DEFINITIONS AND INTERPRETATION**

**1.1 Definitions**

In this Deed of Variation the following terms shall have the following meanings:

- |                           |  |
|---------------------------|--|
| "Separation from Service" | the meaning given in United States Federal Regulation 1.409A-1(h);                                 |
| "US Beneficiary"          | a Restricted Beneficiary who is subject to taxation under the United States Internal Revenue Code. |

**1.2 Interpretation**

1. Words not otherwise defined shall have the same meanings as in the Declaration of Trust and the Instruments.
2. The headings are for the sake of convenience only and should be ignored when construing the provisions of this Deed of Variation.
3. Where the context so admits or requires, words imparting the singular shall include the plural and vice versa and words imparting the masculine shall include the feminine.

4. References to clauses are, unless stated otherwise, references to clauses of this Deed of Variation.
5. Where a Restricted Beneficiary is a US Beneficiary the provisions of the Instruments and this Deed of Variation shall be interpreted in such a manner so as to be in conformity with the requirements of section 409A of the United States Internal Revenue Code.

## 2 VARIATION

**For Clause 5 of the Instruments there shall be**

**substituted: "Use and application of Appointed Assets**

- "5. Where assets are held pursuant to the terms of this Declaration and Appointment, the following provisions shall apply in respect of the investment and application of those assets:
- "(a) The Trustee shall have no power to make any payment or to transfer any asset for the benefit of any Restricted Beneficiary who is a US Beneficiary PROVIDED that this Clause 5(a) shall cease to apply in respect of a US Beneficiary on the earlier of:
    - "(i) the first day of any period in which the income of the said US Beneficiary arising or deemed to arise in that period is not subject to taxation under the United States Internal Revenue Code;
    - "(ii) the day on which there has been a Separation from Service with the Company in respect to the said US Beneficiary.
  - "(b) The Trustee's power of investment shall be limited so that:
    - "(i) the Trustee shall not acquire or otherwise invest in freehold or leasehold residential real property or any other asset that confers a right or entitlement to the residential occupation of real property; and
    - "(ii) for the purposes of this Clause 5 the terms "residential" and "residential occupation" shall include the occupation of real property as a residence overnight or for any longer period.
  - "(c) Subject to Clause 5(a) before the First Anniversary
    - "(i) The Trustee shall only invest in the Specified Investments
    - "(ii) The Trustee shall not make any payment or transfer any asset to or for the benefit of any Restricted Beneficiary unless the Company in its absolute discretion authorises the Trustee in writing to do so.
  - "(d) Subject to Clause 5(a), after the First Anniversary but before the Fifth Anniversary:
    - "(i) Subject to Clause 5(b) the Trustee shall only invest in the Specified Investments and non-depreciating assets.
    - "(ii) The Trustee shall not make any payment or transfer any asset to or for the benefit of any Restricted Beneficiary unless the Company in its absolute discretion authorises the Trustee in writing to do so.

- "(e) Subject to Clause 5(a), after the Fifth Anniversary:
  - "(i) Subject to Clause 5(b) Trustee shall have power to make any investments.
  - "(ii) The Trustee may in its discretion (subject to clause 7 below) make a payment or transfer an asset for the benefit of any Restricted Beneficiary."



IN WITNESS WHEREOF the Trustee has duly executed this DEED OF VARIATION which is delivered on the first date written above.

EXECUTED as a DEED by ) RBC cecs Trustee Limited ) acting by: )

Authorised Signatory

Authorised Signatory

**EXHIBIT 4.1.2. DATED**

**8<sup>TH</sup> OF DECEMBER 2010\_**

**RBC CEES TRUSTEE LIMITED**

**DEED OF VARIATION**

Deloitte LLP 1  
Woodborough Road

Nottingham NG1 3FG  
Tel: 0115 950 0511

THIS DEED is made on the 8<sup>th</sup> day of \_\_\_\_\_ 2010 \_\_\_\_\_  
by **RBC cees Trustee Limited whose registered office is situated at 19-21 Broad Street, St Helier, Jersey, Channel Islands, JE1 3PB ("the Trustee")**, in its capacity as Trustee of the **Aviva Capital Accumulation Plan ("the Trust")**.

**SUPPLEMENTAL TO:**

- (A) The declaration of trust dated 25 April 2006 ("the Declaration of Trust"); and
- (B) **The revocable declarations and instruments of appointment made by the Trustee on each of 27 April 2006, 6 June 2006, 8 June 2006, 7 July 2006, 20 December 2006, 26 April 2007, 2 May 2008, 6 May 2009, 27 July 2009 and 17 May 2010 (together "the Instruments").**

**WHEREAS:**

- (A) In exercise of its power under Clause 2 of the Declaration of Trust the Trustee has executed the Instruments so that those parts of the Trust Fund specified in the Instruments and the income thereof is held upon Trust for the benefit of the Restricted Beneficiaries on the terms set out in the Instruments;
- (B) In accordance Clause 14 of the Declaration of Trust the Trustee has power, with the consent of Aviva Pic ("the Company"), to restrict the future exercise of any powers conferred on it by the Trust or by law.
- (C) The Trustee wishes to restrict the future exercise of its powers of investment under Clause 9 of the Declaration of Trust;
- (D) The Trustee has determined that the terms of the Instruments shall be amended in the manner set out below.
- (E) **The Company has given its consent to the**

**Trustee.**

**NOW THIS DEED OF VARIATION WITNESSES:**

**1 INTERPRETATION 1.1**

**Interpretation**

- (a) Words not otherwise defined shall have the same meanings as in the Declaration of Trust and the Instruments.
- (b) The headings are for the sake of convenience only and should be ignored when construing the provisions of this Deed of Variation.
- (c) Where the context so admits or requires, words imparting the singular shall include the plural and vice versa and words imparting the masculine shall include the feminine.
- (d) References to clauses arc, unless stated otherwise, references to clauses of this Deed of Variation.

**2 VARIATION**

**2.1 Application of Clause 5 of the Instruments**

Clause 5 of the Instruments shall apply subject to the terms of this Deed of Variation.

**2.2 Investment of Appointed Assets under the terms of the Instruments**

Where the provisions of Clauses 5(b)(i) and 5(c)(i) of the Instruments apply:

- (a) the Trustee shall not acquire or otherwise invest in freehold or leasehold residential real property or any other asset that confers a right or entitlement to the residential occupation of real property; and
- (b) for the purposes of this Clause 2.2 the terms "residential" and "residential occupation" shall include the occupation of real property as a residence overnight or for any longer period.

**2.3 Use of Appointed Assets under the terms of the Instruments**

Clauses 5(b)(ii) and 5(c)(iii) of the Instruments shall no longer have any effect and where Clause 5(b) of the Instruments applies the Trustee shall not make any payment or transfer any asset to or for the benefit of any Restricted Beneficiary unless the Company in its absolute discretion authorises the Trustee in writing to do so.

IN WITNESS WHEREOF the Trustee has duly executed this DEED OF VARIATION which is delivered on the first date written above.

**EXECUTED as a DEED by** )  
**RBC cees Trustee Limited** )  
**acting by:** )  
 )

Authorised Signatory

Authorised Signatory

Exhibit 4.2

AVIVA pic

## **RULES OF THE AVIVA LONG TERM INCENTIVE PLAN 2011**

Shareholders' Approval:	4 May 2011
Directors' Adoption:	2 March 2011
Amended:	4 December 2012
Expiry Date:	4 May 2021

Linklaters

Lmklaters LLP One  
Silk Street London  
EC2Y 8HQ

Telephone (+44) 20 7456 2000  
Facsimile (+44) 20 7456 2222

Ref 01/140/R Berglund

### **Table of Contents**

**Contents Page**

1	Granting Awards .....	1
2	Before vesting.....	3
3	Vesting of Awards.....	4
4	Consequences of Vesting .....	5
5	Vesting in other circumstances - personal events.....	7
6	Vesting in other circumstances - corporate events .....	8
7	Changing the Plan and termination .....	9
8	General .....	10
9	Definitions .....	13
	Schedule	1
		France
	.....	1
5		
	Schedule	2
		Canada
	.....	2
1		
	Schedule	3
		Sri Lanka
	.....	2
2		
	Schedule	4
		USA
	.....	2
3		

## **Rules of the Aviva Long Term Incentive Plan**

### **2011 1 Granting Awards**

#### **1.1 Grantor**

The Grantor of an Award must be:

- 1.1.1 the Company;
- 1.1.2 any other Member of the Group, or
- 1.1.3 a trustee of any trust set up for the benefit of Employees.

An Award granted under the Plan, and the terms of that Award, must be approved in advance by the Directors.

#### **1.2 Eligibility**

The Grantor may grant an Award to anyone who is an Employee on the Award Date in accordance with any selection criteria that the Directors in their discretion may set. However, unless the Directors consider that special circumstances exist, an Award may not be granted to an Employee who on the Award Date has given or received notice of termination of employment, whether or not such termination is lawful.

#### **1.3 Timing of Award**

Awards may not be granted at any time after the Expiry Date. Awards may only be granted within 42 days starting on any of the following:

- 1.3.1 the date of shareholder approval;
- 1.3.2 the day after the announcement of the Company's results for any period;
- 1.3.3 any day on which the Directors resolve that exceptional circumstances exist which justify the grant of Awards;
- 1.3.4 any day on which changes to the legislation or regulations affecting share plans are announced, effected or made; or
- 1.3.5 the lifting of Dealing Restrictions which prevented the granting of Awards during any period specified above.

#### **1.4 Terms of Awards**

Awards are subject to the rules of the Plan, any Performance Condition and any other condition imposed under rule 1.6 (Other conditions) and must be granted by deed. The terms of the Award must be determined by the Grantor and approved by the Directors. The terms must be set out in the deed or other document (which may be in electronic form), including:

- 1.4.1 whether the Award is:
  - (i) a Conditional Award;
  - (ii) an Option;or a combination of these;

- 1.4.2 the number of Shares subject to the Award or the basis on which the number of Shares subject to the Award will be calculated;
- 1.4.3 any Performance Condition;
- 1.4.4 any other condition specified under rule 1.6 (Other conditions);
- 1.4.5 the expected date of Vesting which will normally be the third anniversary of the Award Date or otherwise specified in a Performance Condition;
- 1.4.6 whether the Participant is entitled to receive any Dividend Equivalent;
- 1.4.7 the Award Date; and
- 1.4.8 the Option Price (if relevant).

### **1.5 Performance Conditions**

When granting an Award, the Grantor may, and must in the case of executive directors, make its Vesting conditional on the satisfaction of one or more conditions linked to the performance of the Company. A Performance Condition must be objective and specified at the Award Date. The Grantor, with the consent of the Directors, may waive or change a Performance Condition in accordance with its terms or if anything happens which causes the Grantor reasonably to consider it appropriate to do so.

### **1.6 Other conditions**

The Grantor may impose other conditions when granting an Award. Any condition must be objective, specified at the Award Date and may provide that an Award will lapse if it is not satisfied. The Grantor, with the consent of the Directors, may waive or change a condition imposed under this rule 1.6 (Other conditions).

### **1.7 Award certificates**

Each Participant will receive a certificate setting out the terms of the Award as soon as practicable after the Award Date. The certificate may be the deed referred to in rule 1.4 (Terms of Awards) or any other document (which may be in electronic form), including a statement. If any certificate is lost or damaged the Company may replace it on such terms as it decides.

### **1.8 No payment**

A Participant is not required to pay for the grant of any Award.

### **1.9 Administrative errors**

If the Grantor grants an Award which is inconsistent with rule 1.2 (Eligibility), it will lapse immediately. If the Grantor tries to grant an Award which is inconsistent with rules 1.10 (Individual limit for Awards), 1.11 (Plan limits -10 percent) or 1.12 (Plan limits - 5 percent), the Award will be limited and will take effect from the Award Date on a basis consistent with those rules.

### **1.10 Individual limit for Awards**

An Award must not be granted to an Employee if it would, at the proposed Award Date, cause the market value of Shares subject to Awards that he has been granted in that

financial year under the Plan to exceed 350% of the annual rate of his total basic salary, at a date determined by the Directors, from Members of the Group.



This limit may be exceeded in respect of Participants located in the U.S.A provided that the Directors determine that exceptional circumstances make it desirable that Awards to such Participants should be granted in excess of that limit. In these circumstances, the Awards will not exceed 450%.

For the purpose of this rule 1.10 (Individual limit for Awards) and unless the Directors determine otherwise, "market value" means the average of the closing middle market quotations for a Share taken from the Daily Official List of the London Stock Exchange (or, in the case of an ADR, the closing price on the New York Stock Exchange as reported in the Wall Street Journal) for any three consecutive business days in the thirty day period immediately preceding the Award Date.

"Basic salary" means gross salary before adjustment to take account of any flexible benefits and excludes bonuses and benefits in kind. Basic salary payable in a currency other than Sterling will be converted into Sterling in such manner as the Directors decide.

#### **1.11 Plan limits -10 per cent**

A Grantor must not grant an Award if the number of Shares committed to be issued under that Award exceeds 10 per cent of the ordinary share capital of the Company in issue immediately before that day, when added to the number of Shares which have been issued, or committed to be issued, to satisfy Awards under the Plan, or options or awards under any other employee share plan operated by the Company, granted in the previous 10 years.

#### **1.12 Plan limits - 5 per cent**

A Grantor must not grant an Award if the number of Shares committed to be issued under that Award exceeds 5 per cent of the ordinary share capital of the Company in issue immediately before that day, when added to the number of Shares which have been issued, or committed to be issued, to satisfy Awards under the Plan, or options or awards under any other discretionary employee share plan adopted by the Company, granted in the previous 10 years.

#### **1.13 Scope of Plan limits**

Where the right to acquire Shares is released or lapses, the Shares concerned are ignored when calculating the limits in rules 1.11 (Plan limits - 10 per cent) and 1.12 (Plan limits - 5 per cent).

As long as so required by the Association of British Insurers, Shares transferred from treasury are counted as part of the ordinary share capital of the Company, and as Shares issued by the Company.

### **2 Before Vesting**

#### **2.1 Rights**

A Participant is not entitled to vote, to receive dividends or to have any other rights of a shareholder in respect of Shares subject to an Option or a Conditional Award until the Shares are issued or transferred to the Participant.

#### **2.2 Transfer**

A Participant may not transfer, assign or otherwise dispose of an Award or any rights in respect of it. If he does, whether voluntarily or involuntarily, then it will immediately lapse. This rule 2.2 (Transfer) does not apply:

- 2.2.1 to the transmission of an Award on the death of a Participant to his personal representatives; or
- 2.2.2 to the assignment of an Award, with the prior consent of the Directors, subject to any terms and conditions the Directors impose.

### **2.3 Adjustment of Awards**

If there is:

- 2.3.1 a variation in the equity share capital of the Company, including a capitalisation or rights issue, sub-division, consolidation or reduction of share capital;
- 2.3.2 a demerger (in whatever form) or exempt distribution by virtue of Section 1075 of the Income and Corporation Taxes Act 2010;
- 2.3.3 a special dividend or distribution; or
- 2.3.4 any other corporate event which might affect the current or future value of any Award,

the Directors may adjust the number or class of Shares or securities subject to the Award and, in the case of an Option, the Option Price.

### **2.4 Reduction or cancellation of Awards**

The Directors may decide that an Award which has not Vested (or, in the case of Options, been exercised) will lapse wholly or in part if they consider that:

- 2.4.1 the Participant or his team has, in the opinion of the Directors, engaged in misconduct which ought to result in the complete or partial lapse of his Award;  
and/or

**2.4.2 there is a materially adverse misstatement of the Company's financial**

**statements.**

## **3 Vesting of Awards**

### **3.1 Determination of Performance Condition**

As soon as reasonably practicable after the end of the Performance Period, the Directors will determine how many Shares Vest for each Award on the basis of whether and to what extent any Performance Condition or other condition imposed under rule 1.6 (Other conditions) has been satisfied or waived and if any adjustments are to be made under rule 3.3 (Performance adjustment).

### **3.2 Timing of Vesting**

Subject to rules 1.6 (Other conditions), 5 (Vesting in other circumstances - personal events) and 6 (Vesting in other circumstances - corporate events), an Award Vests, to the extent determined under rule 3.1 (Determination of Performance Condition), on latest of:

- 3.2.1 the expected date of Vesting determined by the Grantor under rule 1.4.5;

- 3.2.2 the date on which the Directors make their determination under rule 3.1 (Determination of Performance Condition); and

- 3.2.3 if relevant, a date determined by the Directors which is on or after the first date on which Vesting is not prohibited by a Dealing Restriction.

### **3.3 Performance adjustment**

The Directors may adjust downwards (including to nil) the number of Shares in respect of which an Award Vests if, in their discretion, they determine that the performance of the Company, any Member of the Group, any business area or team [and the conduct, capability or performance of the Participant] justifies an adjustment.

### **3.4 Lapse**

To the extent that any Performance Condition is not satisfied at the end of the Performance Period, the Award lapses, unless otherwise specified in the Performance Condition. To the extent that any other condition is not satisfied, the Award will lapse if so specified in the terms of that condition. If an Award lapses under the Plan it cannot Vest and a Participant has no rights in respect of it.

## **4 Consequences of Vesting**

### **4.1 Conditional Award**

Within 30 days of a Conditional Award Vesting, the Grantor will arrange (subject to rules 4.4, 0 and 8.8) for the transfer (including a transfer out of treasury) or issue, to, or to the order of, the Participant, of the number of Shares in respect of which the Conditional Award has Vested.

### **4.2 Options**

4.2.1 A Participant may exercise his Option on any day after Vesting on which no Dealing Restriction applies by giving notice in the prescribed form to the Grantor or any person nominated by the Grantor and paying the Option Price (if any). Vested and unvested Options will lapse:

- (i) for Options granted with a market value Option Price, on the tenth anniversary of grant of the Option (unless the reason for Vesting is the Participant's death, in which case the Option will lapse 12 months after Vesting); and
- (ii) for Options granted with a zero, or less than market value Option Price, six months after Vesting (unless the reason for Vesting is the Participant's death, in which case the Option will lapse 12 months after Vesting),

or, in either case if earlier, on the earliest of:

- (a) the date the Participant ceases to be an Employee by reason of dismissal for misconduct; or
- (b) six months after an event which gives rise to a Vesting under rule 5.2 ("Good leavers"), 5.4 (Overseas transfer), 6 (Vesting in other circumstances - corporate events) or, if earlier, the date six weeks after the date on which

a notice to acquire Shares under section 979 of the Companies Act 2006 is first served.

4.2.2 Subject to rules 4.4 (Alternative ways to satisfy Awards), 4.5 (Withholding), and 8.8 (Consents), the Grantor will arrange for Shares to be transferred to or issued to, or to the order of, the Participant within 30 days of the date on which the Option is exercised.

4.2.3 If an Option Vests under more than one provision of the rules of the Plan, the provision resulting in the shortest exercise period will prevail.

### **4.3 Dividend Equivalent**

Awards will not include any rights in respect of dividends on the Shares comprised in the Award before Vesting, unless the Grantor, in its discretion, decides otherwise at the Award Date. The Grantor may determine that an Award includes the right to receive a Dividend Equivalent. Dividend Equivalents will be paid to any relevant Participant as soon as practicable after Vesting.

The Grantor will exercise the discretions in this rule 4.3 (Dividend Equivalent) subject to the consent of the Directors.

#### **4.4 Alternative ways to satisfy Awards**

The Grantor may, subject to the approval of the Directors, decide to satisfy, an Option or a Conditional Award by paying an equivalent amount in cash (subject to rule 4.5 (Withholding)). For Options, the cash amount must be equal to the amount by which the market value of the Shares in respect of which the Option is exercised exceeds the Option Price. Alternatively, the Grantor may decide to satisfy an Option by procuring the issue or transfer of Shares to the value of the cash amount specified above.

The Company may determine that an Award will be satisfied in cash at the Award Date or at any time before satisfaction of the Award, including after Vesting or, in the case of an Option, after exercise.

In respect of Awards which consist of a right to receive a cash amount, the Directors may decide instead to satisfy such Awards (and any Dividend Equivalents) by the delivery of Shares (subject to rule 4.5 (Withholding)). The number of Shares will be calculated by reference to the market value of the Shares on the date of Vesting for Conditional Awards and the date of exercise for Options.

For the purpose of this rule 4.4 (Alternative ways to satisfy Awards) and unless the Directors determine otherwise, "market value" means the closing middle market quotation for a Share taken from the Daily Official List of the London Stock Exchange (or, in the case of an ADR, the closing price on the New York Stock Exchange as reported in the Wall Street Journal) on the date of Vesting or, in the case of an Option, the date of exercise.

#### **4.5 Withholding**

The Company, the Grantor, any employing company or trustee of any employee benefit trust may withhold such amount and make such arrangements as it considers necessary to meet any liability to taxation or social security contributions in respect of Awards. These arrangements may include the sale or reduction in number of any Shares on behalf of the Participant.

A12501594/0 58/12 Dec 2012

**5**

**6**

### **Vesting in other circumstances - personal events**

#### **5.1 General rule on leaving employment**

Subject to rule 5.2 ("Good leavers"), an Award which has not Vested will cease to be capable of Vesting on the date on which the Participant gives or receives notice of termination of his employment with any Member of the Group (whether or not such termination is lawful), unless the Directors decide otherwise.

An Award will lapse on the date the Participant ceases to be an Employee unless one of the reasons in rule 5.2 applies.

This rule 5.1 will not apply where the Vesting of an Award is delayed due to a Dealing Restriction, unless the Participant ceases to be an Employee by reason of dismissal for misconduct.

## **5.2 "Good leavers"<sup>1</sup>**

5.2.1 If a Participant ceases to be an Employee for any of the reasons set out below, then his Awards will Vest as described in rule 5.3 (Vesting) and lapse as to the balance. The reasons are:

- (i) disability, as established to the satisfaction of the Company;
- (ii) death; and
- (iii) any other reason, if the Directors so decide in any particular case.

5.2.2 The Directors must exercise the discretion provided for in rule 5.2.1 (iii) within 30 days after cessation of the relevant Participant's employment.

## **5.3 Vesting**

Where rule 5.2 ("Good Leavers") applies, the Award does not lapse, and the extent to which it will Vest is measured in accordance with rule 3.1 (Determination of Performance Condition) at the end of the Performance Period. However, the Performance Period in respect of an Award will be treated as ending on the date of the termination of employment, and the Award will Vest immediately, to the extent that the Performance Condition has been or is likely to be satisfied (as determined by the Directors in the manner specified in the Performance Condition or in such manner as they consider reasonable) where a Participant has died or where the Directors so decide in their discretion.

Unless the Directors decide otherwise, the Award should be reduced pro rata to reflect the number of days from the start of the Performance Period until cessation of the Participant's employment as a proportion of the number of days of the Performance Period.

## **5.4 Overseas transfer**

If a Participant remains an Employee but is transferred to work in another country or changes tax residence status and, as a result he would:

5.4.1 suffer a tax disadvantage in relation to his Awards (this being shown to the satisfaction of the Directors), or

This provision is amended with effect from 1 January 2013 For Awards granted prior to this date, please see previous version of the Plan.

A12501594/0.58/12 Dec 2012

7

5.4.2 become subject to restrictions on his ability to exercise his Awards or to hold or deal in the Shares or the proceeds of the sale of the Shares acquired on exercise because of the security laws or exchange control laws of the country to which he is transferred,

then the Directors may decide that his Awards will Vest on a date they choose before or after the transfer takes effect. The Award will Vest to the extent they permit and the Directors will decide whether any balance of the Award will lapse.

## **5.5 Meaning of "ceasing to be an Employee"**

For the purposes of rules 5 (Vesting in other circumstances - personal events) and 4.2 (Options), a Participant will not be treated as ceasing to be an Employee until he is no longer an Employee of any Member of the Group or if he recommences employment with a Member of the Group within 14 days or such other period and on such other basis as the Directors decide.

## **6 Vesting in other circumstances - corporate events**

### **6.1 Time of Vesting**

- 6.1.1 In the event of a Change of Control, an Award Vests subject to rules 6.1.2 and 6.3 (Exchange). The Award lapses as to the balance except to the extent exchanged under rule 6.3 (Exchange).
- 6.1.2 If the Company is or may be affected by any demerger, delisting, distribution (other than an ordinary dividend) or other transaction, which, in the opinion of the Directors, might affect the current or future value of any Award, the Directors may allow an Award to Vest. The Award will Vest to the extent specified in rule 6.2 (Extent of Vesting) and will lapse as to the balance unless exchanged under rule 6.3 (Exchange). The Directors may impose other conditions on Vesting.

## **6.2 Extent of Vesting**

- 6.2.1 Where an Award vests under rule 6.1 (Time of Vesting), the Directors will determine the extent to which any Performance Condition has been satisfied as at the date of Change of Control (as determined by the Directors in the manner specified in the Performance Condition or in such manner as they consider reasonable) and the proportion of the Award which will Vest.
- 6.2.2 In addition, unless the Directors decide otherwise, the Award is reduced pro rata to reflect the number of days from the start of the Performance Period until the date of the Change of Control as a proportion of the number of days of the Performance Period.

## **6.3 Exchange**

An Award will not Vest under rule 6.1 (Time of Vesting) but will be exchanged under rule 6.6 (Exchange terms) to the extent that:

- 6.3.1 an offer to exchange the Award is made and accepted by a Participant; or
- 6.3.2 the Directors, with the consent of the Acquiring Company, decide before Change of Control that the Award will be automatically exchanged.

A12501594/0 58/12 Dec 2012

## **6.4 Directors**

In this rule 6 (Vesting in other circumstances - corporate events), "Directors" means those people who were members of the remuneration committee of the Company immediately before the Change of Control.

## **6.5 Timing of exchange**

Where an Award is to be exchanged under rule 6.3 (Exchange), the exchange is effective immediately following the relevant event.

## **6.6 Exchange terms**

Where a Participant is granted a new award in exchange for an existing Award, the new Award:

- 6.6.1 must confer a right to acquire shares in the Acquiring Company or another body corporate determined by the Acquiring Company;
- 6.6.2 must be equivalent to the existing Award, subject to rule 6.6.4;
- 6.6.3 is treated as having been acquired at the same time as the existing Award and, subject to rule 6.6.4, Vests in the same manner and at the same time;
- 6.6.4 must:
- (i) be subject to a Performance Condition which is, so far as possible, equivalent to any Performance Condition applying to the existing Award; or

- (ii) not be subject to any Performance Condition but be in respect of the number of shares which is equivalent to the number of Shares comprised in the existing Award which would have Vested under rule 6.2.1 and Vest at the end of the original Performance Period; or
- (iii) be subject to such other terms as the Directors consider appropriate in all the circumstances.

6.6.5 is governed by the Plan, excluding rule 7.2 (Shareholder approval), as if references to Shares were references to the shares over which the new award is granted and references to the Company were references to the Acquiring Company or the body corporate determined under rule 6.6.1 above.

## **7 Changing the Plan and termination**

### **7.1 Directors' powers**

Except as described in the rest of this rule 7 (Changing the Plan and termination), the Directors may at any time change the Plan in any way.

### **7.2 Shareholder approval**

7.2.1 Except as described in rule 7.2.2, the Company in general meeting must approve in advance by ordinary resolution any proposed change to the Plan to the advantage of present or future Participants, which relates to:

- (i) the Participants;
- (ii) the limits on the number of Shares which may be issued under the Plan;

A12501594/0.58/12 Dec 2012

(iii)

9

the individual limit for each Participant under the Plan;

- (iv) the basis for determining a Participant's entitlement to, and the terms of, securities, cash or other benefit to be provided and for the adjustment thereof (if any) if there is a capitalisation issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital; or
- (v) the terms of this rule 7.2.1.

7.2.2 The Directors can change the Plan and need not obtain the approval of the Company in general meeting for any minor changes:

- (i) to benefit the administration of the Plan;
- (ii) to comply with or take account of the provisions of any proposed or existing legislation;
- (iii) to take account of any changes to legislation; or
- (iv) to obtain or maintain favourable tax, exchange control or regulatory treatment of the Company, any Subsidiary or any present or future Participant.

7.2.3 The Directors may, without obtaining the approval of the Company in general meeting, establish further plans based on the Plan but modified to take account of local tax, exchange control or securities laws in non-UK territories.

### **7.3 Notice**

The Directors are not required to give Participants notice of any changes.

### **7.4 Termination**

The Plan will terminate on the Expiry Date, but the Directors may terminate the Plan at any time before that date. The termination of the Plan will not affect existing Awards.

## **8 General**

### **8.1 Terms of employment**

- 8.1.1 This rule 8.1 (Terms of employment) applies during an Employee's employment and after the termination of an Employee's employment, whether or not the termination is lawful.
- 8.1.2 Nothing in the rules or the operation of the Plan forms part of the contract of employment of an Employee. The rights and obligations arising from the employment relationship between the Employee and his employer are separate from, and are not affected by, the Plan. Participation in the Plan does not create any right to, or expectation of, continued employment.
- 8.1.3 No Employee has a right to participate in the Plan. Participation in the Plan or the grant of Awards on a particular basis in any year does not create any right to or expectation of participation in the Plan or the grant of Awards on the same basis, or at all, in any future year.

A12501594/0 58/12 Dec 2012

1

- 8.1.4 The terms of the Plan do not entitle the Employee to the exercise of any discretion in his favour.
- 8.1.5 The Employee will have no claim or right of action in respect of any decision, omission or discretion, which may operate to the disadvantage of the Employee even if it is unreasonable, irrational or might otherwise be regarded as being in breach of the duty of trust and confidence (and/or any other implied duty) between the Employee and his employer.
- 8.1.6 No Employee has any right to compensation for any loss in relation to the Plan, including any loss in relation to:
- (i) any loss or reduction of rights or expectations under the Plan in any circumstances (including lawful or unlawful termination of employment);
  - (ii) any exercise of a discretion or a decision taken in relation to an Award or to the Plan, or any failure to exercise a discretion or take a decision;
  - (iii) the operation, suspension, termination or amendment of the Plan.

### **8.2 Directors' decisions final and binding**

The decision of the Directors on the interpretation of the Plan or in any dispute relating to an Award or matter relating to the Plan will be final and conclusive.

### **8.3 Third party rights**

Nothing in this Plan confers any benefit, right or expectation on a person who is not a Participant. No such third party has any rights under the Contracts (Rights of Third Parties) Act 1999, or any equivalent local legislation, to enforce any term of this Plan. This does not affect any other right or remedy of a third party which may exist.

### **8.4 Documents sent to shareholders**

The Company is not required to send to Participants copies of any documents or notices normally sent to the holders of its Shares.

### **8.5 Costs**



The Company will pay the costs of introducing and administering the Plan. The Company may ask a Participant's employer to bear the costs in respect of an Award to that Participant.

#### **8.6 Employee trust**

The Company and any Subsidiary may provide money to the trustee of any trust or any other person to enable them or him to acquire Shares to be held for the purposes of the Plan, or enter into any guarantee or indemnity for those purposes, to the extent permitted by Section 682 of the Companies Act 2006 or any applicable law.

#### **8.7 Data protection**

By participating in the Plan the Participant consents to the holding and processing of personal information provided by the Participant to any Member of the Group, trustee or third party service provider, for all purposes relating to the operation of the Plan. These include, but are not limited to:

A12501594/0.58/12 Dec 2012

11

- 8.7.1 administering and maintaining Participant records;
- 8.7.2 providing information to Members of the Group, trustees of any employee benefit trust, registrars, brokers or third party administrators of the Plan;
- 8.7.3 providing information to future purchasers or merger partners of the Company, the Participant's employing company, or the business in which the Participant works;
- 8.7.4 transferring information about the Participant to a country or territory outside the European Economic Area that may not provide the same statutory protection for the information as the Participant's home country.

The Participant is entitled, on payment of a fee, to a copy of the personal information held about him and, if anything is inaccurate, the Participant has the right to have it corrected.

#### **8.8 Consents**

All allotments, issues and transfers of Shares will be subject to any necessary consents under any relevant enactments or regulations for the time being in force in the United Kingdom or elsewhere. The Participant is responsible for complying with any requirements he needs to fulfil in order to obtain or avoid the necessity for any such consent.

#### **8.9 Share rights**

Shares issued to satisfy Awards under the Plan will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment. Where Shares are transferred to a Participant, including a transfer out of treasury, the Participant will be entitled to all rights attaching to the Shares by reference to a record date on or after the transfer date. The Participant will not be entitled to rights before that date.

#### **8.10 Listing**

If and so long as the Shares are listed and traded on a public market, the Company will apply for listing of any Shares issued under the Plan as soon as practicable.

#### **8.11 Notices**

- 8.11.1 Any information or notice to a person who is or will be eligible to be a Participant under or in connection with the Plan may be posted, or sent by electronic means, in such manner to such address as the Company considers appropriate, including publication on any intranet.
- 8.11.2 Any information or notice to the Company or other duly appointed agent under or in connection with the Plan may be sent by post or transmitted to it at its registered office

or such other place, and by such other means, as the Directors or duly appointed agent may decide and notify Participants.

- 8.11.3 Notices sent by post will be deemed to have been given on the second day after the date of posting. However, notices sent by or to a Participant who is working overseas will be deemed to have been given on the seventh day after the date of posting. Notices sent by electronic means, in the absence of evidence to the contrary, will be deemed to have been received on the day after sending.

A12501594/0 58/12 Dec 2012

1

## **8.12 Governing law and jurisdiction**

English law governs the Plan and all Awards and their construction. The English courts have non-exclusive jurisdiction in respect of disputes arising under or in connection with the Plan or any Award.

## **9 Definitions**

In these rules:

"Acquiring Company" means a person who has or obtains control (within the meaning of Section 995 of the Income Tax Act 2007) of the Company;

"Award" means a Conditional Award or an Option;

"Award Date" means the date on which an Award is granted by deed under rule 1.4 (Terms of Awards);

"Change of Control" means

- (i) when a general offer to acquire Shares made by a person (or a group of persons acting in concert) becomes wholly unconditional; or
- (ii) when, under Section 895 of the Companies Act 2006 or equivalent procedure under local legislation, a court sanctions a compromise or arrangement in connection with the acquisition of Shares; or
- (iii) a person (or a group of persons acting in concert) obtaining control (within the meaning of Section 995 of the Income Tax Act 2007) of the Company in any other way.

"Company" means Aviva pic;

"Conditional Award" means a conditional right to acquire Shares granted under the Plan;

"Dealing Restrictions" means restrictions imposed by statute, order, regulation or Government directive, or by the Model Code or any code adopted by the Company based on the Model Code and for this purpose the Model Code means the Model Code on dealings in securities set out in Listing Rule 9, annex 1 (of the London Stock Exchange), as varied from time to time;

"Directors" means, subject to rule 6.4 (Directors), the board of directors of the Company or a duly authorised person or group of persons;

"Dividend Equivalent" means a right to receive cash or Shares in respect of dividends (as determined from time to time by the Grantor), on such basis as the Grantor may, in its discretion, determine;

"Employee" means any employee of a Member of the Group (including an executive director);

"Expiry Date" means 4 May 2021, the tenth anniversary of shareholder approval;

"Grantor" means, in respect of an Award, the entity which grants that Award under the Plan;

"London Stock Exchange" means London Stock Exchange pic;

"Member of the Group" means:

A12501594/0.58/12 Dec 2012

13

- (i) the Company;
- (ii) its Subsidiaries from time to time; or
- (iii) any other company which is associated with the Company and is so designated by the Directors;

"Option" means a right to acquire Shares granted under the Plan;

"Option Period" means a period starting on the grant of an Option and ending at the end of the day before the tenth anniversary of the grant, or such shorter period as may be specified under rule 4.2 (Options) on the grant of an Option;

"Option Price" means zero, or the amount payable on the exercise of an Option, as specified under rule 1.4.8;

"Participant" means a person holding an Award or his personal representatives;

"Performance Condition" means any performance condition imposed under rule 1.4 (Terms of Awards);

"Performance Period" means the period in respect of which a Performance Condition is to be satisfied;

"Plan" means these rules known as "The Aviva Long Term Incentive Plan 2011", as changed from time to time;

"Shares" means fully paid ordinary shares in the capital of the Company or any American Depositary Share or American Depositary Receipt (ADR) representing ordinary shares;

"Subsidiary" means a company which is a subsidiary of the Company within the meaning of Section 1159 of the Companies Act 2006;

"Vesting" in relation to an Option, means an Option becoming exercisable and in relation to a Conditional Award, means a Participant becoming entitled to have the Shares transferred to him subject to the Plan.

**Schedule 1**  
**France**

The purpose of this schedule is to make certain variations to the terms of the Plan, in order to satisfy French securities laws, exchange control, corporate law and tax requirements (in particular, the provisions of Articles L. 225-177 et seq. of the French Code de commerce, if the Award is an Option, and the provisions of L. 225-197-1 et seq. of the French Code de commerce, if the Award is a Conditional Award) to qualify for favourable income tax and social security treatment in France.

The rules of the Plan shall apply subject to the modifications contained in this Schedule 1 whenever the Grantor decides to grant a qualifying Award to an Employee under this Schedule 1.

**1 Rule 1 (Granting Awards)**

**1.1 Rule 1.1 (Grantor)**

Rule 1.1.3 is deleted.

**1.2 Rule 1.3 (Timing of Awards)**

The following paragraph is added to the end of rule 1.3:

"No Option may be granted (i) in the period of twenty business days after the day on which the Shares are last traded cum-dividend, cum-rights, or cum-any other distribution, or (ii) during any Closed Period."

**1.3 Rule 1.4 (Terms of Awards)**

**1.3.1 Rule 1.4.1 is supplemented with the following:**

"If the Award is an Option to acquire existing Shares, the Company shall acquire and/or hold enough Shares to satisfy the transfer of Shares on the exercise of the Options before the Vesting date and until expiry of the Option Period."

1.3.2 Rule 1.4.6 is deleted.

**1.3.3 Rule 1.4.8 is supplemented with the following:**

"The Option Price will not be less than:

- (i) if the Shares subject to the Options are to be issued, 80% of the arithmetical average of the market value of the Shares as quoted for the twenty trading days last preceding the Award Date.
- (ii) if the Shares subject to the Options are to be transferred from treasury, the higher of (a) 80% of the arithmetical average of the market value of the Shares as quoted for the twenty trading days last preceding the Award Date, or (b) 80% of the arithmetical average acquisition price of the entire treasury share position for the Company."

**1.4 Rule 1.5 (Performance Conditions)**

The words "in accordance with its terms or if anything happens which causes the Grantor reasonably to consider it appropriate to do so" in the last sentence of rule 1.5 are deleted and replaced by the following:

"provided that such amendment does not affect the qualifying status of the Awards for tax and social security purposes, and provided further that no such amendment shall adversely affect the right of any Participant without such Participant's consent."

**1.5 Rule 1.6 (Other Conditions)**

The following words are added at the end of rule 1.6:

"provided that such amendment does not affect the qualifying status of the Awards for tax and social security purposes, and provided further that no such amendment shall adversely affect the right of any Participant without such Participant's consent"

**1.6 Rule 1.9 (Administrative errors)**

Rule 1.9 is deleted and replace with the following:

"If the Grantor grants an Award which is inconsistent with rules 1.2 (Eligibility), 1.10 (Individual limit for Awards), 1.11 (Plan limits -10 percent) or 1.12 (Plan limits - 5 percent), it will lapse immediately."

**1.7 Rule 1.10 (Individual limit for Awards)**

Rule 1.10 is supplemented with the following:

"No Option shall be granted to an Employee who holds 10 per cent or more of the share capital of the Company in issue at the Award Date.

No Conditional Award shall be granted to an Employee who holds 10 per cent or more (taking into account any unvested Conditional Award under the Plan or any other plan subject to provisions of Articles L.225-197-1 et seq. of the French Code de commerce) of the share capital of the Company, or who may hold, as the result of this Award, 10 per cent or more of the share capital of the Company."

**1.8 Rule 1.11 (Plan limits-10 percent)**

Rule 1.11 is supplemented with the following:

"The total number of Shares subject to options granted under the Plan or any other plan subject to provisions of Articles L.225-177 et seq. of the French Code de commerce shall not exceed one third of the share capital of the Company in issue at the Award Date.

The total number of Shares granted under the Plan or any other plan subject to provisions of Articles L.225-197-1 et seq. of the French Code de commerce shall not exceed 10 per cent of the share capital of the Company in issue at the Award Date."

**2 Rule 2 (Before Vesting)**

**2.1 Rule 2.2 (Transfer)**

Rule 2.2.2 is deleted.

**2.2 Rule 2.3 (Adjustment of Awards)**

Rule 2.3 is deleted and replaced with the following:

"On the occurrence of one of the events specified under Article L.225-181 of the French Code de commerce, the Company:

- (i) shall make such adjustments as its consider appropriate to restore the value of the granted Options; and
- (ii) may make such adjustments as its consider appropriate to restore the value of the granted Conditional Awards.

An adjustment made under this rule shall only be permissible to the extent that it is intended to, and that its sole effect is to, restore the value of the granted Awards and it is made in compliance with the rules set out in the French Code de commerce."

### **2.3 Rule 2.4 (Reduction or cancellation of Awards)**

Rule 2.4 is deleted.

### **3 Rule 3 (Vesting)**

Rule 3.2 (Timing of Vesting) is supplemented with the following:

"Notwithstanding any rule other than rule 5.6 (Death or Defined Disability), a Conditional Award shall not vest prior to the second anniversary of the Award Date. If a Conditional Award would vest, in accordance with any rule in the Plan other than rule 5.6, prior to the second anniversary of the Award Date, the Conditional Award will not so vest but will continue until the second anniversary of the Award Date and at such time only, it will vest, and the Holding Period will apply from this date.

### **4 Rule 4 (Consequences of Vesting)**

#### **4.1 Rule 4.1 (Conditional Award)**

Rule 4.1 is deleted and replaced with the following:

"4.1.1 Within 30 days of a Conditional Award Vesting, the Grantor will arrange for the transfer (including a transfer out of treasury) or issue of the number of Shares in respect of which the Conditional Award has vested to a share account administered in the name and for the benefit of the Participant by an account keeper (teneur de compte) designated by the Directors.

Except as provided under rule 5.6 (Death or Defined Disability), the Shares will be held by the account keeper on behalf of the Participant, for the duration of the Holding Period, in accordance with the provisions of the Holding Agreement. The Participant shall have full shareholder voting and dividend rights on the transferred shares during the Holding Period.

The Participant will be free to dispose of the Shares upon expiry of the Holding Period, except during the Closed Periods during which the sale of the Shares is prohibited.

4.1.2 Shares transferred to Participants holding the duties of chairman of the board, general manager, deputy general manager, member of the directory board, or

manager (respectively president du conseil d'administration, directeur gen6ral, directeur ge~n6ral deleguG, membre du directoire or g6ranf) in the Company or any Member of the Group shall not be disposed before termination of the Participant's executive duties. Alternatively, the Directors may decide that a fraction of the Shares transferred to Participants holding the duties of chairman of the board, general manager, deputy general manager, member of the directory board, or manager (respectively president du conseil d'administration, directeur g6n6ra, directeur g6n6ral d6l6gu6, membre du directoire or gSrant) in the Company or any Member of the Group will be in a registered (nominatif) form and will not be available for sale or transfer before termination of the Participant's executive duties."

## **4.2 Rule 4.2 (Options)**

4.2.1 In rule 4.2.1(i), the words "(unless the reason for Vesting is the Participant's death, in which case the Option will lapse 12 months after Vesting)" are deleted. Any reference to a 12-month exercise period applicable in case of death is deleted accordingly.

4.2.2 In rule 4.2.1 (ii), the words "zero, or" are deleted. Any reference to an Option Price equal to zero is deleted accordingly.

### **4.2.3 The following is inserted as rule 4.2.4:**

"Notwithstanding any rule other than rule 4.2.5, the Shares acquired following the exercise of an Option may not be sold by a Participant or otherwise transferred before the fourth anniversary of the Award Date. The Company or Member of the Group may take such steps as it/they consider appropriate to ensure the Participant's compliance with this rule, including (without limitation) the blocking of any account into which the Shares have been issued or transferred."

### **4.2.4 The following is inserted as rule 4.2.5:**

"Rule 4.2.4 shall not apply where a Participant leaves employment for reason of:

- (i) death, or
- (ii) Defined Disability."

## **4.3 Rule 4.3 (Dividend Equivalent)**

Rule 4.3 is deleted. Any reference to Dividend Equivalent is deleted accordingly.

## **4.4 Rule 4.4 (Alternative ways to satisfy Awards)**

Rule 4.4 is deleted. Any reference to rule 4.4 is deleted accordingly.

## **4.5 Rule 4.5 (Withholding)**

Rule 4.5 is supplemented with the following:

"The Participants (or heirs, if applicable) are responsible for reporting the receipt of any income under the Plan, however made, to the appropriate tax authorities.

The Member of the Group with whom a Participant is or was in employment on the date the Shares are transferred will communicate the name of the Participant and the number of Shares being transferred to the social security authorities competent for that Member of

*the Group, in accordance with the provisions of Article L 242-1 of the French Code de la s6curit6 sociale."*

## **5 Rule 5 (Vesting in other circumstances - personal events)**

### **5.1 Rule 5.3 (Vesting)**

In rule 5.3, the words "and the Award will Vest immediately" are deleted and replaced by.

"and, subject to rule 3.2 (Timing of Vesting), the Award will Vest immediately".

### **5.2 Rule 5.4 (Overseas transfer)**

Rule 5.4 is deleted.

### **5.3 The following is inserted as rule 5.6 (Death or Defined Disability):**

"Notwithstanding any other rule of the Plan, where a Participant leaves employment for reason of death, his personal representatives may require, within six (6) months from the date

of death, Vesting of the deceased's Conditional Award and the transfer of the underlying Shares. The Shares will be transferred to the personal representatives of the Participant as soon as practicably possible following their request, and shall not be subject to any Holding Period.

Notwithstanding any other rule of the Plan, where a Participant suffers from a Defined Disability, he can request at any time the Vesting of its Conditional Award and the transfer of the underlying Shares. The Shares shall be transferred to the Participant suffering from a Defined Disability as soon as practicably possible following his request, and shall not be subject to any Holding Period."

## **6 Rule 6 (Vesting in other circumstances - corporate events)**

Rule 6 (Vesting in other circumstances - corporate events) shall apply in accordance with Articles L. 225-197-1-111 of the French Code de commerce and 80 quaterdecies and 163 bis C-I bis of the French Code general des impots to the extent that the Directors intend the Awards to maintain favourable tax treatment under this Schedule 1. However, in the event the Directors do not intend the Awards to maintain such favourable tax treatment, rule 6 of the Plan will prevail notwithstanding any potential detrimental tax or social security consequences for the Participant.

## **7 Rules 7 (Changing the Plan and termination)**

Rule 7.1 shall be supplemented with the following:

"Except as provided in rule 6 (Vesting in other circumstances - corporate events), changes may affect Awards already granted provided that (i) the changes do not affect the qualifying status of the Awards for tax and social security purposes and provided that (ii) no such changes shall adversely affect the rights of any Participant without such Participant's prior consent."

## **8 Rule 9 (Definitions)**

The definitions of "Member of the Group", "Employee" and "Option Price" stated in rule 9 of the Plan shall be deleted and replaced by the following definitions:

A12501594/0.58/12 Dec 2012

19

"Member of the Group" means (i) a company in which the Company holds, directly or indirectly, at least 10 per cent of the share capital or voting rights; (ii) a company holding directly or indirectly at least 10 per cent of the share capital or voting rights of the Company; or (iii) a company for which at least 50 per cent of the share capital or voting rights are held by a company which holds at least 50 per cent of the share capital of the Company.

*"Employee\* means a salaried employee of the Company or any Member of the Group, or a corporate officer of the Company or any Member of the Group holding the duties of chairman of the board, general manager, deputy general manager, member of the directory board, or manager (respectively president du conseil d'administration, directeur g&#n6ral, directeur g&#n6ral d&#16gu&#233;, membre du directoire or g&#220ranf).*

"Option Price" means the amount payable on the exercise of an Option, as specified under rule 1.4.8.

For the purpose of Awards granted under this Schedule 1, the following new definitions shall be added to those stated in rule 1 of the Plan:

"Closed Period" means (i) the 10 trading days preceding and following the date on which the Company's consolidated accounts or, failing that, the annual accounts, are made public; and (ii) the period between (x) the date on which the management bodies of the Company have knowledge of information which, if made public, could have a significant impact on the price of the Share and (y) the end of the tenth trading day following the date on which this information has been made public.



*"Defined Disability" means the circumstance where a Participant is recognised as a disabled employee of the second or third category under the meaning of Article L.341-4 of the French Code de la s6curit6 sociale;*

"Holding Agreement" means an agreement between the Participant, the Company and an account keeper (teneur de compte) designated by the Company, in such form as determined by the Company and delivered by the Participant, in which the Participant undertakes not to sell or transfer Shares before expiry of the Holding Period, and the account keeper undertakes not to perform any such order before expiry of the Holding Period.

"Holding Period" means a two-year period following the transfer of the Shares to the Participant, during which the Shares cannot be sold, transferred or otherwise disposed.

All capitalised terms used in this Schedule 1 and not otherwise defined herein shall have the meaning ascribed to them in the Plan.

## **9 Severability**

The terms and conditions provided in the Plan as amended by this Schedule 1 are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable under French law, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

A12501594/0 58/12 Dec 2012

20

## **Schedule 2 Canada**

The purpose of the Schedule 2 is to make certain variations of the terms of the Plan, in the case of its operation for Employees in Canada, to take into account Canadian tax rules. The grant of Options under the Plan is not available to Employees in Canada pursuant to this Schedule 2.

The rules of the Plan will apply to grants made under this Schedule 2, subject to the following:

### **1 Rule 1.4 (Terms of Awards)**

Rule 1.4.1 is deleted and replaced by the following:

"any Award granted to Employees in Canada will take the form of a Conditional Award;"

### **2 Rule 3.2 (Timing of Vesting)**

The following paragraph is added to the end of rule 3.2 (Timing of Vesting):

"Notwithstanding the foregoing, an Award shall Vest no later than the 31 December of the third calendar year following the year in which the services were performed in respect of which such Award has been granted and will be satisfied in cash or Shares on or before such date."

### **3 Rule 4.1 (Conditional Awards)**

The following paragraphs are added to the end of rule 4.1 (Conditional Awards):

"Notwithstanding the foregoing, any transfer or issue of Shares pursuant to this rule 4.1 shall be effected prior to 31 December of the third calendar year following the year in which the services were performed in respect of which a Deferred Share Award has been granted."

A12501594/0.58/12 Dec 2012

**Schedule  
3 Sri  
Lanka**

The purpose of the Schedule 3 is to make certain variations of the terms of the Plan in the case of its operation for Employees in Sri Lanka.

The rules of the Plan will apply to grants made under this Schedule 3, subject to the following:

**1 Rule 1.10 (Individual limit for Awards)**

The following paragraph is added to the end of rule 1.10 (Individual limits for Awards):

"Awards will be calculated by reference to a Participant's Total Fixed Cost which is defined as: basic salary, taxable and non-taxable allowances, benefits and other payments made to the Participant as part of his remuneration."

## **Schedule 4 USA**

The purpose of the Schedule 4 is to make certain variations of the terms of the Plan in the case of its operation for Employees who are subject to taxation under the laws of the United States of America ("US Tax").

The rules of the Plan apply to grants made under this Schedule 4, subject to the following:

### **1 Application of Schedule 4**

This Schedule 4 applies to any Participant who is subject to US Tax. It is intended to ensure that a Conditional Award granted to a Participant who is subject to US Tax is exempt from section 409A of the US Internal Revenue Code 1986, as amended.

The words and expressions used in this Schedule 4 which have capital letters have the same meaning as they have in the rules of the Plan.

### **2 Amendments to the Plan for section 409A purposes**

For the purpose of Conditional Awards subject to this Schedule 4, all of the rules of the Plan shall apply subject to the following amendment:

Rule 5.3 (Vesting) is deleted and replaced by the following:

"Rule 5.3 Vesting

Where rule 5.2 ("Good Leavers") applies, the Award does not lapse, and the extent to which it will Vest is measured in accordance with rule 3.1 (Determination of Performance Condition) at the end of the Performance Period. The Award will Vest once the determination of the Performance Condition is made under rule 3.1 or as soon as practicable thereafter, but in no event shall Shares underlying the Award be transferred to the Participant later than 15 March of the calendar year following the calendar year in which the Performance Period ends.

However, the Performance Period in respect of an Award will be treated as ending on the date of the termination of employment, and the Award will Vest immediately, to the extent that the Performance Condition has been or is likely to be satisfied (as determined by the Directors in the manner specified in the Performance Condition or in such manner as they consider reasonable) where a Participant has died or where the Directors so decide on the grant of the Award.

Unless the Directors decide otherwise, the Award should be reduced pro rata to reflect the number of days from the start of the Performance Period until cessation of the Participant's employment as a proportion of the number of days of the Performance Period."

A12501594/0.58/12 Dec 2012

**Exhibit 4.2.1**

**RULES  
OF  
THE  
AVIVA INVESTORS HOLDINGS LIMITED  
2009 LONG TERM INCENTIVE PLAN**

Adopted by a resolution of the board of directors of Aviva Investors Holdings Limited on:

9<sup>th</sup> November 2009 Amended on: 4 December

2012 and 4 March 2013

**PricewaterhouseCooper  
s Plumptre Court London  
EC4A 4HT**

**Tel: +44 20 7212 6306  
Fax: +44 20 7212 2041  
Ref: TW/JPT/JP**

## CONTENTS

Rule	Page number
<b>1 Interpretation</b>	<b>1</b>
<b>2 Making of Awards</b>	<b>5</b>
2.1 Persons to whom Awards may be made	
2.2 Timing of Awards	
2.3 Procedure for making Awards	
2.4 Award Notices	
2.5 Non-transferability of Awards	
2.6 Valuation of Awards	
2.7 Cash Units	
2.8 Share Units	
2.9 Performance Condition	
2.10 Variation of Performance Condition	
2.11 Dividend Equivalents	
2.12 Dividend Match	
<b>3 Adjustment of Awards 9</b>	
3.1 Circumstances in which Committee shall consider adjustment of Awards	
3.2 Process for adjusting Awards	
3.3 Notification of Participants	
3.4 Alternative of early Vesting	
<b>4 Vesting of Awards 10</b>	
4.1 Normal Vesting Date	
4.2 Timing of payments	
<b>5 Termination of employment 10</b>	
5.1 Death	
5.2 Disability, redundancy	
5.3 Other leavers	
<b>6 Change of Control 11</b>	
6.1 Treatment of Awards	
6.2 Exchange of Awards	
<b>7 Withholding taxes and social security 11</b>	
<b>8 Contractual rights 12</b>	
<b>9 Administration of Plan 12</b>	
9.1 Committee responsible for administration	
9.2 Committee's decision final and binding	
9.3 Discretionary nature of Plan	
9.4 Cost of Plan	
<b>10 Notices 13</b>	
10.1 Notice by Committee	
10.2 Deceased Participants	
10.3 Award Notice	

**11 Amendment of Rules 13**

- 11.1 Power to amend Rules
- 11.2 Rights of existing Participants
- 11.3 Notification of Participants

**12 Governing law and jurisdiction 14**

- 12.1 Governing law
- 12.2 Jurisdiction
- 12.3 Participant deemed to have agreed to submit to jurisdiction

**Schedule A - Definition of LTIP Pool**

**15**

## RULES OF THE AVIVA INVESTORS HOLDINGS LIMITED

### 2009 LONG TERM INCENTIVE PLAN

#### 1 INTERPRETATION

1.1 In these Rules, unless the context otherwise requires, the following words and expressions have the following meanings:

<b>Adoption Date</b>	the date on which the Plan is adopted by the Committee;
<b>Associate</b>	a company that is under the control of the same company that controls Aviva Investors;
<b>Aviva pic Group</b>	Aviva pic and its Subsidiaries from time to time;
<b>Aviva Investors</b>	Aviva Investors Holdings Limited a company registered in England and Wales with registered number 02045601;
<b>Aviva pic</b>	Aviva pic a company registered in England and Wales with registered number 2468686;
<b>Aviva pic Remuneration Committee</b>	the remuneration committee of Aviva pic, being a duly authorised committee of the board of directors of Aviva pic;
<b>Award</b>	a right to receive any or all of Shares, Cash Units, Dividend Equivalents or Dividend Match under the Plan;
<b>Award Date</b>	the effective date of an Award determined in accordance with Rule 2.3;
<b>Award Notice</b>	a notice issued to the Participant setting out the terms and conditions of an Award;
<b>Award Period</b>	the three year period starting on 1 April of the year following the Award Date;
<b>Award Value</b>	the value of a Participant's Award determined in accordance with Rule 2.6,
<b>Board</b>	the board of directors of Aviva Investors;
<b>Budgeted Profit</b>	the projected pre tax, pre-incentive profit of Aviva Investors as contained in the business plan for Aviva Investors for the relevant Financial Year;

**Cash Unit** a right to receive a cash payment as set out in rule 2.7;

**Cash Unit Interest** the amount of interest earned or would be earned on the

Initial Unit Value if it was deposited in a cash account or otherwise invested during the Award Period as specified in the Award Notice;

Change of Control	<p>a) a person acquiring more than 50% of the ordinary share capital of Aviva pic;</p> <p>b) the merger of Aviva pic and another company;</p> <p>c) the company in which the Eligible Employee is employed ceasing to be a member of the Aviva pic Group;</p> <p>d) the business in which the Eligible Employee is employed ceasing to be part of Aviva pic Group; or</p> <p>e) any other circumstances which, following a corporate event that the Aviva pic Remuneration Committee determines should be treated as a change of control for the purposes of this Plan.</p>
Committee	the Board or a committee duly authorised by the Board which is responsible for the administration of the Plan;
Control	in relation to a company, the power of a person to secure by means of holding shares or the possession of voting power in, or in relation to, that or any other company or by virtue of any powers conferred by the bylaws, articles of association or other document regulating that or any other company that the affairs of the first-mentioned company are conducted in accordance with the wishes of that person;
Dividend Equivalent	a cash amount calculated in accordance with Rule 2.11;
Dividend Match	a cash amount equal to the Dividend Equivalent multiplied by the Matching Multiple;
Effective Date	the date of which all conditions to which a Change of Control is subject are satisfied;
Eligible Employee	an employee of Aviva Investors or an employee of any other company in the Aviva pic Group whose duties include services for Aviva Investors or any of its Subsidiaries or Associates who has been selected by the Committee, in accordance with the Rules, to receive an Award;
Exchange Rate	for payments made in a currency other than in UK Pounds Sterling (the "Local Currency"), the relevant exchange rate or method of determining the relevant exchange rate, as

2/15

determined by the Committee, and specified in the Award Notice if applicable;

**Financial Year**

**Initial Unit Value**

**LTIP Pool**



**Market Price**

a financial year of Aviva Investors;

the value of one Notional Unit determined as set out in Rule 2.6;

a notional pool representing a percentage of Operating Profit and a percentage of growth in Operating Profit for the Financial Year in which the Date of Award falls.

**Matching Multiple**

The definition of LTIP Pool is set out in Schedule A and will be subject to review and amendment annually at the discretion of the Committee subject to the approval of the Aviva plc Remuneration Committee;

for the purpose of Rule 2.11, the spot price of a Share as quoted on the London Stock Exchange at the relevant time,

for all other purposes, the average closing price of a Share as quoted on the London Stock Exchange for the 5 business days immediately preceding the date in respect of which the Market Price is to be determined;

the multiple to be applied to the Dividend Equivalents in accordance with Rule 2.12 to determine the Dividend Match;

Normal Vesting Date the dates on which an Award Vests as specified in Rule 4.1;

Notional Units units representing a Participant's interest in the LTIP Pool;

the pre-tax, pre-incentive profit of Aviva Investors as determined by the Committee subject to the approval of the Aviva pic Remuneration Committee.

Operating Profit may be adjusted at the discretion of the Committee subject to the approval of the Aviva pic Remuneration Committee to reflect:

**Participant**

(a) any significant acquisitions and disposals by Aviva Investors; and

**Payment Date**

(b) any material change in business or taxation (including change in laws or regulations of the United Kingdom or any political subdivision of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations),

**Performance Condition**

**Plan**

which materially impact on the pre-tax, pre-incentive profit of Aviva Investors;

**Redundancy**

an individual who holds an Award or, where the context permits, his legal personal representatives;

**Share**

the date on which the Participant shall be entitled to receive Shares or a cash payment in respect of the Award in accordance with Rule 4.2;

**Subsidiary**

**Subsisting**

the condition to which the receipt of Shares and/or Cash Units on the Payment Date is subject;

**Award**

**Supplementary Award Notice**

the Aviva Investors Holdings Limited' 2009 Long Term Incentive Plan as constituted by these Rules in their present form or as amended from time to time;

has the meaning given in the Employment Rights Act 1996;

an ordinary share in Aviva pic;

has the meaning given in section 1159 Companies Act 2006;

an Award that has not been forfeited;

a notice issued to the Participant, as soon as reasonably practicable following the issue of an Award Notice, setting out additional terms and conditions of an Award, which were impracticable to be set out in the Award Notice as determined by the Committee;

**Trustees**

RBC Trustees (CI) Limited;

**4/15**

**Vest**

in relation to an Award, the fulfilment of the conditions for the Participant to receive payment in respect of Awards under the Plan (subject to the forfeiture provisions in Rule 5) and Vesting and Vested shall be construed accordingly; and

Vesting Date                      the date on which an Award Vests.

1.2     In these Rules, unless otherwise specified:

- 1.2.1   the contents and Rule headings are inserted for ease of reference only and do not affect their interpretation;
- 1.2.2   a reference to a Rule is a reference to a rule of the Plan;
- 1.2.3   the singular includes the plural and vice-versa and the masculine includes the feminine;
- 1.2.4   a reference to a statutory provision includes any statutory modification, amendment or re-enactment thereof; and
- 1.2.5   the Interpretation Act 1978 applies to the Plan in the same way as it applies to an enactment.

## **2            MAKING OF AWARDS**

### **2.1        Persons to whom Awards may be made**

An Award may only be made to an individual who is an Eligible Employee at the time of the Award.

### **2.2        Timing of Awards**

An Award will normally be made at the time annual bonus payments are made to employees of Aviva Investors but Awards may be made at other times if the Committee determines that there are exceptional circumstances which justify making Awards outside of the normal cycle, subject to the approval of the Aviva pic Remuneration Committee. In any event, Awards may not be made:

- 2.2.1   earlier than the Adoption Date; or
- 2.2.2   later than the tenth anniversary of the Adoption Date.

### **2.3        Procedure for making Awards**

The Committee shall have absolute discretion (subject to the provisions of these rules and the approval of the Aviva pic Remuneration Committee) to determine on an annual basis:

- 2.3.1   the Participants;
- 2.3.2   whether to make Awards and the number of Notional Units allocated to each Participant; and
- 2.3.3   on each anniversary of the Award Date, whether to:
  - 2.3.3.1   adjust the number of Notional Units allocated to any Participant upwards;

- 2.3.3.2 adjust the number of Notional Units allocated to any Participant downwards in the event of either (a) gross misconduct; (b) underperformance as determined by the Committee; or (c) a material change in role; or
- 2.3.3.3 determine that any Participant shall forfeit their Award in the event of either (a) gross misconduct; (b) underperformance as determined by the Committee; or (c) a material change in role.

Each Award shall be evidenced by an Award Notice issued to the Participant by Aviva Investors (or the Participant's employing company) as soon as reasonably practicable after it has been made.

### **Award Notices**

Each Award Notice shall state:

- 2.4.1 the Award Date;
- 2.4.2 the total number of Notional Units in the LTIP Pool;
- 2.4.3 the number of Notional Units subject to the Award;
- 2.4.4 the Performance Condition, or if it is impracticable to state in an Award Notice as determined by the Committee, it shall be stated in a Supplementary Award Notice;
- 2.4.5 how the Initial Unit Value of Cash Units (if applicable) shall be invested or notionally invested, or if it is impracticable to state in an Award Notice as determined by the Committee, it shall be stated in a Supplementary Award Notice;
- 2.4.6 whether Dividend Equivalents are payable under the Award;
- 2.4.7 whether a Dividend Match is payable under the Award and if so the Matching Multiple;
- 2.4.8 the Exchange Rate (if applicable); and
- 2.4.9 the Normal Vesting Dates and shall state, or have attached to it in the form of a schedule, any further terms and conditions applicable to the Award.

Subject thereto, an Award Notice, and Supplementary Award Notice if applicable, shall be in such form as the Committee may determine from time to time.

## **6/15**

### **2.5 Nontransferability of Awards**

An Award shall be personal to the Eligible Employee to whom it is made and, subject to Rule 5.1, shall not be capable of being transferred, charged or otherwise alienated and shall be forfeited immediately if the Participant purports to transfer, charge or otherwise alienate the Award.

### **2.6 Valuation of Awards**

The Initial Unit Value shall be calculated after the end of the Financial Year in which the Award Date falls by applying the following formula:

LTIP Pool for the Financial Year in which the Award Date falls / £NU

Where:

XNU = the sum of all Participants' Notional Units in the LTIP Pool for that Financial Year plus any Notional Units unallocated by the Committee for the award in question

The Award Value for each Participant shall be calculated by applying the following formula:

NU x Initial Unit Value

Where.

NU = the Participant's Notional Units in the LTIP Pool for that Financial Year

and will be notified to the Participant as soon as reasonably practicable following the calculation of the Award Value.

## **2.7 Share Awards**

On or around 1 April in the year following the Award Date, the Committee, subject to approval of the Aviva pic Remuneration Committee, will determine whether or to what extent a Participant's Notional Units will take the form of an Award of Shares and will calculate the number of Shares subject to the Award (or the basis on which the number of Shares will be calculated).

The Shares subject to an Award will Vest subject to the satisfaction of the Performance Condition as set out in accordance with Rule 2.9.

## **2.8 Cash Units**

On or around 1 April in the year following the Award Date, the Committee will determine whether or to what extent a Participant's Notional Units will take the form of Cash Units.

Subject to all applicable vesting conditions being met, the cash payment made in respect of each Cash Unit will be equal to the Initial Unit Value plus the Cash Unit Interest. This payment is subject to the satisfaction of the Performance Condition as set out in accordance with Rule 2.9.

## **2.9 Performance Condition**

The receipt of the Shares subject to an Award and/or Cash Units under the Plan will

7/15

be subject to the satisfaction of a Performance Condition as specified at the Award Date in the Award Notice. To the extent that the Performance Condition is not satisfied the Participant shall not be entitled to receive any Shares and/or Payment in respect of the Cash Units.

## **2.10 Variation of Performance Condition**

If an event occurs which causes the Committee to consider that the Performance Condition or any further condition imposed under Rule 2.9 to which the receipt of Shares and/or payment in respect of Cash Units is subject is no longer appropriate, the Committee may, subject to the approval of the Aviva pic Remuneration Committee, substitute, vary or waive the Performance Condition or other condition in such manner (and make such consequential amendments to the rules) as:

2.10.1 is reasonable in the circumstances; and

2.10.2 except in the case of waiver produces a fairer measure of performance and is not materially less difficult to satisfy.

The receipt of Shares and/or payment in respect of the Cash Units shall then take effect subject to the Performance Condition or other condition as so substituted, varied or waived.

### **2.11 Dividend Equivalents**

The Award Notice may specify that a Participant will be entitled to receive Dividend Equivalents calculated at the Payment Date by reference to the dividends that the Participant would have received had the value of:

- 2.11.1 on the Shares subject to an Award had the Shares been held on the first day of the Award Period and throughout the remainder of the Award Period; and
- 2.11.2 had the value of any Dividend Equivalents to which a Participant was entitled under this Rule been re-invested into a holding of equivalent value of Shares on the ex-dividend date.

Such holdings will be calculated based on the Market Price of a Share at the date on which the relevant dividend is declared.

### **2.12 Dividend Match**

The Award Notice may specify that a Participant will be entitled to receive a Dividend Match at the Payment Date. The Dividend Match will be calculated by multiplying the Dividend Equivalents payable in accordance with Rule 2.11 by the Matching Multiple specified in the Award Notice.

### **2.13 Cash and share alternative**

The Committee may decide to satisfy an Award of Shares by paying an equivalent amount in cash (subject to Rule 7).

In respect of an Award of Cash Units, the Committee may decide instead to satisfy such Award (and any Dividend Equivalents) by the delivery of Shares (subject to rule 7). The number of Shares will be calculated by dividing the cash amount by the market value of a Share on the Payment Date.

8/15

## **3 ADJUSTMENT OF AWARDS**

### **3.1 Circumstances in which the Committee shall consider adjustment of Awards**

The Committee, subject to approval of the Aviva plc Remuneration Committee, shall consider, where fair and equitable, making adjustments to the terms and conditions applicable to Subsisting Awards, including the definition of Operating Profit in the following circumstances:

- 3.1.1 a change in the accounting policy of Aviva Investors which affects the method of calculating Operating Profit;
- 3.1.2 the merger of the Aviva Investors with another business;
- 3.1.3 the demerger or disposal of part of the Aviva Investors or business assets; or
- 3.1.4 any other change in Aviva Investors' structure that has a material impact on the value of Subsisting Awards.

### **3.2 Process for adjusting Awards**

The Committee shall consider what, if any, fair and equitable adjustments should be made to Awards to take into account the circumstances referred to in Rule 3.1,

consulting professional advisers as appropriate. Any such adjustment will be subject to the approval of the Aviva pic Remuneration Committee.

### **3.3 Notification of Participants**

If the Committee makes an adjustment to an Award, Aviva Investors (or the Participant's employing company) shall notify the Participant as soon as practicable thereafter and issue a new Award Notice to the Participant.

### **3.4 Alternative of early Vesting**

If the Committee decides, in any of the circumstances referred to in Rule 3.1, that it would be fair and equitable, it shall make a recommendation to the Aviva pic Remuneration Committee that the Award should Vest early. Such recommendation shall include the proposed Vesting Date, whether the Performance Condition should be waived or amended and the Participant's Award Value in respect of the Award after it has Vested.

If the Aviva pic Remuneration Committee resolves to approve the recommendation for early Vesting, the Committee shall notify the Participant and, as soon as practicable and not later than 60 days after the Vesting date, Aviva Investors shall arrange for the Shares to be transferred and/or the cash sum to be paid to the Participant in respect of the Vested Award less any deduction made under Rule 7.

## **4 VESTING OF AWARDS**

### **4.1 Normal Vesting Date**

Subject to Rules 3.4, 5 and 6, each Award shall Vest on the 1 April following the end

9/15

of the Award Period, unless determined otherwise by the Committee subject to the approval of the Aviva pic Remuneration Committee.

### **4.2 Timing of share transfer and/or cash payments**

Subject to Rules 3.4, 5, 6 and 7, as soon as reasonably practicable (and in any event not later than 45 days following the Normal Vesting Date) the Committee shall procure the transfer to each Participant of the number of Shares and/or a cash amount equal to the amounts due to the Participant in respect of his or her Award under the Plan.

## **5. TERMINATION OF EMPLOYMENT**

### **5.1 Death**

If a Participant dies before a Payment Date, a proportion of his Award, up to a maximum proportion which reflects the proportion of the Award Period that has passed, shall Vest immediately provided that the Committee, subject to the approval of the Aviva pic Remuneration Committee, reasonably expects the Performance Condition to be satisfied. The unvested proportion shall be forfeited immediately.

The Vesting Date and the proportion of his Award that shall be forfeited may be varied at the discretion of the Committee subject to the approval of the Aviva pic Remuneration Committee.

As soon as reasonably practicable and in any event not later than 60 days after the Participant's death, Aviva Investors shall procure delivery to the Participant's personal representatives of the number of Shares and/or a cash amount equal to the amounts payable under the Plan in respect of such proportion of the Award as has already

Vested or in respect of which the Committee, subject to the approval of the Aviva pic Remuneration Committee, has exercised its discretion to allow Vesting.

## **5.2 Disability**

If a Participant ceases to be employed by Aviva Investors or any company in the Aviva pic Group before a Payment Date by reason of disability (as established to the satisfaction of the Committee), a proportion of his Award which reflects the proportion of the Award Period which remains following the ceasing of employment shall be forfeited immediately.

The remaining un-forfeited proportion shall Vest on the Normal Vesting Date in accordance with these Rules provided that the Committee, subject to the approval of the Aviva pic Remuneration Committee, reasonably expects the Performance Condition to be satisfied.

The Vesting Date, and the proportion of his Award that shall be forfeited may be varied at the discretion of the Committee subject to the approval of the Aviva pic Remuneration Committee.

## **5.3 Other leavers**

If a Participant ceases to be employed by Aviva Investors or any company in the Aviva pic Group before the Payment Date in any circumstances not mentioned in

10/15

Rules 5.1 to 5.2, his Award shall, unless the Committee (subject to the approval of the Aviva pic Remuneration Committee) determines otherwise, be forfeited immediately in which case the Participant shall not be entitled to any further entitlement under the Plan, even in respect of any Award that may have Vested before employment ceased. For the purpose of this Rule 5.3, if notice of termination of employment is given before the termination date, either by the Participant or by his employing company, employment shall be deemed to have terminated (for the purpose of the Plan) on the date when such notice is given, unless the Committee decides otherwise.

## **6 CHANGE OF CONTROL**

### **6.1 Treatment of Awards**

Subject to Rule 6.2, in the event of a Change of Control the Aviva pic Remuneration Committee shall determine the proportion of the Award that shall Vest having regard to the proportion of the Award Period that has elapsed at the Effective Date. The Participant shall be entitled to receive such as is equivalent to the relevant proportion of the Award Value.

### **6.2 Exchange of Awards**

The Committee, subject to the approval of the Aviva pic Remuneration Committee, may, subject to obtaining the consent of any company or individual who has obtained Control of the Company ("an Acquirer"), in its absolute discretion determine that Awards under the Plan shall not Vest but shall be exchanged for awards of equivalent value under an alternative long term incentive arrangement operated by the Acquirer ("the New Plan") provided that the awards under the New Plan shall vest no later than would have been the case under the Plan had the Change of Control not occurred. The decision of the Committee (made in accordance with these Rules) as to what constitutes equivalent value under this Rule 6.2 shall be final.

## **7 WITHHOLDING TAXES AND SOCIAL SECURITY**



Aviva Investors, Aviva pic, any employing company or the Trustee may withhold such amount and make such arrangements as it considers necessary to meet any liability to taxation or social security contributions in respect of Awards. These arrangements may include the sale or reduction in number of any Shares on behalf of the Participant.

## **8 CONTRACTUAL RIGHTS**

8.1 Notwithstanding any other provision of the Plan:

8.1.1 the Plan shall not form part of any contract of employment between Aviva Investors or any company in the Aviva pic Group and an Eligible Employee;

8.1.2 the benefit to an Eligible Employee of participation in the Plan (including, in particular but not by way of limitation, any Awards held by him) shall not form any part of his remuneration or count as his remuneration for the purpose of entitlement to any benefit plan including any employer contribution to any pension plan, and

11 /15

8.1.3 if an Eligible Employee ceases to be employed by Aviva Investors or a company in the Aviva pic Group, he shall not be entitled to compensation for the loss of any right or benefit or prospective right or benefit under the Plan (including, in particular but not by way of limitation, any Awards held by him which are forfeited by reason of his ceasing to be so employed) whether by way of damages for unfair dismissal, wrongful dismissal, breach of contract or otherwise.

8.2 By accepting the Award and not renouncing it, an Eligible Employee is deemed to have agreed to the provisions of this Rule 8.

8.3 A Participant's Awards will not be subject to the Participant's debts, judgments or other obligations and will not be subject to seizure, garnishment or other process applicable to the Participant prior to actual payment in respect of the Award to the Participant.

## **9. ADMINISTRATION OF PLAN**

### **9.1 Committee responsible for administration**

The Committee shall be responsible for, and shall have the conduct of, the administration of the Plan. It shall carry out such administration in accordance with any terms of reference and operating guidelines, not inconsistent with these Rules, which have been approved by the Committee from time to time. Subject to the provisions of any such terms of reference and operating guidelines, the Committee may from time to time make, amend or rescind regulations for the administration of the Plan (subject to appropriate consent of the Aviva pic Remuneration Committee) provided that such regulations shall not be inconsistent with these Rules and may delegate all or some of the administration of the Plan to the Trustee.

### **9.2 Committee's decision final and binding**

The decision of the Aviva pic Remuneration Committee or the Committee subject to the approval of the Aviva pic Remuneration Committee, as required under the Plan, shall be final and binding in all matters relating to the administration of the Plan, including but not limited to the resolution of any dispute concerning, ambiguity in, or any inconsistency of, these Rules or any document used in connection with the Plan.

The Aviva pic Remuneration Committee may delegate some or all of its powers under this Plan to any person, persons or committee.

Nothing in these Rules shall be construed as establishing any duty of care or other duty between any member of the Committee (in the performance of the functions of the Committee under these Rules) and any Eligible Employee or Participant, and no member of the Committee shall have any personal liability to any Eligible Employee or Participant as a result of any decision of the Committee under these Rules.

### **9.3 Discretionary nature of Plan**

All Awards shall be made entirely at the discretion of the Committee subject to the approval of the Aviva pic Remuneration Committee.

### **9.4 Cost of Plan**

**12/15**

**The cost of introducing and administering the Plan shall be met by Aviva**

## **Investors. 10. NOTICES**

### **10.1 Notice by Committee**

Save as provided for by law and subject to Rule 10.3, any notice, document or other communication given by, or on behalf of, the Committee to any person in connection with the Plan shall be deemed to have been duly given if delivered by hand or sent by email or fax to him at his place of work, if he is employed by Aviva Investors or a company in the Aviva pic Group, if sent by e-mail to such e-mail address as may be specified by him from time to time, or sent through the post in a pre-paid envelope to the postal address last known to Aviva Investors to be his address and, if so sent, shall be deemed to have been duly given on the date of posting.

### **10.2 Deceased Participants**

Save as provided for by law and subject to Rule 10.3, any notice, document or other communication so sent to a Participant shall be deemed to have been duly given notwithstanding that such Participant is then deceased (and whether or not Aviva Investors has notice of his death) except where his personal representatives have established their title to the satisfaction of Aviva Investors and supplied to Aviva Investors an e-mail or postal address to which notices, documents and other communications are to be sent.

### **10.3 Award Notice**

For the avoidance of doubt, the Award Notice may not be sent by e-mail or other such similar electronic communication.

## **11 AMENDMENT OF RULES**

### **11.1 Power to amend Rules**

Subject to Rule 11.2, the Committee may from time to time make written proposals to the Aviva pic Remuneration Committee for amendments to these Rules. Such amendments shall only come into effect if approved by the Aviva pic Remuneration Committee.

### **11.2 Rights of existing Participants**

An amendment may not adversely affect the rights of a Participant except where the amendment has been agreed in advance by the Participant.

### **11.3 Notification of Participants**

The Committee shall, as soon as reasonably practicable, notify each Participant of any amendment to these Rules under this Rule 11 (other than a minor administrative change) and explain how it affects his position under the Plan.

13/15

## **12. GOVERNING LAW AND JURISDICTION**

### **12.1 Governing law**

The formation, existence, construction, performance, validity and all aspects whatsoever of the Plan, any term of the Plan and any Award made under it shall be governed by English law.

### **12.2 Jurisdiction**

The English courts shall have jurisdiction to settle any dispute which may arise out of, or in connection with, the Plan.

### **12.3 Participant deemed to have agreed to submit to jurisdiction**

By accepting an Award and not renouncing it, a Participant is deemed to have agreed to submit to such jurisdiction.

**Schedule A - Definition of LTIP Pool**

A notional pool representing:

- a) 2% of Operating Profit for the Financial Year in which the Date of Award Falls PLUS;
- b) an amount determined by the formula

$$(A-B) \times 10\%$$

Where

A = Operating Profit for the Financial Year in which the Award Date falls; and

B = Operating Profit for the Financial Year ended immediately preceding the Award Date,

provided that:

- a) if A is less than B the amount calculated under b) above shall be deemed to be zero; and
  - b) the LTIP Pool in any Financial Year shall in no circumstances be calculated on a figure greater than 200% of the Budgeted Profit for the relevant Financial Year; and
  - c) the definition of LTIP Pool will be subject to review and amendment annually at the discretion of the Committee subject to the approval of the Aviva pic Remuneration Committee; and
- c) LESS any amounts, as determined by the Committee, sufficient to discharge any liability of the Trustees, Aviva Investors or any member of the Aviva pic Group (as the case may be) to any revenue or other authority for any sum, in respect of tax or social security, relating to an Award made under the Plan.

## **Exhibit 4.3**

**AVIVA pic**

### **RULES OF THE AVIVA ANNUAL BONUS PLAN 2011**

<b>Shareholders' Approval:</b>	<b>4 May 2011</b>
<b>Directors' Adoption:</b>	<b>2 March 2011</b>
<b>Amended:</b>	<b>4 December 2012</b>
<b>Expiry Date:</b>	<b>4 May 2021</b>

#### **Linklaters**

Linklaters LLP One  
Silk Street London  
EC2Y 8HQ

Telephone (+44) 20 7456 2000  
Facsimile (+44) 20 7456 2222

Ref 01/140/R Berglund

#### **Table of Contents**

**Contents Page**

Introduction .....			1
1 Granting Deferred Share Awards.....			1
2 Before Vesting .....			3
3 Vesting.....			4
4 Consequences of Vesting .....			4
5 Vesting in other circumstances - personal events.....			6
6 Vesting in other circumstances - corporate events .....			7
7 Changing the Plan and termination.....			8
8 General.....			9
9 Definitions .....			11
Schedule	1	France	
.....			1
4			
Schedule	2	Canada	
.....			2
0			
Schedule	3	USA	
.....			2
1			

## Rules of the Aviva Annual Bonus Plan 2011

### Introduction

This Plan operates in conjunction with the Company's annual cash bonus arrangements. It is intended that a proportion of any annual cash bonus payable under such bonus arrangements will be compulsorily applied in the acquisition of Shares under this Plan. This introduction does not form part of the rules of the Plan, but is a brief description and overview of how the rules operate and link in with the annual cash bonus arrangements.

### 1 Granting Deferred Share Awards

#### 1.1 Grantor

The Grantor of a Deferred Share Award must be:

- 1.1.1 the Company;
- 1.1.2 any other Member of the Group; or
- 1.1.3 a trustee of any trust set up for the benefit of Employees.

A Deferred Share Award granted under the Plan, and the terms of that Deferred Share Award, must be approved in advance by the Directors.

#### 1.2 Eligibility

The Grantor may grant a Deferred Share Award to anyone who is an Employee on the Award Date in accordance with any selection criteria that the Directors in their discretion may set. However, unless the Directors consider that special circumstances exist, a Deferred Share Award may not be granted to an Employee who on the Award Date has given or received notice of termination of employment, whether or not such termination is lawful.

#### 1.3 Timing of award

Awards may not be granted at any time after the Expiry Date. Awards may only be granted within 42 days starting on any of the following:

- 1.3.1 the date of shareholder approval;
- 1.3.2 the day after the announcement of the Company's results for any period;
- 1.3.3 any day on which the Directors resolve that exceptional circumstances exist which justify the grant of Awards;
- 1.3.4 any day on which changes to the legislation or regulations affecting share plans are announced, effected or made; or
- 1.3.5 the lifting of Dealing Restrictions which prevented the granting of Awards during any period specified above.

#### 1.4 Terms of Deferred Share Awards

Deferred Share Awards are subject to the rules of the Plan and must be granted by deed. The terms of the Deferred Share Award must be determined by the Grantor and approved

by the Directors. The terms must be set out in the deed or other document (which may be in electronic form), including:

- 1.4.1 whether the Deferred Share Award is:
  - (i) a Conditional Award;
  - (ii) an Option;or a combination of these;
- 1.4.2 the number of Shares subject to the Deferred Share Award or the basis on which the number of Shares subject to the Deferred Share Award will be calculated;
- 1.4.3 any condition specified under rule 1.5 (Conditions);
- 1.4.4 the expected date of Vesting, which will normally be the third anniversary of the Award Date;
- 1.4.5 whether the Participant is entitled to receive any Dividend Equivalent;
- 1.4.6 the Award Date; and
- 1.4.7 the Option Price (if relevant).

## **1.5 Conditions**

The Grantor may impose conditions when granting a Deferred Share Award. Any condition must be objective, specified at the Award Date and may provide that a Deferred Share Award will lapse if it is not satisfied. The Grantor, with the consent of the Directors, may waive or change a condition imposed under this rule 1.5 (Conditions).

## **1.6 Award certificates**

Each Participant will receive a certificate setting out the terms of the Deferred Share Award as soon as practicable after the Award Date. The certificate may be the deed referred to in rule 1.4 (Terms of Deferred Share Awards) or any other document (which may be in electronic form), including a statement. If any certificate is lost or damaged the Company may replace it on such terms as it decides.

## **1.7 No payment**

A Participant is not required to pay for the grant of any Deferred Share Award.

## **1.8 Administrative errors**

If the Grantor grants a Deferred Share Award which is inconsistent with rule 1.2 (Eligibility), it will lapse immediately. If the Grantor tries to grant a Deferred Share Award which is inconsistent with rules 1.9 (Individual limit for Deferred Share Awards), 1.10 (Plan limits -10 per cent) or 1.11 (Plan limits - 5 per cent), the Deferred Share Award will be limited and will take effect from the Award Date on a basis consistent with those rules.

## **1.9 Individual limit for Deferred Share Awards**

The maximum amount of the cash bonus which can be deferred and subject to a Deferred Share Award is two thirds of any annual cash bonus.

## **1.10 Plan limits -10 per cent**

A Grantor must not grant a Deferred Share Award if the number of Shares committed to be issued under that Deferred Share Award exceeds 10 per cent of the ordinary share capital of the Company in issue immediately before that day, when added to the number of Shares which have been issued, or committed to be issued, to satisfy Deferred Share Awards under the Plan, or options or awards under any other employee share plan operated by the Company, granted in the previous 10 years.



### **1.11 Plan limits - 5 per cent**

A Grantor must not grant a Deferred Share Award if the number of Shares committed to be issued under that Deferred Share Award exceeds 5 per cent of the ordinary share capital of the Company in issue immediately before that day, when added to the number of Shares which have been issued, or committed to be issued, to satisfy Deferred Share Awards under the Plan, or options or awards under any other discretionary employee share plan adopted by the Company, granted in the previous 10 years.

### **1.12 Scope of Plan limits**

Where the right to acquire Shares is released or lapses, the Shares concerned are ignored when calculating the limits in rules 1.10 (Plan limits - 10 per cent) and 1.11 (Plan limits - 5 per cent).

As long as so required by the Association of British Insurers, Shares transferred from treasury are counted as part of the ordinary share capital of the Company, and as Shares issued by the Company.

## **2 Before Vesting**

### **2.1 Rights**

A Participant is not entitled to vote, to receive dividends or to have any other rights of a shareholder in respect of Shares subject to a Deferred Share Award until the Shares are issued or transferred to the Participant.

### **2.2 Transfer**

A Participant may not transfer, assign or otherwise dispose of a Deferred Share Award or any rights in respect of it. If he does, whether voluntarily or involuntarily, then it will immediately lapse. This rule 2.2 (Transfer) does not apply:

- 2.2.1 to the transmission of a Deferred Share Award on the death of a Participant to his personal representatives; or
- 2.2.2 to the assignment of, a Deferred Share Award, with the prior consent of the Directors, subject to any terms and conditions the Directors impose.

### **2.3 Adjustment of Deferred Share Awards**

If there is:

- 2.3.1 a variation in the equity share capital of the Company, including a capitalisation or rights issue, sub-division, consolidation or reduction of share capital;

A12508861/0.47/12 Dec 2012

3

- 2.3.2 a demerger (in whatever form) or exempt distribution by virtue of Section 1075 of the Income and Corporation Taxes Act 2010;
- 2.3.3 a special dividend or distribution; or
- 2.3.4 any other corporate event which might affect the current or future value of any Deferred Share Award,

the Directors may adjust the number or class of Shares or securities subject to the Deferred Share Award and, in the case of an Option, the Option Price.

### **2.4 Reduction or cancellation of Deferred Share Awards**

The Directors may decide that a Deferred Share Award which has not Vested (or, in the case of Options, been exercised) will lapse wholly or in part if they consider that:

- 2.4.1 the Participant or his team has, in the opinion of the Directors, engaged in misconduct which ought to result in the complete or partial lapse of his Award; and/or
- 2.4.2 there is a materially adverse misstatement of the Company's financial statements.

### **3 Vesting**

#### **3.1 Timing of Vesting**

Subject to rules 1.5 (Conditions), 5 (Vesting in other circumstances - personal events) and 6 (Vesting in other circumstances - corporate events), a Deferred Share Award Vests on the date set by the Directors on the grant of the Deferred Share Award or, if on that date a Dealing Restriction applies, a date determined by the Directors which is on or after the first date on which Vesting is not prohibited by a Dealing Restriction.

#### **3.2 Lapse**

If a Deferred Share Award lapses under the Plan it cannot Vest and a Participant has no rights in respect of it.

### **4 Consequences of Vesting**

#### **4.1 Conditional Award**

Within 30 days of a Conditional Award Vesting, the Grantor will arrange (subject to rules 4.4 (Alternative ways to satisfy Deferred Share Awards), 4.5 (Withholding) and 8.8 (Consents)) for the transfer (including a transfer out of treasury) or issue, to, or to the order of, the Participant, of the number of Shares in respect of which the Conditional Award has Vested.

#### **4.2 Options**

4.2.1 A Participant may exercise his Option on any day after Vesting on which no Dealing Restriction applies by giving notice in the prescribed form to the Grantor or any person nominated by the Grantor and paying the Option Price (if any). The Option will lapse six months after Vesting (unless the reason for Vesting is the Participant's death, in which case the Option will lapse 12 months after Vesting) or, if earlier, on the earliest of:

- (i) the date the Participant ceases to be an Employee by reason of dismissal for misconduct; or
- (ii) six months after an event which gives rise to Vesting under rule 5.2 ("Good leavers"), 5.4 (Overseas transfer), 6 (Vesting in other circumstances -corporate events) or, if earlier, the date six weeks after the date on which a notice to acquire Shares under section 979 of the Companies Act 2006 is first served.

4.2.2 Subject to rules 4.4 (Alternative ways to satisfy Deferred Share Awards), 4.5 (Withholding), and 8.8 (Consents), the Grantor will arrange for Shares to be transferred to or issued to, or to the order of, the Participant within 30 days of the date on which the Option is exercised.

4.2.3 If an Option Vests under more than one provision of the rules of the Plan, the provision resulting in the shortest exercise period will prevail.

#### **4.3 Dividend Equivalent**

Awards will not include any rights in respect of dividends on the Shares comprised in the Deferred Share Award before Vesting, unless the Grantor, in its discretion, decides otherwise at the Award Date. The Grantor may determine that a Deferred Share Award includes the

right to receive a Dividend Equivalent. Dividend Equivalents will be paid to any relevant Participant as soon as practicable after Vesting.

The Grantor will exercise the discretions in this rule 4.3 (Dividend Equivalent) subject to the consent of the Directors.

#### **4.4 Alternative ways to satisfy Deferred Share Awards**

The Grantor may, subject to the approval of the Directors, decide to satisfy an Option or a Conditional Award by paying an equivalent amount in cash (subject to rule 4.5 (Withholding)). For Options, the cash amount must be equal to the amount by which the market value of the Shares in respect of which the Option is exercised exceeds the Option Price. Alternatively, the Grantor may decide to satisfy an Option by procuring the issue or transfer of Shares to the value of the cash amount specified above.

The Company may determine that a Deferred Share Award will be satisfied in cash at the Award Date or at any time before satisfaction of the Deferred Share Award, including after Vesting or, in the case of an Option, after exercise.

In respect of Awards which consist of a right to receive a cash amount, the Directors may decide instead to satisfy such Awards (and any Dividend Equivalents) by the delivery of Shares (subject to rule 4.5 (Withholding)). The number of Shares will be calculated by reference to the market value of the Shares on the date of Vesting for Conditional Awards and the date of exercise for Options.

For the purpose of this rule 4.4 (Alternative ways to satisfy Deferred Share Awards) and unless the Directors determine otherwise, "market value" means the closing middle market quotation for a Share taken from the Daily Official List of the London Stock Exchange (or, in the case of an ADR, the closing price on the New York Stock Exchange as reported in the Wall Street Journal) on the date of Vesting or, in the case of an Option, the date of exercise.

A12508861/0 47/12 Dec 2012

5

#### **4.5 Withholding**

The Company, the Grantor, any employing company or trustee of any employee benefit trust may withhold such amount and make such arrangements as it considers necessary to meet any liability to taxation or social security contributions in respect of Deferred Share Awards. These arrangements may include the sale or reduction in number of any Shares on behalf of the Participant.

### **5 Vesting in other circumstances - personal events**

#### **5.1 General rule on leaving employment**

Subject to rule 5.2 ("Good leavers"), a Deferred Share Award which has not Vested will cease to be capable of Vesting on the date on which the Participant gives or receives notice of termination of his employment with any Member of the Group (whether or not such termination is lawful), unless the Directors decide otherwise.

A Deferred Share Award will lapse on the date the Participant ceases to be an Employee unless one of the reasons in rule 5.2 applies.

This rule 5.1 will not apply where the Vesting of a Deferred Share Award is delayed due to a Dealing Restriction, unless the Participant ceases to be an Employee by reason of dismissal for misconduct.

#### **5.2 "Good leavers"<sup>1</sup>**

If a Participant ceases to be an Employee for any of the reasons set out below, then his Deferred Share Award will Vest as described below. The reasons are:

- (i) disability, as established to the satisfaction of the Company;

- (ii) death; and
- (iii) any other reason, if the Directors so decide in any particular case.

Where rules 5.2(i) and (iii) applies, then all the Shares under his Deferred Share Award will Vest on the date of Vesting determined under rule 1.4 (Terms of Deferred Share Awards), unless the Directors decide that the Deferred Share Award should Vest on the cessation date (or, if on that date a Dealing Restriction applies, a date determined by the Directors which is on or after the first date on which any Dealing Restriction ceases to apply). Where rule 5.2(ii) applies, then all the Shares under his Deferred Share Award will Vest on the cessation date, unless the Directors decide otherwise.

### **5.3 Exercise of discretion**

The Directors must exercise the discretion provided for in rule 5.2(iii) within 30 days after cessation of the relevant Participant's employment. The Deferred Share Award will lapse or Vest (as appropriate) on the earlier of the date on which the discretion is exercised and the end of the 30 day period.

This provision is amended with effect from 1 January 2013 For Awards granted prior to this date, please see previous version of the Plan

A12508861/0.47/12 Dec 2012

6

### **5.4 Overseas transfer**

If a Participant remains an Employee but is transferred to work in another country or changes tax residence status and, as a result he would:

- 5.4.1 suffer a tax disadvantage in relation to his Deferred Share Awards (this being shown to the satisfaction of the Directors); or
- 5.4.2 become subject to restrictions on his ability to exercise his Deferred Share Awards or to hold or deal in the Shares or the proceeds of the sale of the Shares acquired on exercise because of the security laws or exchange control laws of the country to which he is transferred,

then the Directors may decide that his Deferred Awards will Vest on a date they choose before or after the transfer takes effect. The Deferred Share Award will Vest to the extent they permit and the Directors will decide whether any balance of the Deferred Share Award will lapse.

### **5.5 Meaning of "ceasing to be an Employee"**

For the purposes of rules 5 (Vesting in other circumstances - personal events) and 4.2 (Options), a Participant will not be treated as ceasing to be an Employee until he is no longer an Employee of any Member of the Group or if he recommences employment with a Member of the Group within 14 days or such other period and on such other basis as the Directors decide.

## **6 Vesting in other circumstances - corporate events**

### **6.1 Time of Vesting**

- 6.1.1 In the event of a Change of Control, to the extent that a Deferred Share Award is not exchanged under rule 6.2 (Exchange), it will Vest on the date of Change of Control.
- 6.1.2 If the Company is or may be affected by any demerger, delisting, distribution (other than an ordinary dividend) or other transaction, which, in the opinion of the Directors, might affect the current or future value of any Deferred Share Award, the Directors

may allow a Deferred Share Award to Vest. The Directors may impose other conditions on Vesting.

## **6.2 Exchange**

A Deferred Share Award will not Vest under rule 6.1 (Time of Vesting) but will be exchanged under rule 6.5 (Exchange terms) to the extent that:

- 6.2.1 an offer to exchange the Deferred Share Award is made and accepted by a Participant; or
- 6.2.2 the Directors, with the consent of the Acquiring Company, decide before Change of Control that the Deferred Share Award will be automatically exchanged.

## **6.3 Directors**

In this rule 6 (Vesting in other circumstances - corporate events), "Directors" means those people who were members of the remuneration committee of the Company immediately before the Change of Control.

A12508861/0.47/12 Dec 2012

7

## **6.4 Timing of exchange**

Where a Deferred Share Award is to be exchanged under rule 6.2 (Exchange), the exchange is effective immediately following the relevant event.

## **6.5 Exchange terms**

Where a Participant is granted a new award in exchange for an existing Deferred Share Award, the new Deferred Share Award:

- 6.5.1 must confer a right to acquire shares in the Acquiring Company or another body corporate determined by the Acquiring Company;
- 6.5.2 must be equivalent to the existing Deferred Share Award;
- 6.5.3 is treated as having been acquired at the same time as the existing Deferred Share Award and Vests in the same manner and at the same time;
- 6.5.4 is governed by the Plan, excluding rule 7.2 (Shareholder approval), as if references to Shares were references to the shares over which the new award is granted and references to the Company were references to the Acquiring Company or the body corporate determined under rule 6.5.1 above.

## **7 Changing the Plan and termination**

### **7.1 Directors' powers**

Except as described in the rest of this rule 7 (Changing the Plan and termination), the Directors may at any time change the Plan in any way.

### **7.2 Shareholder approval**

7.2.1 Except as described in rule 7.2.2, the Company in general meeting must approve in advance by ordinary resolution any proposed change to the Plan to the advantage of present or future Participants, which relates to:

- (i) the Participants;
- (ii) the limits on the number of Shares which may be issued under the Plan;
- (iii) the individual limit for each Participant under the Plan;
- (iv) the basis for determining a Participant's entitlement to, and the terms of, securities, cash or other benefit to be provided and for the adjustment thereof (if any) if there is a capitalisation issue, rights issue or open offer, sub-division

or consolidation of shares or reduction of capital or any other variation of capital; or

(v) the terms of this rule 7.2.1.

7.2.2 The Directors can change the Plan and need not obtain the approval of the Company in general meeting for any minor changes.

(i) to benefit the administration of the Plan;

(ii) to comply with or take account of the provisions of any proposed or existing legislation;

(iii) to take account of any changes to legislation; or

A12508861/O 47/12 Dec 2012

8

(iv) to obtain or maintain favourable tax, exchange control or regulatory treatment of the Company, any Subsidiary or any present or future Participant.

7.2.3 The Directors may, without obtaining the approval of the Company in general meeting, establish further plans based on the Plan but modified to take account of local tax, exchange control or securities laws in non-UK territories.

### 7.3 Notice

The Directors are not required to give Participants notice of any changes.

### 7.4 Termination

The Plan will terminate on the Expiry Date, but the Directors may terminate the Plan at any time before that date. The termination of the Plan will not affect existing Awards.

## 8 General

### 8.1 Terms of employment

8.1.1 This rule 8.1 (Terms of employment) applies during an Employee's employment and after the termination of an Employee's employment, whether or not the termination is lawful.

8.1.2 Nothing in the rules or the operation of the Plan forms part of the contract of employment of an Employee. The rights and obligations arising from the employment relationship between the Employee and his employer are separate from, and are not affected by, the Plan. Participation in the Plan does not create any right to, or expectation of, continued employment.

8.1.3 No Employee has a right to participate in the Plan. Participation in the Plan or the grant of Awards on a particular basis in any year does not create any right to or expectation of participation in the Plan or the grant of Awards on the same basis, or at all, in any future year.

8.1.4 The terms of the Plan do not entitle the Employee to the exercise of any discretion in his favour.

8.1.5 The Employee will have no claim or right of action in respect of any decision, omission or discretion, which may operate to the disadvantage of the Employee even if it is unreasonable, irrational or might otherwise be regarded as being in breach of the duty of trust and confidence (and/or any other implied duty) between the Employee and his employer.

8.1.6 No Employee has any right to compensation for any loss in relation to the Plan, including any loss in relation to:

(i) any loss or reduction of rights or expectations under the Plan in any circumstances (including lawful or unlawful termination of employment);

- (ii) any exercise of a discretion or a decision taken in relation to a Deferred Share Award or to the Plan, or any failure to exercise a discretion or take a decision;
- (iii) the operation, suspension, termination or amendment of the Plan.

A12508861/0 47/12 Dec 2012

9

## **8.2 Directors' decisions final and binding**

The decision of the Directors on the interpretation of the Plan or in any dispute relating to a Deferred Share Award or matter relating to the Plan will be final and conclusive.

## **8.3 Third party rights**

Nothing in this Plan confers any benefit, right or expectation on a person who is not a Participant. No such third party has any rights under the Contracts (Rights of Third Parties) Act 1999, or any equivalent local legislation, to enforce any term of this Plan. This does not affect any other right or remedy of a third party which may exist.

## **8.4 Documents sent to shareholders**

The Company is not required to send to Participants copies of any documents or notices normally sent to the holders of its Shares.

## **8.5 Costs**

The Company will pay the costs of introducing and administering the Plan. The Company may ask a Participant's employer to bear the costs in respect of a Deferred Share Award to that Participant.

## **8.6 Employee trust**

The Company and any Subsidiary may provide money to the trustee of any trust or any other person to enable them or him to acquire Shares to be held for the purposes of the Plan, or enter into any guarantee or indemnity for those purposes, to the extent permitted by Section 682 of the Companies Act 2006 or any applicable law.

## **8.7 Data protection**

By participating in the Plan the Participant consents to the holding and processing of personal information provided by the Participant to any Member of the Group, trustee or third party service provider, for all purposes relating to the operation of the Plan. These include, but are not limited to:

- 8.7.1 administering and maintaining Participant records;
- 8.7.2 providing information to Members of the Group, trustees of any employee benefit trust, registrars, brokers or third party administrators of the Plan;
- 8.7.3 providing information to future purchasers or merger partners of the Company, the Participant's employing company, or the business in which the Participant works;
- 8.7.4 transferring information about the Participant to a country or territory outside the European Economic Area that may not provide the same statutory protection for the information as the Participant's home country.

The Participant is entitled, on payment of a fee, to a copy of the personal information held about him and, if anything is inaccurate, the Participant has the right to have it corrected.

## **8.8 Consents**

All allotments, issues and transfers of Shares will be subject to any necessary consents under any relevant enactments or regulations for the time being in force in the United

Kingdom or elsewhere. The Participant is responsible for complying with any requirements he needs to fulfil in order to obtain or avoid the necessity for any such consent.

### **8.9 Share rights**

Shares issued to satisfy Awards under the Plan will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment. Where Shares are transferred to a Participant, including a transfer out of treasury, the Participant will be entitled to all rights attaching to the Shares by reference to a record date on or after the transfer date. The Participant will not be entitled to rights before that date.

### **8.10 Listing**

If and so long as the Shares are listed and traded on a public market, the Company will apply for listing of any Shares issued under the Plan as soon as practicable.

### **8.11 Notices**

8.11.1 Any information or notice to a person who is or will be eligible to be a Participant under or in connection with the Plan may be posted, or sent by electronic means, in such manner to such address as the Company considers appropriate, including publication on any intranet.

8.11.2 Any information or notice to the Company or other duly appointed agent under or in connection with the Plan may be sent by post or transmitted to it at its registered office or such other place, and by such other means, as the Directors or duly appointed agent may decide and notify Participants.

8.11.3 Notices sent by post will be deemed to have been given on the second day after the date of posting. However, notices sent by or to a Participant who is<sup>1</sup> working overseas will be deemed to have been given on the seventh day after the date of posting. Notices sent by electronic means, in the absence of evidence to the contrary, will be deemed to have been received on the day after sending.

### **8.12 Governing law and jurisdiction**

English law governs the Plan and all Deferred Share Awards and their construction. The English courts have non-exclusive jurisdiction in respect of disputes arising under or in connection with the Plan or any Deferred Share Award.

## **9 Definitions**

In these rules:

"Acquiring Company" means a person who has or obtains control (within the meaning of Section 995 of the Income Tax Act 2007) of the Company;

"Award Date" means the date on which a Deferred Share Award is granted by deed under rule 1.4 (Terms of Deferred Share Awards);

"Change of Control" means

(i) when a general offer to acquire Shares made by a person (or a group of persons acting in concert) becomes wholly unconditional; or

(ii) when, under Section 895 of the Companies Act 2006 or equivalent procedure under local legislation, a court sanctions a compromise or arrangement in connection with the acquisition of Shares; or



- (iii) a person (or a group of persons acting in concert) obtaining control (within the meaning of Section 995 of the Income Tax Act 2007) of the Company in any other way.

"Company" means Aviva pic;

"Conditional Award" means a conditional right to acquire Shares granted under the Plan;

"Dealing Restrictions" means restrictions imposed by statute, order, regulation or Government directive, or by the Model Code or any code adopted by the Company based on the Model Code and for this purpose the Model Code means the Model Code on dealings in securities set out in Listing Rule 9, annex 1 (of the London Stock Exchange), as varied from time to time;

"Deferred Share Award" means a Conditional Award or an Option;

"Directors" means, subject to rule 6.3 (Directors), the board of directors of the Company or a duly authorised person or group of persons;

"Dividend Equivalent" means a right to receive cash or Shares in respect of dividends (as determined from time to time by the Grantor), on such basis as the Grantor may, in its discretion, determine;

"Employee" means any employee of a Member of the Group (including an executive director);

"Expiry Date" means 4 May 2021, the tenth anniversary of shareholder approval;

"Grantor" means, in respect of a Deferred Share Award, the entity which grants that Award under the Plan;

"London Stock Exchange" means London Stock Exchange pic;

"Member of the Group" means:

- (i) the Company;
- (ii) its Subsidiaries from time to time; or
- (iii) any other company which is associated with the Company and is so designated by the Directors;

"Option" means a right to acquire Shares granted under the Plan;

"Option Period" means a period starting on the grant of an Option and ending at the end of the day before the tenth anniversary of the grant, or such shorter period as may be specified under rule 4.2 (Options) on the grant of an Option;

"Option Price" means zero, or the amount payable on the exercise of an Option, as specified under rule 1.4.7;

"Participant" means a person holding a Deferred Share Award or his personal representatives;

"Plan" means these rules known as "The Aviva Annual Bonus Plan 2011", as changed from time to time;

"Shares" means fully paid ordinary shares in the capital of the Company or any American Depositary Share or American Depositary Receipt (ADR) representing ordinary shares;

"Subsidiary" means a company which is a subsidiary of the Company within the meaning of Section 1159 of the Companies Act 2006;

"Vesting" in relation to an Option, means an Option becoming exercisable and in relation to a Conditional Award, means a Participant becoming entitled to have the Shares transferred to him subject to the Plan.

A12508861/0 47/12 Dec 2012

13

#### **Schedule 1**

#### **France**

The purpose of this schedule is to make certain variations to the terms of the Plan, in order to satisfy French securities laws, exchange control, corporate law and tax requirements (in particular the provisions of Articles L. 225-177 et seq. of the French Code de commerce, if the Award is an Option, and the provisions of L. 225-197-1 et seq. of the French Code de commerce, if the Award is a Conditional Award) to qualify for favourable income tax and social security treatment in France.

The rules of the Plan shall apply subject to the modifications contained in this Schedule 1 whenever the Grantor decides to grant a qualifying Award to an Employee under this Schedule 1.

## **1 Rule 1 (Granting Awards)**

### **1.1 Rule 1.1 (Grantor)**

Rule 1.1.3 is deleted.

### **1.2 Rule 1.3 (Timing of Awards)**

The following paragraph is added to the end of rule 1.3:

"No Option may be granted: (i) in the period of twenty business days after the day on which the Shares are last traded cum-dividend, cum-rights, or cum-any other distribution; or (ii) during any Closed Period."

### **1.3 Rule 1.4 (Terms of Deferred Share Awards)**

1.3.1 Rule 1.4.1 is supplemented with the following:

"If the Deferred Share Award is an Option to acquire existing Shares, the Company shall acquire and/or hold enough Shares to satisfy the transfer of Shares on the exercise of the Options before the Vesting date and until expiry of the Option Period."

1.3.2 Rule 1.4.5 is deleted.

1.3.3 Rule 1.4.7 is supplemented with the following:

"The Option Price will not be less than:

- (i) if the Shares subject to the Options are to be issued, 80% of the arithmetical average of the market value of the Shares as quoted for the twenty trading days last preceding the Award Date.
- (ii) if the Shares subject to the Options are to be transferred from treasury, the higher of (a) 80% of the arithmetical average of the market value of the Shares as quoted for the twenty trading days last preceding the Award Date, or (b) 80% of the arithmetical average acquisition price of the entire treasury share position for the Company."

### **1.4 Rule 1.5 (Conditions)**

The following words are added at the end of rule 1.5:

A12508861/0.47/12 Dec 2012

1

"provided that such amendment does not affect the qualifying status of the Awards for tax and social security purposes, and provided further that no such amendment shall adversely affect the right of any Participant without such Participant's consent"

### **1.5 Rule 1.8 (Administrative errors)**

Rule 1.8 is deleted and replace with the following:

"If the Grantor grants a Deferred Share Award which is inconsistent with rules 1.2 (Eligibility), 1.9 (Individual limit for Awards), 1.10 (Plan limits - 10 per cent) or 1.11 (Plan limits - 5 per cent), it will lapse immediately."

### **1.6 Rule 1.9 (Individual limit for Deferred Share Award)**

Rule 1.9 is supplemented with the following:

"No Option shall be granted to an Employee who holds 10 per cent or more of the share capital of the Company in issue at the Award Date.

No Conditional Award shall be granted to an Employee who holds 10 per cent or more (taking into account any unvested Conditional Award under the Plan or any other plan subject to provisions of Articles L.225-197-1 et seq. of the French Code de commerce) of the share

capital of the Company, or who may hold, as the result of this Award, 10 per cent or more of the share capital of the Company."

**1.7 Rule 1.10 (Plan limits -10 per cent)**

Rule 1.11 is supplemented with the following:

"The total number of Shares subject to options granted under the Plan or any other plan subject to provisions of Articles L.225-177 et seq. of the French Code de commerce shall not exceed one third of the share capital of the Company in issue at the Award Date.

The total number of Shares granted under the Plan or any other plan subject to provisions of Articles L.225-197-1 et seq. of the French Code de commerce shall not exceed 10 per cent of the share capital of the Company in issue at the Award Date."

**2 Rule 2 (Before Vesting)**

**2.1 Rule 2.2 (Transfer)**

Rule 2.2.2 is deleted.

**2.2 Rule 2.3 (Adjustment of Awards)**

Rule 2.3 is deleted and replaced with the following:

"On the occurrence of one of the events specified under Article L.225-181 of the French Code de commerce, the Company:

- (i) shall make such adjustments as its consider appropriate to restore the value of the granted Options; and
- (ii) may make such adjustments as its consider appropriate to restore the value of the granted Conditional Awards.

A12508861/0.47/12 Dec 2012

*An adjustment made under this rule shall only be permissible to the extent that it is intended to, and that its sole effect is to, restore the value of the granted Deferred Share Awards and it is made in compliance with the rules set out in the French Code de commerce."*

**2.3 Rule 2.4 (Reduction or cancellation of Awards)**

Rule 2.4 is deleted.

**3 Rule 3 (Vesting)**

**3.1 Rule 3.1 (Timing of Vesting) is supplemented with the following:**

"Notwithstanding any rule other than rule 5.6 (Death or Defined Disability), a Conditional Award shall not vest prior to the second anniversary of the Award Date. If a Conditional Award would vest, in accordance with any rule in the Plan other than rule 5.6, prior to the second anniversary of the Award Date, the Conditional Award will not so vest but will continue until the second anniversary of the Award Date and at such time only, it will vest, and the Holding Period will apply from this date.

**4 Rule 4 (Consequences of Vesting)**

**4.1 Rule 4.1 (Conditional Award)**

Rule 4.1 is deleted and replaced with the following:

"4.1.1 Within 30 days of a Conditional Award Vesting, the Grantor will arrange for the transfer (including a transfer out of treasury) or issue of the number of Shares in respect of which the Conditional Award has vested to a share account administered in the name and for the benefit of the Participant by an account keeper (teneur de compte) designated by the Directors.

Except as provided under rule 5.6 (Death or Defined Disability), the Shares will be held by the account keeper on behalf of the Participant, for the duration of the Holding Period, in accordance with the provisions of the Holding Agreement. The Participant shall have full shareholder voting and dividend rights on the transferred shares during the Holding Period.

The Participant will be free to dispose of the Shares upon expiry of the Holding Period, except during the Closed Periods during which the sale of the Shares is prohibited.

4.1.2 Shares transferred to Participants holding the duties of chairman of the board, general manager, deputy general manager, member of the directory board, or manager (respectively president du conseil d'administration, directeur g6n6ral, directeur general delegee, membre du directoire or geranf) in the Company or any Member of the Group shall not be disposed before termination of the Participant's executive duties. Alternatively, the Directors may decide that a fraction of the Shares transferred to Participants holding the duties of chairman of the board, general manager, deputy general manager, member of the directory board, or manager (respectively president du conseil d'administration, directeur ge~neral, directeur general delegee, membre du directoire or geranf) in the Company or any Member of the Group will be in a registered (nominatif) form and will not be

A12508861/0 47/12 Dec 2012

16

available for sale or transfer before termination of the Participant's executive duties."

#### **4.2 Rule 4.2 (Options)**

4.2.1 In rule 4.2.1, the words "(unless the reason for Vesting is the Participant's death, in which case the Option will lapse 12 months after Vesting)" are deleted. Any reference to a 12-month exercise period applicable in case of death is deleted accordingly.

4.2.2 The following is inserted as rule 4.2.4.

"Notwithstanding any rule other than rule 4.2.5, the Shares acquired following the exercise of an Option may not be sold by a Participant or otherwise transferred before the fourth anniversary of the Award Date. The Company or Member of the Group may take such steps as it/they consider appropriate to ensure the Participant's compliance with this rule, including (without limitation) the blocking of any account into which the Shares have been issued or transferred."

4.2.3 The following is inserted as rule 4.2.5:

"Rule 4.2.4 shall not apply where a Participant leaves employment for reason of:

- (i) death, or
- (ii) Defined Disability."

#### **4.3 Rule 4.3 (Dividend Equivalent)**

Rule 4.3 is deleted. Any reference to Dividend Equivalent is deleted accordingly.

#### **4.4 Rule 4.4 (Alternative ways to satisfy Deferred Share Awards)**

Rule 4.4 is deleted. Any reference to rule 4.4 is deleted accordingly.

#### **4.5 Rule 4.5 (Withholding)**

Rule 4.5 is supplemented with the following:

"The Participants (or heirs, if applicable) are responsible for reporting the receipt of any income under the Plan, however made, to the appropriate tax authorities.

*The Member of the Group with whom a Participant is or was in employment on the date the Shares are transferred will communicate the name of the Participant and the number of Shares being transferred to the social security authorities competent for that Member of the Group, in accordance with the provisions of Article L. 242-1 of the French Code de la sdcuhte sociale."*

## **5 Rule 5 (Vesting in other circumstances - personal events)**

### **5.1 Rule 5.2 ("Good leavers")**

The following is added at the end of rule 5.2:

", subject to rule 3.1 (Timing of Vesting)"

A12508861/0 47/12 Dec 2012

1

### **5.2 Rule 5.4 (Overseas transfer)**

Rule 5.4 is deleted.

### **5.3 The following is inserted as rule 5.6 (Death or Defined Disability):**

"Notwithstanding any other rule of the Plan, where a Participant leaves employment for reason of death, his personal representatives may require, within six (6) months from the date of death, Vesting of the deceased's Conditional Award and the transfer of the underlying Shares. The Shares will be transferred to the personal representatives of the Participant as soon as practicably possible following their request, and shall not be subject to any Holding Period.

Notwithstanding any other rule of the Plan, where a Participant suffers from a Defined Disability, he can request at any time the Vesting of its Conditional Award and the transfer of the underlying Shares. The Shares shall be transferred to the Participant suffering from a Defined Disability as soon as practicably possible following his request, and shall not be subject to any Holding Period."

## **6 Rule 6 (Vesting in other circumstances - corporate events)**

Rule 6 (Vesting in other circumstances - corporate events) shall apply in accordance with Articles L. 225-197-1-III of the French Code de commerce and 80 quaterdecies and 163 bis C-I bis of the French Code general des impdts to the extent that the Directors intend the Awards to maintain favourable tax treatment under this Schedule 1. However, in the event the Directors do not intend the Awards to maintain such favourable tax treatment, rule 6 of the Plan will prevail notwithstanding any potential detrimental tax or social security consequences for the Participant.

## **7 Rule 7 (Changing the Plan and termination)**

Rule 7.1 shall be supplemented with the following:

"Except as provided in rule 6 (Vesting in other circumstances - corporate events), changes may affect Deferred Share Awards already granted provided that (i) the changes do not affect the qualifying status of the Deferred Share Awards for tax and social security purposes and provided that (ii) no such changes shall adversely affect the rights of any Participant without such Participant's prior consent."

## **8 Rule 9 (Definitions)**

The definitions of "Member of the Group", "Employee" and Option Price stated in rule 9 of the Plan shall be deleted and replaced by the following definitions:

"Member of the Group" means (i) a company in which the Company holds, directly or indirectly, at least 10 per cent of the share capital or voting rights; (ii) a company holding directly or indirectly at least 10 per cent of the share capital or voting rights of the Company; or (iii) a company for which at least 50 per cent of the share capital or voting rights are held by a company which holds at least 50 per cent of the share capital of the Company.

"Employee" means a salaried employee of the Company or any Member of the Group, or a corporate officer of the Company or any Member of the Group holding the duties of chairman of the board, general manager, deputy general manager, member of the directory

A12508861/0.47/12 Dec 2012

18

*board, or manager (respectively president du conseil d'administration, directeur general, directeur general d6l6gu6, membre du directoire or geranf).*

"Option Price" means the amount payable on the exercise of an Option, as specified under rule 1.4.7.

For the purpose of Awards granted under this Schedule 1, the following new definitions shall be added to those stated in rule 1 of the Plan:

"Closed Period" means (i) the 10 trading days preceding and following the date on which the Company's consolidated accounts or, failing that, the annual accounts, are made public; and (ii) the period between (x) the date on which the management bodies of the Company have knowledge of information which, if made public, could have a significant impact on the price of the Share and (y) the end of the tenth trading day following the date on which this information has been made public.

*"Defined Disability" means the circumstance where a Participant is recognised as a disabled employee of the second or third category under the meaning of Article L.341-4 of the French Code de la sGcurite sociale;*

"Holding Agreement" means an agreement between the Participant, the Company and an account keeper (teneur de compte) designated by the Company, in such form as determined by the Company and delivered by the Participant, in which the Participant undertakes not to sell or transfer Shares before expiry of the Holding Period, and the account keeper undertakes not to perform any such order before expiry of the Holding Period.

"Holding Period" means a two-year period following the transfer of the Shares to the Participant, during which the Shares cannot be sold, transferred or otherwise disposed.

All capitalised terms used in this Schedule 1 and not otherwise defined herein shall have the meaning ascribed to them in the Plan.

## **9 Severability**

The terms and conditions provided in the Plan as amended by this Schedule 1 are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable under French law, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

## **Schedule 2 Canada**

The purpose of the Schedule 2 is to make certain variations of the terms of the Plan, in the case of its operation for Employees in Canada, to take into account Canadian tax rules. The grant of Options under the Plan is not available to Employees in Canada pursuant to this Schedule 2.

The rules of the Plan will apply to grants made under this Schedule 2, subject to the following:

**1 Rule 1.4 (Terms of Deferred Share Awards)**

Rule 1.4.1 is deleted and replaced by the following:

"any Deferred Share Award granted to Employees in Canada will take the form of a Conditional Award;"

**2 Rule 4.1 (Conditional Awards)**

The following paragraphs are added to the end of rule 4.1 (Conditional Awards):

"Notwithstanding the foregoing. Deferred Share Awards shall only be satisfied with newly issued Shares or Shares transferred out of treasury. No Conditional Awards shall be satisfied with Shares sourced from any trust.

**3 Rule 4.4 (Alternative, ways to satisfy Deferred Share Awards)**

Rule 4.4 (Alternative ways to satisfy Deferred Share Awards) shall not apply to Deferred Share Awards.

**4 Rule 8.6 (Employee trust)**

The following paragraph is added to the end of rule 8.6 (Employee trust):

"Notwithstanding the foregoing, Deferred Share Awards shall only be satisfied with newly issued Shares or Shares transferred out of treasury."



## **Schedule 3 USA**

This Schedule 3 shall apply to any Participant who is, or who becomes or may become, subject to taxation under the laws of the United States of America ("US Tax"). This Schedule 3 applies to any Deferred Share Award granted.

To the extent that a Participant confirms to the Company (to its satisfaction) that he is no longer subject to US Tax and will not be subject to US Tax in respect of any Deferred Share Award (or portion thereof), this US Schedule shall cease to apply to any outstanding Deferred Share Award (or portion thereof) from such time as determined by the Company.

For the purpose of Deferred Share Awards subject to this Schedule 3, all of the rules of the Plan shall apply subject to the following amendments:

**1 Rule 5.2 ("Good leavers")**

Rule 5.2 is deleted and replaced by the following:

"If a Participant ceases to be an Employee for any of the reasons set out below, then his Awards will Vest as described below. The reasons are:

- (i) disability, as established to the satisfaction of the Company;
- (ii) death; and
- (iii) any other reason, if the Directors so decide in any particular case,

then all the Shares under his Deferred Share Award will Vest on the cessation date."

**2 Rule 9 (Definitions)**

The definition of "Options Price" in rule 9 (Definitions) is deleted and replaced by the following:

""Option Price" means the fair market value of the Shares subject to the Option on the Award Date (as determined in a manner consistent with section 409A of the US Internal Revenue Code 1986 and the regulations promulgated thereunder);".

AVIVA pic

# RULES OF THE CFO RECRUITMENT SHARE AWARDS PLAN

## Linklaters

Linklaters LLP One  
Silk Street London  
EC2Y 8HQ

Telephone (44-20) 7456 2000  
Facsimile (44-20) 7456 2222

Ref 01/145/J Jaques/R Berglund

## Table of Contents

### Contents Page

1	Categories of Awards.....	1
2	Granting Awards.....	1
3	Principal Terms of the Awards.....	2

4	CFO's rights .....	3
5	Vesting.....	3
6	Leaving the Group before Vesting - Bonus Replacement Deferred Share Award .....	4
7	Leaving the Group before Vesting - One Aviva, Twice the Value Award.....	6
8	Leaving the Group before Vesting - Replacement Restricted Share Award .....	7
9	Variations in share capital, demergers and special distributions .....	7
10	Takeovers and restructurings .....	8
11	Exchange of Awards .....	10
12	General .....	10
13	Changing the Plan and termination .....	13
14	Definitions .....	14
	Schedule 1 Restricted Shares .....	16
	Schedule 2 Performance Condition for One Aviva, Twice the Value Award .....	19

A11672961/0.12/17 Feb 2010

## **Rules of the CFO Recruitment Share Awards Plan**

### **Introduction**

This Plan sets out the terms of the awards to be granted to the CFO in connection with his recruitment as chief financial officer of the Company.

#### **1 Categories of Awards**

The Executive will be granted three Awards under this Plan as follows:

- Replacement Restricted Share Award;
- Bonus Replacement Deferred Share Award; and

- One Aviva, Twice the Value Award.

## **2 Granting Awards**

### **2.1 Eligibility**

Only the CFO is eligible to be granted an Award under this Plan.

### **2.2 Timing and Award Date**

The Award Date for each Award will be as follows: <sup>1</sup>

- 2.2.1 for the Replacement Restricted Share Award, the date on which the CFO becomes an employee of the Company;
- 2.2.2 for the Bonus Replacement Deferred Share Award, 30 March 2010;
- 2.2.3 for the One Aviva, Twice the Value Award, 30 March 2010.

or, if later, the later of:

- 2.2.4 first Business Day after that on which the Company is not prevented by a Dealing Restriction from granting the Awards;
- 2.2.5 the first Business Day on which the number of Shares subject to the Award can be determined (see rule 3.1).

Awards may not be granted under this Plan at any other time.

### **2.3 Documentation**

The Awards will be granted by deed. The CFO will receive a certificate setting out the principal terms of the Awards as soon as practicable after the Award Date. The certificate may be the deed or any other document, including a statement, and may be sent electronically. If any certificate is lost or damaged the Company may replace it on such terms as it decides.

### **2.4 No payment**

The CFO is not required to pay for the grant of any Award.

A11672961/0 12/17 Feb 2010

1

## **3 Principal Terms of the Awards**

### **3.1 Number of Shares subject to each Award**

The number of Shares subject to each Award will be determined as follows:

- 3.1.1 The Replacement Restricted Share Award will be over Shares with a Market Value equal to £1.65 million. 'Market Value' for the purposes of this rule 3.1.1 means the average of the middle market quotations for a Share (taken from the Daily Official List of the London Stock Exchange) for the five consecutive Business Days immediately preceding the Award Date but only consecutive Business Days during which the Company is not in a close period under the Model Code will be used for these purposes.
- 3.1.2 The Bonus Replacement Deferred Share Award will be over Shares with a Market Value equal to £283,333. 'Market Value' for the purposes of this rule 3.1.2 means the average of the middle market quotations for a Share (taken from the Daily Official List of the London Stock Exchange) for any three consecutive Business Days in the thirty day period immediately preceding the Award Date.

3.1.3 The One Aviva, Twice the Value Award will be over the number of Shares equal to 75% of the number of Shares subject to the Bonus Replacement Deferred Share Award.

### 3.2 Expected date of Vesting

The expected date of Vesting for each of the Awards is as follows:

3.2.1 for the Replacement Restricted Share Award:

- (i) as to one third of the Shares subject to Award, the first anniversary of the CFO becoming an employee of the Company;
- (ii) as to one third of the Shares subject to Award, the second anniversary of the CFO becoming an employee of the Company;
- (iii) as to the balance of the Shares subject to Award, the third anniversary of the CFO becoming an employee of the Company;

3.2.2 for the Bonus Replacement Deferred Share Award the third anniversary of the Award Date; and

3.2.3 for the One Aviva, Twice the Value Award the third anniversary of the Award Date or, if later, the date on which the Directors determine the extent to which the Performance Condition has been satisfied.

### 3:3 Performance Conditions

3.3.1 Vesting of the One Aviva, Twice the Value Award will be subject to the Performance Condition set out in Schedule 2. The Directors may waive or change this Performance Condition in accordance with its terms or if anything happens which causes them reasonably to consider it appropriate. Notwithstanding anything else in the Plan, the One Aviva, Twice the Value Award will only Vest to the extent that the Performance Condition is satisfied or waived.

A11672961/0 12/17 Feb 2010

2

3.3.2 The Replacement Restricted Share Award will only Vest if the Group Chief Executive and Chairman of the Company consider that the CFO's performance from the Award Date to the date of Vesting has been at least 'mid-range'. For the avoidance of doubt, this will not apply where Vesting occurs under rules 8 or 10.

### 3.4 CFO's right to take Replacement Restricted Share Award or Bonus Replacement Deferred Share Award as a Restricted Share Award

The CFO may notify the Company before the Award Date of the Replacement Restricted Share Award and/or the Bonus Replacement Deferred Share Award that he wishes it to be granted in the form of a Restricted Share Award under Schedule 1 of the Plan. If he enters into the Restricted Share Agreement on or before the Award Date, Schedule 1 will apply to the Award.

### 3.5 Reduction or cancellation of Awards

The Directors may decide that an Award which has not Vested will lapse wholly or in part if they consider that:

- 3.5.1 the CFO or his team has, in the opinion of the Directors, engaged in misconduct which ought to result in the complete or partial lapse of his Award; and/or
- 3.5.2 there is a materially adverse misstatement of the Company financial statements.

## **4 CFO's rights**

### **4.1 Rights**

Subject to rule 5.5 (Dividend equivalent), the CFO shall not be entitled to vote, to receive dividends or to have any other rights of a shareholder in respect of Shares subject to an Award until the Shares are issued or transferred to the CFO, except as set out in rule 5.4 (Rights).

### **4.2 Transfer**

The CFO may not transfer, assign or otherwise dispose of an Award or any rights in respect of it. If he does, whether voluntarily or involuntarily, then it will immediately lapse. This rule 4.2 does not apply:

- 4.2.1 to the transmission of an Award on the death of the CFO to his personal representatives; or
- 4.2.2 to the assignment of an Award, with the prior consent of the Directors, subject to any terms and conditions the Directors impose.

## **5 Vesting**

### **5.1 Timing of Vesting**

Subject to rules 3.3 (Performance Conditions), 6, 7 and 8 (Leaving the Group before Vesting), and 10 (Takeovers and restructurings), each Award will Vest on the date or dates set out in rule 3.2 or, if on any such date a Dealing Restriction applies which would prevent the Vesting, a date determined by the Directors which is on or after the first date on which any Dealing Restriction ceases to apply.

A11672961/0.12/17 Feb 2010

3

### **5.2 Lapse**

If an Award lapses under the Plan it cannot Vest and the CFO has no rights in respect of it.

### **5.3 Delivering the Shares**

Within 30 days of the Vesting of an Award, the Company will arrange (subject to rule 5.7 (Withholding)) for the transfer to or to the order of the CFO of the number of Shares in respect of which the Award has Vested.

No Shares will be issued under the Plan.

### **5.4 Rights**

The CFO will be entitled to all rights attaching to the Shares by reference to a record date on or after the transfer date. The CFO will not be entitled to rights before that date.

### **5.5 Dividend equivalent**

The Awards will not include any rights in respect of dividends on the Shares comprised in the Award before Vesting.

However, the Replacement Restricted Share Award and the Bonus Replacement Deferred Share Award will include the right to receive, on Vesting, cash or Shares (as determined by the Directors on Vesting) with a value equal to the value of ordinary dividends paid on the number of Shares in respect of which the Award is then Vesting, the record date for which falls between the Award Date and the date of Vesting.

### **5.6 Cash alternative**

The Company, subject to the approval of the Directors, may decide to satisfy an Award by paying an equivalent amount in cash (subject to rule 5.7 (Withholding)).

## **5.7 Withholding**

The Company, any employing company or trustee of any employee benefit trust may withhold such amount and make such arrangements as it considers necessary to meet any liability to taxation or social security contributions in respect of Awards. These arrangements may include the sale or reduction in number of any Shares on behalf of the CFO.

## **6 Leaving the Group before Vesting - Bonus Replacement Deferred Share Award**

### **6.1 General rule on leaving employment**

6.1.1 This rule applies if the CFO ceases to be an employee or director before his Bonus Replacement Deferred Award Vests for a reason other than one specified in rule 6.2 (Exceptions to the general rule on leaving employment) or rule 6.3 (Other circumstances).

6.1.2 Subject to rule 6.1.3, if the date on which the CFO ceases to be an employee or director (the "cessation date") is:

(i) before 31 December 2010, the whole of the Bonus Replacement Deferred Share Award will lapse on the cessation date and no Shares will Vest;

A11672961/0.12/17 Feb 2010

4

(ii) in 2011, 50% of the Shares under the Bonus Replacement Deferred Share Award will lapse on the cessation date and 50% will Vest in accordance with rule 5.1 (Timing of Vesting);

(iii) in 2012, 25% of the Shares under the Bonus Replacement Deferred Share Award will lapse on the cessation date and 75% will Vest in accordance with rule 5.1 (Timing of Vesting); or

(iv) in 2013 (and before Vesting), the whole of the Bonus Replacement Deferred Share Award will Vest in accordance with rule 5.1 (Timing of Vesting).

6.1.3 If the CFO ceases to be an employee or director for reasons involving misconduct, the whole of the Bonus Replacement Deferred Share Award will lapse on such cessation.

### **6.2 Exceptions to the general rule on leaving employment**

If the CFO ceases to be an employee or director due to:

6.2.1 retirement with the agreement of the Company;

6.2.2 death;

6.2.3 ill-health, injury or disability, as established to the satisfaction of the Company;

6.2.4 the CFO's employing company ceasing to be under the Control of the Company;

6.2.5 redundancy, only in circumstances which give rise to a redundancy payment; or

6.2.6 any other reason, if the Directors so decide in any particular case,

then all the Shares under his Bonus Replacement Deferred Share Award will Vest on the cessation date (or, if on that date a Dealing Restriction applies, a date determined by the Directors which is on or after the first date on which any Dealing Restriction ceases to apply).

The Directors must exercise any discretion provided for in rule 6.2.6 within 30 days after the cessation date and the Bonus Replacement Deferred Share Award will lapse or Vest (as appropriate) on the earlier of the date on which the discretion is exercised and the end of the 30 day period.

### **6.3 Other circumstances**

If the CFO ceases to be an employee or director due to a transfer of the undertaking, or the part of the undertaking, in which the CFO works to a person which is neither under the Control of the Company nor a Member of the Group then all the Shares under his Award will Vest in accordance with rule 5.1 (Timing of Vesting).

### **6.4 Meaning of "ceasing to be an employee or director"**

For the purposes of rule 6, 7 and 8:

6.4.1 the CFO will not be treated as ceasing to be an employee or director of a Member of the Group until he ceases to be an employee or director of all Members of the Group or if he recommences employment with or becomes a director of a Member of the Group within 14 days or such other period and on such basis as the Directors, in their discretion, approve;

A11672961/0.12/17 Feb 2010

5

6.4.2 the CFO will be treated as ceasing to be an employee or director if he gives notice of termination of his employment with any Member of the Group.

## **7 Leaving the Group before Vesting - One Aviva, Twice the Value Award**

### **7.1 General rule on leaving employment**

Unless rule 7.2 (Exceptions to the general rule on leaving employment) applies, the One Aviva, Twice the Value Award, if it has not Vested, will lapse on the date the CFO ceases to be an employee or director of a Member of the Group. However, this rule 7.1 will not apply where the Vesting of the One Aviva, Twice the Value Award is delayed due to the application of a Dealing Restriction as described in rule 5.1, unless the CFO ceases to be an employee or director for reasons involving misconduct.

### **7.2 Exceptions to the general rule on leaving employment**

If the CFO ceases to be an employee or director due to:

- 7.2.1 retirement with the agreement of the Company;
- 7.2.2 death;
- 7.2.3 ill-health, injury or disability, as established to the satisfaction of the Company;
- 7.2.4 the CFO's employing company ceasing to be under the Control of the Company;
- 7.2.5 redundancy, only in circumstances which give rise to a redundancy payment; or
- 7.2.6 any other reason, if the Directors so decide in any particular case,

then his One Aviva, Twice the Value Awards will vest as described in rule 7.3 and lapse as to the balance.

The Directors must exercise any discretion provided for in rule 7.2.6 within 30 days after the cessation date and the One Aviva, Twice the Value Award will lapse or Vest (as appropriate) on the earlier of the date on which the discretion is exercised and the end of the 30 day period.

### **7.3 Vesting on leaving in exceptional circumstances**

Where rule 7.2 (Leaving in exceptional circumstances) applies, the One Aviva, Twice the Value Award does not lapse and will normally Vest in accordance with the provisions of rule 5 (Vesting). Alternatively, the Directors may in their absolute discretion decide that the One Aviva, Twice the Value Award will Vest on the cessation date, to the extent that the Performance Condition has been satisfied at that date.

The number of Shares in respect of which the One Aviva, Twice the Value Award will Vest will be reduced pro rata to reflect the number of days from the start of the Performance Period



until the cessation of the CFO's office or employment as a proportion of the number of days of the Performance Period.

A11672961/0.12/17 Feb 2010

6

## **8 Leaving the Group before Vesting - Replacement Restricted Share Award**

### **8.1 General rule on leaving employment**

The Replacement Restricted Share Award will lapse immediately if the CFO gives or is given notice terminating his employment (whether or not such termination is or would be lawful).

### **8.2 Exceptions to the general rule on leaving employment**

However, the Award will Vest in full on cessation if the CFO ceases to be an employee or director of a Member of the Group by reason of:

- 8.2.1 death;
- 8.2.2 ill-health, injury or disability, as established to the satisfaction of the Company;
- 8.2.3 the CFO's employing company ceasing to be under the Control of the Company ,
- 8.2.4 redundancy, only in circumstances which give rise to a redundancy payment;
- 8.2.5 a transfer of the undertaking, or the part of the undertaking, in which the CFO works to a person which is neither under the Control of the Company nor a Member of the Group; or
- 8.2.6 any other reason, if the Directors so decide in any particular case.

The Directors must exercise any discretion provided for in rule 8.2.6 within 30 days after the cessation date and the Replacement Restricted Share Award will lapse or Vest (as appropriate) on the earlier of the date on which the discretion is exercised and the end of the 30 day period.

## **9 Variations in share capital, demergers and special distributions**

### **9.1 Adjustment of Awards**

If there is:

- 9.1.1 a variation in the equity share capital of the Company, including a capitalisation or rights issue, sub-division, consolidation or reduction of share capital; or
- 9.1.2 a demerger (in whatever form) or exempt distribution by virtue of Section 213 of the Income and Corporation Taxes Act 1988; or
- 9.1.3 a special dividend or distribution;

the Directors may adjust the number or class of Shares or securities comprised in an Award.

### **9.2 Notice**

The Company may notify the CFO of any adjustment made under this rule.

## 10 Takeovers and restructurings

### 10.1 Takeover

10.1.1 Where a person (or a group of persons acting in concert) obtains Control of the Company as a result of making an offer to acquire Shares, each Award will be exchanged under rule 11 (Exchange of Awards) if:

- (i) an offer to exchange the Award is made and accepted by the CFO; or
- (ii) the Directors, with the consent of the Acquiring Company, decide before a person obtains Control that the Award will be automatically exchanged.

10.1.2 To the extent that an Award is not exchanged under rule 11 (Exchange of Awards), it will Vest on the date the person obtains Control. The One Aviva, Twice the Value Award will only Vest to the following extent (and lapse as to the balance):

- (i) that the Performance Condition has been satisfied (as determined by the Directors in the manner specified in the Performance Condition or in such manner as they consider reasonable) over the period from the start of the Performance Period until the date the person obtains Control; and
- (ii) reduced pro rata to reflect the number of days from the start of the Performance Period until the date the person obtains Control as a proportion of the number of days of the Performance Period.

The Directors will have the discretion to adjust the number of Shares in respect of which the One Aviva, Twice the Value Award Vests in order to ensure that such number is, in the opinion of the Directors, reasonable taking into account the extent to which the Performance Condition has been met and the proportion of the Performance Period which has elapsed.

### 10.2 Scheme of Arrangement

10.2.1 When under Section 895 of the Companies Act 2006 a court sanctions a compromise or arrangement in connection with the acquisition of Shares, each Award will be exchanged under rule 11 (Exchange of Awards) if:

- (i) an offer to exchange the Award is made and accepted by the CFO; or
- (ii) the Directors, with the consent of the Acquiring Company, decide before court sanction that the Award will be automatically exchanged.

10.2.2 To the extent that an Award is not exchanged under rule 11 (Exchange of Awards), it will Vest on the date of the court sanction. The One Aviva, Twice the Value Award will only Vest to the following extent (and lapse as to the balance):

- (i) that the Performance Condition has been satisfied (as determined by the Directors in the manner specified in the Performance Condition or in such manner as they consider reasonable) over the period from the start of the Performance Period until the date of court sanction; and
- (ii) reduced pro rata to reflect the number of days from the start of the Performance Period until the date of court sanction as a proportion of the number of days of the Performance Period.

The Directors will have the discretion to adjust the number of Shares in respect of which the One Aviva, Twice the Value Award Vests in order to ensure that such number is, in the opinion of the Directors, reasonable taking into account the extent to which the Performance Condition has been met and the proportion of the Performance Period which has elapsed.

10.2.3 This rule also applies where there is an equivalent procedure to Section 895 of the Companies Act 2006 under local legislation.

### **10.3 Demerger or other corporate event**

10.3.1 If the Directors become aware that the Company is or is expected to be affected by any demerger, distribution (other than an ordinary dividend) or other transaction not falling within rule 10.1 (Takeover), or 10.2 (Scheme of arrangement) which, in the opinion of the Directors would affect the current or future value of any Award, the Directors may allow the Award to Vest.

10.3.2 In the case of the One Aviva, Twice the Value Award, Vesting will be subject to any other conditions the Directors decide to impose and the Directors may only allow it to Vest to no more than the following extent (and it will lapse as to the balance):

- (i) that the Performance Condition has been satisfied (as determined by the Directors in the manner specified in the Performance Condition or in such manner as they consider reasonable) over the period from the start of the Performance Period until the date determined by the Directors; and
- (ii) reduced pro rata to reflect the number of days from the start of the Performance Period until the date determined by the Directors as a proportion of the number of days of the Performance Period.

The Directors will have the discretion to adjust the number of Shares in respect of which the One Aviva, Twice the Value Award Vests in order to ensure that such number is, in the opinion of the Directors, reasonable taking into account the extent to which the Performance Condition has been met and the proportion of the Performance Period which has elapsed.

10.3.3 The Company will notify the CFO if the Directors exercise their discretion under this rule.

### **10.4 Directors**

In this rule, "Directors" means those people who were members of the remuneration committee of the Company immediately before the change of Control.

### **10.5 Overseas transfer**

If the CFO is transferred to work in another country and, as a result of that transfer he would:

10.5.1 suffer a tax disadvantage in relation to his Awards (this being shown to the satisfaction of the Directors); or

10.5.2 become subject to restrictions on his ability to receive the Shares comprised in his Awards or to hold or deal in the Shares or the proceeds of the sale of the Shares because of the security laws or exchange control laws of the country to which he is transferred;

then if the CFO continues to hold an office or employment with a Member of the Group, the Directors may decide that the Award will Vest, to the extent they permit, on a date they choose before or after the transfer takes effect. The Directors will decide whether any balance of the Award will lapse.

## **11 Exchange of Awards**

### **11.1 Exchange**

Where an Award is to be exchanged under rule 10 (Takeovers and restructurings) the exchange will take place as soon as practicable after the relevant event.

### **11.2 Exchange terms**

Where the CFO is granted a new award in exchange for an existing Award, the new award:

11.2.1 must confer a right to acquire shares in the Acquiring Company or another body corporate determined by the Acquiring Company;

11.2.2 must be equivalent to the existing Award;

11.2.3 is treated as having been acquired at the same time as the existing Award and Vest in the same manner and at the same time;

11.2.4 is governed by the Plan as if references to Shares were references to the shares over which the new award is granted and references to the Company were references to the Acquiring Company or the body corporate determined under rule 11.2.1; and

11.2.5 in the case an award for which the One Aviva, Twice the Value Award is exchanged, must:

- (i) be subject to a performance condition which is, so far as possible, equivalent to any Performance Condition applying to the existing One Aviva, Twice the Value Award; or
- (ii) not be subject to any performance condition but be in respect of the number of shares which is equivalent to the number of Shares determined in accordance with rule 10.1.2 or 10.2.2 (as relevant), in which case the existing One Aviva, Twice the Value Award lapses as to the balance.

## **12 General**

### **12.1 Directors' decisions final and binding**

The decision of the Directors on the interpretation of the Plan or in any dispute relating to an Award or matter relating to the Plan will be final and conclusive.

### **12.2 Documents sent to shareholders**

The Company may, at its discretion, send to the CFO copies of any documents or notices normally sent to the holders of its Shares at or around the same time as issuing them to the holders of its Shares.

### **12.3 Costs**

The Company may ask the CFO's employer to bear the costs in respect of an Award to the CFO.

### **12.4 Regulations**

The Directors have the power from time to time to make or vary regulations for the administration and operation of the Plan but these must be consistent with its rules.

### **12.5 Terms of employment**

12.5.1 This rule applies:

- (i) whether the Company has full discretion in the operation of the Plan, or whether the Company could be regarded as being subject to any obligations in the operation of the Plan;
- (ii) during the CFO's employment or employment relationship; and
- (iii) after the termination of the CFO's employment or employment relationship, whether the termination is lawful or unlawful.

12.5.2 Nothing in the rules or the operation of the Plan forms part of the contract of employment or employment relationship of the CFO. The rights and obligations arising from the employment relationship between the CFO and the Company are separate from, and are not affected by, the Plan. Participation in the Plan does not create any right to, or expectation of, continued employment or a continued employment relationship.

12.5.3 The grant of Awards does not create any right to or expectation of the grant of Awards on the same basis, or at all, in any future year.

12.5.4 Without prejudice to the CFO's right in respect of an Award subject to and in accordance with the express terms of the Plan, the CFO has no rights in respect of the exercise or omission to exercise any discretion, or the making or omission to make any decision, relating to any Award. Any and all discretions, decisions or omissions relating to the Award may operate to the disadvantage of the CFO, even if this could be regarded as capricious or unreasonable, or could be regarded as in breach of any implied term between the CFO and his employer, including any implied duty of trust and confidence. Any such implied term is excluded and overridden by this rule.

12.5.5 The CFO has no right to compensation for any loss in relation to the Plan, including:

- (i) any loss or reduction of any rights or expectations under the Plan in any circumstances or for any reason (including lawful or unlawful termination of employment or the employment relationship);
- (ii) any exercise of a discretion or a decision taken in relation to an Award or to the Plan, or any failure to exercise a discretion or take a decision;
- (iii) the operation, suspension, termination or amendment of the Plan.

12.5.6 Participation in the Plan is permitted only on the basis that the CFO accepts all the provisions of its rules, including in particular this rule. By participating in the Plan,

A11672961/0 12/17 Feb 2010

1

the CFO waives all rights under the Plan, other than the right to acquire shares subject to and in accordance with the express terms of the Plan, in consideration for and as a condition of, the grant of an Award under the Plan.

12.5.7 Nothing in this Plan confers any benefit, right or expectation on a person other than the CFO. No such third party has any rights under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Plan. This does not affect any other right or remedy of a third party which may exist.

12.5.8 Each of the provisions of this rule is entirely separate and independent from each of the other provisions. If any provision is found to be invalid then it will be deemed never to have been part of these rules and to the extent that it is possible to do so, this will not affect the validity or enforceability of any of the remaining provisions.

## **12.6 Employee trust**

The Company and any Subsidiary of the Company may provide money to the trustee of any trust or any other person to enable them or him to acquire shares to be held for the purposes of the Plan, or enter into any guarantee or indemnity for those purposes, to the extent permitted by Section 682 of the Companies Act 2006.

## **12.7 Data protection**

By participating in the Plan the CFO consents to the holding and processing of personal data provided by the CFO to any Member of the Group, trustee or third party service provider, for all purposes relating to the operation of the Plan. These include, but are not limited to:

- 12.7.1 administering and maintaining plan records;
- 12.7.2 providing information to Members of the Group, trustees of any employee benefit trust, registrars, brokers or third party administrators of the Plan;
- 12.7.3 providing information to future purchasers of the company or the business in which the CFO works;
- 12.7.4 transferring information about the CFO to a country or territory outside the European Economic Area that may not provide the same statutory protection for the individual as the CFO's home country.

## **12.8 Consents**

All transfers of Shares will be subject to any necessary consents under any relevant enactments or regulations for the time being in force in the United Kingdom or elsewhere. The CFO will be responsible for complying with any requirements he needs to fulfil in order to obtain or avoid the necessity for any such consent.

## **12.9 Articles of Association**

Any Shares acquired under the Plan are subject to the articles of association of the Company from time to time in force.

## **12.10 Notices**

12.10.1 Any notice or other document which has to be given to the CFO under or in connection with the Plan may be:

- (i) delivered or sent by post to him at his home address according to the records of his employing company; or
- (ii) sent by e-mail or fax to any e-mail address or fax number which according to the records of his employing company is used by him;

or in either case such other address which the Company considers appropriate.

12.10.2 Any notice or other document which has to be given to the Company or other duly appointed agent under or in connection with the Plan may be delivered or sent by post to it at its registered office (or such other place as the Directors or duly appointed agent may from time to time decide and notify to the CFO) or sent by e-mail or fax to any e-mail address or fax number notified to the CFO.

12.10.3 Notices sent by post will be deemed to have been given on the second day after the date of posting. However, notices sent by or to the CFO while he is working overseas will be deemed to have been given on the seventh day after the date of posting. Notices sent by e-mail or fax, in the absence of evidence to the contrary, will be deemed to have been received on the day after sending.

## **13 Changing the Plan and termination**

### **13.1 Directors' powers**

Except as described in the rest of this rule 13, the Directors may at any time change the Plan in any way.

### **13.2 Shareholder approval**

13.2.1 Except as described in rule 13.2.2, the Company in general meeting must approve in advance by ordinary resolution any proposed change to the Plan to the advantage of the CFO, which relates to the following;

- (i) the persons to or for whom Shares may be provided under the Plan;
- (ii) the limitations on the number of Shares which may be issued under the Plan;
- (iii) the number of Shares under Award;
- (iv) any rights attaching to the Awards and the Shares;
- (v) the rights of the CFO in the event of a capitalisation issue, rights issue, subdivision or consolidation of shares or reduction or any other variation of capital of the Company;
- (vi) the prohibition on the issue of new Shares to satisfy Awards;,,
- (vii) the terms of this rule 13.2.1.

13.2.2 The Directors can change the Plan and need not obtain the approval of the Company in general meeting for any minor changes:

- (i) to benefit the administration of the Plan;
- (ii) to comply with or take account of the provisions of any proposed or existing legislation;

A11672961/0 12/17 Feb 2010

1

- (iii) to take account of any changes to legislation; or
- (iv) to obtain or maintain favourable tax, exchange control or regulatory treatment of the Company, any Subsidiary or the CFO.

### **13.3 Notice**

The Directors may give written notice of any changes made to the CFO.

### **13.4 Governing law and jurisdiction**

English law governs the Plan and all Awards and their construction. The English courts have non-exclusive jurisdiction in respect of disputes arising under or in connection with the Plan or any Award.

## **14 Definitions**

### **14.1 Meaning of words used**

In these rules:

"Acquiring Company" means a person who obtains Control of the Company;

"Award" means one of the Awards mentioned in rule 1;

"Award Date" means, in relation to an Award, the applicable date under 2.2;

"Bonus Replacement Deferred Share Award" means, subject to rule 3.4, a conditional right to receive Shares granted under the rules of the Plan;

"Business Day" means a day on which the London Stock Exchange (or, if relevant and if the Directors determine, any stock exchange nominated by the Directors on which the Shares are traded) is open for the transaction of business;

"CFO" means Patrick C. Regan;

"Company" means Aviva pic;

"Control" has the meaning given to it by Section 840 of the Income and Corporation Taxes Act 1985;

"Dealing Restrictions" means restrictions imposed by statute, order, regulation or Governmental directive or by the model code, or any code adopted by the Company to comply with share dealing regulations;

"Directors" means, subject to rule 10.4 (Directors), the board of directors of the Company or a duly authorised committee;

"London Stock Exchange" means London Stock Exchange pic;

"Member of the Group" means:

- (i) the Company; and
- (ii) its Subsidiaries from time to time, and
- (iii) any other company which is associated with the Company and is so designated by the Directors;

A11672961/0.12/17 Feb 2010

14

"One Aviva, Twice the Value Award" means a conditional right to receive Shares granted under the rules of the Plan;

"Performance Condition" means the conditions described in rule 3.3;

"Plan" means these rules known as "CFO Recruitment Share Awards Plan" as changed from time to time;

"Replacement Restricted Share Award" means, subject to rule 3.4, a conditional right to receive Shares granted under the rules of the Plan;

"Shares" means fully paid ordinary shares in the capital of the Company;

"Subsidiary" means a company which is a subsidiary of the Company within the meaning of Section 1159 of the Companies Act 2006;

"Vesting" means the CFO becoming entitled to have the Shares transferred to him subject to these rules and "Vest" is to be construed accordingly.



## **Schedule 1 Restricted Shares**

If the CFO indicates that he wishes the Replacement Restricted Share Award and/or the Bonus Replacement Deferred Share Award to be granted in the form of a Restricted Share Award as described in rule 3.4, this Schedule 1 will apply to that Award.

### **1 Restricted Share Agreement**

1.1 The CFO must enter into an agreement with the Company that:

- (i) to the extent that an Award lapses under the Plan, the Restricted Shares are forfeited and he will immediately transfer his interest in the Restricted Shares, for no consideration or nominal consideration, to any person (which may include the Company, where permitted) specified by the Company; and
- (ii) he will not transfer, assign or dispose of any Restricted Shares or any rights in respect of them before Vesting in accordance with paragraph 7 of this Schedule 1 and if he does, his Restricted Share Award will lapse except in the case of:
  - (a) the transmission of his Restricted Share Award on his death to his personal representatives;
  - (b) the transfer, assignment or other disposal of the Restricted Share Award, with the prior consent of the Directors, subject to any terms and conditions the Directors may impose;
  - (c) the disposal or undertaking to dispose of his Restricted Shares where rule 5.7 of the Plan applies; or
  - (d) the transfer, assignment, disposal or undertaking to dispose of his Restricted Shares where rule 10 of the Plan applies.

1.2 The CFO must also sign any other documentation, including a power of attorney or blank stock transfer form, requested by the Company.

1.3 If the CFO does not sign the Restricted Share Agreement or any other documentation requested by the Company within a period specified by the Company, the Restricted Share Award will lapse at the end of that period.

### **2 Transfer of Restricted Shares**

On or shortly after the Award Date, the Company will procure that the relevant number of Shares are transferred to the CFO or to another person to be held for the benefit of the CFO under the terms of this Schedule 1 and the Restricted Share Agreement.

### **3 Rights**

Rule 5.4 (Rights) of the Plan will be replaced with the following paragraph:

Subject to the terms of the Restricted Share Agreement, the CFO will be entitled to all rights attaching to the Shares by reference to a record date on or after the transfer date. The CFO will not be entitled to rights before that date.

A11672961/0.12/17 Feb 2010

1

### **4 Tax elections**

The CFO must enter into any elections required by the Company, including elections under Part 7 of the Income Tax (Earnings and Pensions) Act 2003 and elections to transfer any liability, or agreements to pay, social security contributions. If he does not do so within a period specified by the Company, the Restricted Share Award will lapse at the end of that period.

### **5 Retention of share certificates**

The Company may retain the share certificates or other documents of title relating to any Restricted Shares until they Vest in accordance with paragraph 7 of this Schedule 1 or make such other arrangements it considers necessary to enforce the Restricted Share Agreement.

### **6 Voting, dividends and dividend equivalent**

Unless otherwise specified in the Restricted Share Agreement, the CFO will not be entitled to vote (or instruct any person holding the Restricted Shares on his behalf how to vote) or to receive any dividends in respect of the Restricted Shares in the period between the Award Date and Vesting.

For the avoidance of doubt, Rule 5.5 (Dividend equivalent) of the Plan will apply in relation to Restricted Share Awards granted under this Schedule 1 unless otherwise specified in the Restricted Share Agreement.

### **7 Vesting**

Restricted Share Awards will Vest in accordance with rule 5.1 of the Plan.

### **8 Consequences of Vesting**

To the extent that the Restricted Share Award Vests, the Restricted Share Agreement will cease to apply to the Restricted Shares. If the Restricted Shares are held by any person for the benefit of the CFO, that person may transfer the Restricted Shares to or to the order of the CFO.

### **9 Consequences of lapse for Restricted Share Awards**

To the extent that the Restricted Share Award lapses, the CFO will transfer his interest in the Restricted Shares as described in the Restricted Share Agreement.

### **10 No cash alternative**

Rule 5.6 of the Plan will not apply.

### **11 Variations in share capital, rights issues, demergers etc**

Rule 9 of the Plan will be replaced by the following:

"If there is:

- (i) a variation in the equity share capital of the Company, including a capitalisation or rights issue, sub-division, consolidation or reduction of share capital; or

A11672961/0 12/17 Feb 2010

17

- (ii) a demerger (in whatever form) or exempt distribution by virtue of Section 213 of the Income and Corporation Taxes Act 1988; or

- (iii) a special dividend or distribution,

the CFO will, subject to the Restricted Share Agreement, have the same rights as any other shareholder in respect of his Restricted Shares. Any shares, securities or rights allotted to the CFO as a result of such an event shall be:

- (a) treated as if they were awarded to the CFO under this Schedule 1 in the same way and at the same time as the Restricted Shares in respect of which the rights were conferred; and
- (b) subject to this Schedule 1, the rules of the Plan and the terms of the Restricted Share Agreement.

However, securities bought by the CFO pursuant to a rights issue will not be treated as described in (a) and (b) above except to the extent they are bought using the proceeds of sale of rights under that rights issue."

## **12 Exchange terms**

Rule 11.2 of the Plan is replaced by the following:

"The CFO may be required to exchange some or all of his Restricted Shares for other securities or to sell them and use the proceeds to buy other securities on such terms as the Directors may determine and the rules of the Plan including this Schedule 1 will apply to those other securities as if they were Restricted Shares."

## **13 Documents sent to shareholders**

Rule 12.2 of the Plan is replaced by the following:

"The Company may, but is not required, to send to the CFO copies of any documents or notices normally sent to the holders of its Shares at or around the same time as issuing them to the holders of its Shares."

## **14 Definitions**

"Restricted Shares" means Shares held in the name of or for the benefit of the CFO subject to the Restricted Share Agreement;

"Restricted Share Agreement" means the agreement referred to in paragraph 1 of this Schedule 1;

"Restricted Share Award" means an award of Restricted Shares granted under this Schedule 1; and

"Vesting" means the restrictions set out in the Restricted Share Agreement between the CFO and the Company, as referred to in paragraph 1 of this Schedule 1, ceasing to have effect.

## Schedule 2

### Performance Condition for the One Aviva, Twice the Value Award

The One Aviva, Twice the Value Award will vest to the extent shown in the table below, where the Actual Growth Rate is measured by the compound annual growth rate of the Company's IFRS total return Earnings Per Share over a 3 year period from 1 January 2010 to 31 December 2012, and the opening position for 2010 is 49.2 pence per share.

Actual Growth Rate	Thresholds	Vesting Percentage of Award	Number of shares vesting for each share awarded
Below 14.9%	Below Minimum	0%	0:1
14.9%	Minimum	10%	0.1:1
57.5%	Target	100%	1:1
100%	Maximum	200%	2:1

If the Actual Growth Rate falls between 14.9% and 57.5%, the vesting percentage will be calculated on a pro rata basis between 10% and 100%.

If the Actual Growth Rate falls between 57.5% and 100%, the vesting percentage will be calculated on a pro rata basis between 100% and 200%.

**Exhibit 4.6**



*Conditional Share Award granted to Trevor*

*Matthews on 2 December 2011*

**TERMS AND CONDITIONS**

## **INTRODUCTION**

You were granted a conditional share award (the "Award") on the commencement of your employment. Details of the Award are set out in your grant statement. The purpose of this booklet is to explain the terms and conditions of the Award and how the Award will operate. If you have additional questions after reading this booklet, please contact the Group General Counsel and Company Secretary in the first instance.

## **THE AWARD IN BRIEF**

- The Company has granted you an award of shares in the Company to the value of £2,020,000 (two million and twenty thousand pounds sterling). The number of shares subject to your Award has been calculated based on the average of the closing middle market price of the Company's shares over the three business days immediately preceding your date of employment, 2 December 2011. The Award will vest (as defined below) on the following dates, subject to the terms and conditions set out in this booklet.
  - $\frac{1}{3}^{\text{rd}}$  (one third) of the Award, rounded down to the nearest whole number of shares, will vest on the first business day in March 2012 which is not subject to Dealing Restrictions;
  - $\frac{1}{3}^{\text{rd}}$  (one third) of the Award, rounded down to the nearest whole number of shares, will vest on the first business day in March 2013 which is not subject to Dealing Restrictions; and
  - the remaining proportion of the Award will vest on the first business day in March 2014 which is not subject to Dealing Restrictions.
- Generally, the shares comprised in each tranche of the award will only vest if you remain an employee of the Company or a group company of Aviva pic on each of the relevant vesting dates.
- On vesting, an additional number of shares or amount of cash (as determined by the Remuneration Committee) will be paid to you in lieu of dividends notionally paid and reinvested between the grant date and the date of vesting in respect of the number of shares which have vested.
- If your employment is terminated due to resignation or due to dismissal for gross misconduct or gross incompetence, your Award will be forfeited as follows:
  - the Company will reclaim any part of the Award, including shares or cash in respect of dividends, which have vested during the twelve months prior to the termination date; and
  - any part of the Award that has not vested will lapse.
- If your employment is terminated due to retirement (with the agreement of your employer) or due to dismissal (other than for gross misconduct or gross incompetence), any unvested part of the Award will vest on the termination date and the Company will not reclaim any part of the Award, including shares or cash in respect of dividends, which have vested during the twelve months prior to the termination date.

## **QUESTIONS & ANSWERS**

### **1. What are the conditions attaching to my Award?**

The vesting of shares subject to the Award will be conditional on your continued employment with the Company or a group company of Aviva pic on each of the relevant vesting dates, ie:-

- the first dealing day of March 2012, which is not subject to Dealing Restrictions, for the first tranche;
- the first dealing day of March 2013, which is not subject to Dealing Restrictions, for the second tranche, and
- the first dealing day of March 2014, which is not subject to Dealing Restrictions, for the final tranche.

If you leave the Company (or a group company) or there is a change of control of the Company, some or all of the Award may vest early. Please see Question 5 for more information.

## **2. What does vest mean?**

Vest or vesting means that you become entitled to have some or all of the shares under Award released to you and transferred into your name.

## **3. What does release of shares mean and when are shares released?**

Your shares will be released to you within 30 days of vesting. This means that the shares will be transferred into your name and you will become the owner of those shares. You do not have to pay any money for the shares. The shares are transferred to you free of charge. See Question 7 for details of any tax consequences of which you need to be aware.

You may only deal in Aviva shares in periods permitted by the Aviva Share Dealing Code. If it transpires that the vesting of your Award is prohibited due to Dealing Restrictions, your Award will vest and shares released to you as soon as such Dealing Restrictions have been lifted.

## **4. What are Dealing Restrictions?**

Dealing Restrictions are restrictions imposed by statute, order, regulation or Government directive, or by the Model Code or any code adopted by the Company based on the Model Code and for this purpose the Model Code means the Model Code on dealings in securities set out in Listing Rule 9, annex 1 (of the London Stock Exchange), as varied from time to time.

## **5. What happens if I leave the Aviva group?**

If your employment is terminated due to resignation or due to dismissal for gross misconduct or gross incompetence, your Award will be forfeited as follows:

- the Company will reclaim any part of the Award, including shares or cash in respect of dividends, which have vested during the twelve months prior to the termination date; and

- any part of the Award that has not vested will lapse.

If your employment is terminated for any of the reasons set out below then any unvested part of the award will vest on the termination date and the Company will not reclaim any part of the Award, including shares or cash in respect to dividends, which has vested during the twelve months prior to the termination date. The reasons are:

- (i) dismissal (other than for gross misconduct or gross incompetence);
- (ii) retirement with the agreement of your employer;
- (iii) ill-health, injury or disability, as established to the satisfaction of the Company;
- (iv) your employing company ceasing to be a Member of the Group;
- (v) a transfer of the undertaking, or the part of the undertaking in which you work, to a person which is not a Member of the Group;
- (vi) redundancy, but only in circumstances which give rise to a redundancy payment;
- (vii) death; and
- (viii) any other reason, if the Directors so decide in any particular case.

#### **6. What happens if there is a change of control of the Company?**

If there is a change of control of the Company (by way of a general offer or court sanction) or similar corporate event (as determined by the Remuneration Committee), your Award will vest on the date of the relevant event. In certain circumstances (eg where there is a change of control due to an agreed merger or an internal restructuring), the Company may require you to exchange your Award for an equivalent award over shares in the acquiring company provided that the terms relating to such equivalent award are no less favourable to you.

#### **7. What are the tax implications?**

You will be subject to income tax and National Insurance Contributions on the market value of the shares in respect of the vested Award on the date on which they are released to you. This amount must be collected through the PAYE system and

you agree that a sufficient number of shares will be sold on your behalf, or forfeited, to cover your tax liability before the balance of the shares are released to you.

#### **8. What happens to dividends on the shares?**

You will not be entitled to dividends in respect of any shares comprised in your Award before they are released to you. However, the Company will arrange for a dividend equivalent payment, in the form of cash or shares (as determined by the Remuneration Committee), to be made to you on or around vesting of each tranche of your Award. The amount of this payment will be equivalent to the dividends that would have been paid on the shares subject to the relevant tranche of the Award between the grant date and the vesting date had you been the registered owner of the



shares during that period. You will be entitled to all dividends which are paid on the shares after they have been transferred into your name.

9. Are there any other conditions which must be satisfied before any tranche of my Award can vest?

In order for any tranche of your Award to vest, you must be employed by the Company or a group company of Aviva pic and not be serving notice on each the vesting dates.

**Points to note**

Your Award is personal to you and may not be transferred, assigned or otherwise disposed of to anyone else.

The Award shall not confer on you any legal or equitable rights against the trustees of any employee benefit trust which may be used in conjunction with your Award, the Company or any subsidiary, directly or indirectly, or give rise to any cause of action in law or in equity against such trustees, the Company or any subsidiary.

You will not be entitled to vote, receive dividends or have any other rights of a shareholder in respect of the shares under award until they have been released to you.

The benefits provided to you in respect of the Award shall not count as pay or remuneration for pension fund or other purposes.

In no circumstances shall you, on ceasing to hold any office or employment with the Aviva group (whether or not upon breach of your contract of employment by your employer), be entitled to any compensation for any loss of any right or benefit or prospective right or benefit in relation to the Award whether such compensation is claimed by way of damages for wrongful dismissal or other breach of contract or by way of compensation for loss of office or otherwise.

This booklet sets out the terms and conditions of your Award. In case of any dispute, the decision of the Remuneration Committee of the Board will be final and binding on all concerned. The Remuneration Committee may at any time and in any way amend the terms of your Award. The terms of the Award shall be governed by English law and the English courts shall have non-exclusive jurisdiction in respect of any disputes arising under or in connection with the Award.

If you have any queries in relation to your Award, please contact the Group General Counsel and Company Secretary.

Kirstine Cooper  
Group General Counsel and Company Secretary

## Exhibit 4.7

AVIVA pic

### **RULES OF THE AVIVA RECRUITMENT AND RETENTION SHARE AWARD PLAN**

Directors' Adoption:	2 December 2011
Amended: Expiry	4 December 2012
Date:	2 December 2021

Linklaters

Linklaters LLP One  
Silk Street London  
EC2Y 8HQ

Telephone (+44) 20 7456 2000  
Facsimile (+44) 20 7456 2222

Ref 01/140/R Berglund

### **Table of Contents**

#### **Contents Page**

Introduction .....	1
--------------------	---

1	Granting Awards .....	1
2	Before Vesting .....	3
3	Vesting of Awards .....	4
4	Consequences of Vesting .....	5
5	Vesting in other circumstances - personal events.....	7
6	Vesting in other circumstances - corporate events .....	8
7	Changing the Plan and termination.....	10
8	General .....	10
9	Definitions .....	13

# Rules of the Aviva Recruitment and Retention Share Award Plan

## Introduction

This Plan sets out the terms of an Award to be granted to an Employee in connection with his recruitment or retention. No new Shares shall be issued or transferred from treasury pursuant to the Plan until the Plan has been approved by the Company's shareholders.

## 1 Granting Awards

### 1.1 Grantor

The Grantor of an Award must be:

- 1.1.1 the Company;
- 1.1.2 any other Member of the Group; or
- 1.1.3 a trustee of any trust set up for the benefit of Employees.

An Award granted under the Plan, and the terms of that Award, must be approved in advance by the Directors.

### 1.2 Eligibility

The Grantor may grant an Award to anyone who is an Employee (excluding an executive director of the Company) on the Award Date in accordance with any selection criteria that the Directors in their discretion may set.

If the Grantor grants an Award which is inconsistent with this rule 1.2 (Eligibility), it will lapse immediately.

### 1.3 Timing of Award

Awards may be granted at any time subject to any Dealing Restrictions. However, Awards may not be granted at any time after the Expiry Date.

### 1.4 Terms of Awards

Awards are subject to the rules of the Plan, any Performance Condition and any other condition imposed under rule 1.6 (Other conditions) and must be granted by deed. The terms of the Award must be determined by the Grantor and approved by the Directors. The terms must be set out in the deed or other document (which may be in electronic form), including:

- 1.4.1 whether the Award is:
  - (i) a Conditional Award;
  - (ii) an Option;
  - (iii) Restricted Shares,or a combination of these;
- 1.4.2 the number of Shares subject to the Award or the basis on which the number of Shares subject to the Award will be calculated;
- 1.4.3 any Performance Condition;
- 1.4.4 any other condition specified under rule 1.6 (Other conditions);
- 1.4.5 the expected date of Vesting, unless specified in a Performance Condition;
- 1.4.6 whether the Participant is entitled to receive any Dividend Equivalent;

- 1.4.7 the Award Date; and
- 1.4.8 the Option Price (if relevant).

### **1.5 Performance Conditions**

When granting an Award, the Grantor may make its Vesting conditional on the satisfaction of one or more conditions linked to the performance of the Company. A Performance Condition must be objective and specified at the Award Date. The Grantor, with the consent of the Directors, may waive or change a Performance Condition in accordance with its terms or if anything happens which causes the Grantor reasonably to consider it appropriate to do so.

### **1.6 Other conditions**

The Grantor may impose other conditions when granting an Award. Any condition must be objective, specified at the Award Date and may provide that an Award will lapse if it is not satisfied. The Grantor, with the consent of the Directors, may waive or change a condition imposed under this rule 1.6 (Other conditions).

### **1.7 Award certificates**

The Participant will receive a certificate setting out the terms of the Award as soon as practicable after the Award Date. The certificate may be the deed referred to in rule 1.4 (Terms of Awards) or any other document (which may be in electronic form), including a statement. If any certificate is lost or damaged the Company may replace it on such terms as it decides.

### **1.8 No payment**

A Participant is not required to pay for the grant of any Award.

### **1.9 Restricted Share Agreement**

On the grant of an Award of Restricted Shares, the Participant must enter into an agreement with the Grantor, that to the extent that the Award lapses under the Plan, the Shares are forfeited and he will immediately transfer his interest in the Shares, for no consideration or nominal consideration, to any person (which may include the Company, where permitted) specified by the Grantor.

### **1.10 Transfer of Restricted Shares**

On or after the grant of an Award of Restricted Shares the Grantor will procure that the relevant number of Shares is transferred to the Participant or to another person to be held for the benefit of the Participant under the terms of the Plan.

## 2

### **2 Before Vesting**

#### **2.1 Rights**

2.1.1 A Participant is not entitled to vote, to receive dividends or to have any other rights of a shareholder in respect of Shares subject to an Option or a Conditional Award until the Shares are issued or transferred to the Participant.

2.1.2 Except to the extent specified in the Restricted Share Agreement, a Participant will have all rights of a shareholder in respect of Restricted Shares until the Award lapses.

#### **2.2 Restricted Shares - documents and elections**

Where the Award is of Restricted Shares:

2.2.1 The Participant must sign any documentation, including a power of attorney or blank stock transfer form, requested by the Grantor. If he does not do so within a period specified by the Grantor, the Award will lapse at the end of that period. The Grantor may retain the share certificates relating to any Restricted Shares.

2.2.2 The Participant must enter into any elections required by the Grantor, including elections under Part 7 of the Income Tax (Earnings and Pensions) Act 2003 and elections to transfer any liability, or agreements to pay, social security contributions. If he does not do so within a period specified by the Grantor, the Award will lapse at the end of that period.

### 2.3 Transfer

A Participant may not transfer, assign or otherwise dispose of an Award or any rights in respect of it. If he does, whether voluntarily or involuntarily, then it will immediately lapse. This rule 2.3 (Transfer) does not apply:

2.3.1 to the transmission of an Award on the death of a Participant to his personal representatives; or

2.3.2 to the assignment of an Award, with the prior consent of the Directors, subject to any terms and conditions the Directors impose.

### 2.4 Adjustment of Awards

2.4.1 If there is:

(i) a variation in the equity share capital of the Company, including a capitalisation or rights issue, sub-division, consolidation or reduction of share capital;

(ii) a demerger (in whatever form) or exempt distribution by virtue of Section 1075 of the Corporation Tax Act 2010;

(iii) a special dividend or distribution, or

(iv) any other corporate event which might affect the current or future value of any Award,

the Directors may adjust the number or class of Shares or securities subject to the Award and, in the case of an Option, the Option Price.

### 3

2.4.2 Subject to the Restricted Share Agreement, a Participant will have the same rights as any other shareholders in respect of Restricted Shares where there is a variation or other event of the sort described in rule 2.4.1. Any shares, securities or rights allotted to a Participant as a result of such an event will be:

(i) treated as if they were awarded to the Participant under the Plan in the same way and at the same time as the Restricted Shares in respect of which the rights were conferred; and

(ii) subject to the rules of the Plan and the terms of the Restricted Share Agreement.

### 2.5 Reduction or forfeiture of Awards and Shares

If the Participant ceases to be an Employee by reason of resignation or dismissal at any time within 12 months after Vesting, the Directors may decide that:

2.5.1 an Award should be reduced or forfeited; and/or

2.5.2 some or all of the after-tax number of Shares which have been transferred to or on behalf of a Participant following Vesting or the value of any such Shares (determined

by reference to any date the Directors decide) should be transferred to the Company or as it directs.

### **3 Vesting of Awards**

#### **3.1 Determination of Performance Conditions**

Where an Award is subject to a Performance Condition, as soon as reasonably practicable after the end of the Performance Period, the Directors will determine how many Shares Vest for each Award on the basis of whether and to what extent any Performance Condition or other condition imposed under rule 1.6 (Other conditions) has been satisfied or waived and if any adjustments are to be made under rule 3.4 (Performance adjustment).

#### **3.2 Timing of Vesting - Award subject to Performance Condition**

Where an Award is subject to a Performance Condition, subject to rules 1.6 (Other conditions), 5 (Vesting in other circumstances - personal events) and 6 (Vesting in other circumstances - corporate events), an Award Vests, to the extent determined under rule 3.1 (Determination of Performance Conditions), on the latest of:

3.2.1 the date on which the Directors make their determination under rule 3.1 (Determination of Performance Conditions); and

3.2.2 the date of Vesting set by the Directors on the Award Date,

or, if on that day a Dealing Restriction applies, the first date on which it ceases to apply.

#### **3.3 Timing of Vesting - Award not subject to Performance Condition**

Where an Award is not subject to a Performance Condition, subject to rules 1.6 (Other conditions), 3.4 (Performance adjustment), 5 (Vesting in other circumstances - personal events) and 6 (Vesting in other circumstances - corporate events), an Award Vests on the date of Vesting set by the Directors on the Award Date or, if on that date a Dealing Restriction applies, the first date on which it ceases to apply.

4

#### **3.4 Performance adjustment**

The Directors may adjust downwards (including to nil) the number of Shares in respect of which an Award Vests if, in their discretion, they determine that the performance of the Company, any Member of the Group, any business area or team [and the conduct, capability or performance of the Participant] justifies an adjustment.

#### **3.5 Lapse**

To the extent that any Performance Condition is not satisfied at the end of the Performance Period, the Award lapses, unless otherwise specified in the Performance Condition. To the extent that any other condition is not satisfied, the Award will lapse if so specified in the terms of that condition. If an Award lapses under the Plan it cannot Vest and a Participant has no rights in respect of it.

On the lapse of an Award of Restricted Shares, a Participant must transfer his interest in the Shares in accordance with the Restricted Share Agreement.

### **4 Consequences of Vesting**

#### **4.1 Conditional Award**

Within 30 days of a Conditional Award Vesting, the Grantor will arrange (subject to rules 4.5 (Cash and share alternative), 4.6 (Withholding) and 8.8 (Consents)) for the transfer to, or to the order of, the Participant, of the number of Shares in respect of which the Award has Vested.

## **4.2 Options**

- 4.2.1 A Participant may exercise his Option on any day after Vesting on which no Dealing Restriction applies by giving notice in the prescribed form to the Grantor or any person nominated by the Grantor and paying the Option Price (if any). The Option will lapse at the end of such period as determined by the Directors on the Award Date (unless the reason for Vesting is the Participant's death, in which case the Option will lapse 12 months after Vesting) or, if earlier, on the earliest of:
- (i) the date the Participant ceases to be an Employee by reason of dismissal for gross misconduct; or
  - (ii) six months after an event which gives rise to Vesting under rules 5.2 ("Good leavers"), 5.5 (Overseas transfer) or 6 (Vesting in other circumstances - corporate events) or, if earlier, the date six weeks after the date on which a notice to acquire Shares under section 979 of the Companies Act 2006 is first served.
- 4.2.2 Subject to rules 4.5 (Cash and share alternative), 4.6 (Withholding) and 8.8 (Consents), the Grantor will arrange for Shares to be transferred to, or to the order of, the Participant within 30 days of the date on which the Option is exercised.
- 4.2.3 If an Option Vests under more than one provision of the rules of the Plan, the provision resulting in the shortest exercise period will prevail.

5

## **4.3 Restricted Shares**

To the extent it has Vested, an Award of Restricted Shares will not lapse under the Plan. In addition, the restrictions referred to in rule 1.9 (Restricted Share Agreement) and contained in the Restricted Share Agreement between the Participant and the Grantor will cease to have effect. Any tax and social security contributions payable on Vesting are described in rule 4.6 (Withholding).

## **4.4 Dividend Equivalent**

Subject to rule 2.1.2, Awards will not include any rights in respect of dividends on the Shares comprised in the Award before Vesting, unless the Grantor, in its discretion, decides otherwise at the Award Date. The Grantor may determine that an Award includes the right to receive a Dividend Equivalent. Dividend Equivalents will be paid to any relevant Participant as soon as practicable after Vesting.

For the purpose of this rule 4.4 (Dividend Equivalent) and unless the Directors determine otherwise, "market value" means the closing middle market quotation for a Share taken from the Daily Official List of the London Stock Exchange (or, in the case of an ADR, the closing price on the New York Stock Exchange as reported in the Wall Street Journal) on the date of Vesting or, in the case of an Option, the date of exercise.

The Grantor will exercise the discretions in this rule 4.4 (Dividend Equivalent) subject to the consent of the Directors.

## **4.5 Cash and share alternative**

The Grantor may, subject to the approval of the Directors, decide to satisfy an Option or a Conditional Award by paying an equivalent amount in cash (subject to rule 4.6 (Withholding)). For Options, the cash amount must be equal to the amount by which the market value of the Shares in respect of which the Option is exercised



exceeds the Option Price. Alternatively, the Grantor may decide to satisfy an Option by procuring the transfer of shares to the value of the cash amount specified above.

The Company may determine that an Option or Conditional Award will be satisfied in cash at the Award Date or any time before satisfaction of the Award, including after Vesting or, in the case of an Option, after exercise.

In respect of Awards which consist of a right to receive a cash amount, the Directors may decide instead to satisfy such Awards (and any Dividend Equivalents) by the delivery of Shares (subject to rule 4.6 (Withholding)). The number of Shares will be calculated by reference to the market value of the Shares on the date of Vesting for Conditional Awards and the date of exercise for Options.

#### **4.6 Withholding**

The Company, the Grantor, any employing company or trustee of any employee benefit trust may withhold such amount and make such arrangements as it considers necessary to meet any liability to taxation or social security contributions in respect of Awards. These arrangements may include the sale or reduction in number of any Shares on behalf of the Participant.

### **6**

#### **5 Vesting in other circumstances - personal events**

##### **5.1 General rule on leaving employment**

Subject to rule 5.2 ("Good leavers"), an Award which has not Vested will cease to be capable of Vesting on the date on which the Participant gives or receives notice of termination of his employment with any Member of the Group (whether or not such termination is lawful), unless the Directors decide otherwise.

An Award will lapse on the date the Participant ceases to be an Employee unless one of the reasons in rule 5.2 applies.

This rule 5.1 will not apply where the Vesting of an Award is delayed due to the operation of a Dealing Restriction, unless the Participant ceases to be an Employee by reason of dismissal for misconduct.

##### **5.2 "Good leavers"<sup>1</sup>**

5.2.1 If a Participant ceases to be an Employee for any of the reasons set out below, then his Awards will Vest as described in rules 5.3 (Vesting - Award subject to Performance Condition) and 5.4 (Vesting - Award not subject to Performance Condition) and lapse as to the balance. The reasons are:

- (i) disability, as established to the satisfaction of the Company;
- (ii) death; and
- (iii) any other reason, if the Directors so decide in any particular case.

5.2.2 The Directors may only exercise the discretion provided for in rule 5.2.1 (iii) within 30 days after cessation of the relevant Participant's employment.

##### **5.3 Vesting - Award subject to Performance Condition**

Where rule 5.2 ("Good leavers") applies, the Award does not lapse, and the extent to which it will Vest is measured in accordance with rule 3.1 (Determination of Performance Conditions) at the end of the Performance Period. However, the Performance Period in respect of an Award will be treated as ending on the date of the termination of employment, and the Award

will Vest immediately, to the extent that the Performance Condition has been or is likely to be satisfied (as determined by the Directors in the manner specified in the Performance Condition or in such manner as they consider reasonable) where a Participant has died or where the Directors so decide in their discretion.

Unless the Directors decide otherwise, the Award should be reduced pro rata to reflect the number of days from the start of the Performance Period until cessation of the Participant's employment as a proportion of the number of days of the Performance Period.

#### **5.4 Vesting - Award not subject to Performance Condition**

Where rule 5.2 ("Good leavers") applies and the Award is not subject to a Performance Condition, the Award does not lapse but will Vest, in the case of death, immediately and otherwise on the date of Vesting set by the Directors on grant. However, the Directors may

<sup>1</sup> This provision is amended with effect from 1 January 2013. For Awards granted prior to this date, please see previous version of the Plan

### 7

decide that the Award should Vest either immediately or on any other date. The Awards will Vest in full unless the Directors decide otherwise, in which case the Award will be reduced pro rata to reflect the period from the Award Date to the date of cessation of employment relative to the Vesting period.

#### **5.5 Overseas transfer**

If a Participant remains an Employee but is transferred to work in another country or changes tax residence status and, as a result he would:

5.5.1 suffer a tax disadvantage in relation to his Awards (this being shown to the satisfaction of the Directors); or

5.5.2 become subject to restrictions on his ability to exercise his Awards or to hold or deal in the Shares or the proceeds of the sale of the Shares acquired on exercise because of the security laws or exchange control laws of the country to which he is transferred,

then the Directors may decide that his Awards will Vest on a date they choose before or after the transfer takes effect. The Award will Vest to the extent they permit and the Directors will decide whether any balance of the Award will lapse.

#### **5.6 Meaning of "ceasing to be an Employee"**

For the purposes of rules 4 (Consequences of Vesting) and 5 (Vesting in other circumstances - personal events), a Participant will not be treated as ceasing to be an Employee until he is no longer an Employee of any Member of the Group or if he recommences employment with a Member of the Group within 14 days or such other period and on such basis as the Directors decide.

### **6 Vesting in other circumstances - corporate events**

#### **6.1 Time of Vesting**

6.1.1 In the event of a Change of Control, an Award Vests subject to rules 6.1.2 and 6.3 (Exchange). The Award lapses as to the balance except to the extent exchanged under rule 6.3 (Exchange).

6.1.2 If the Company is or may be affected by any demerger, delisting, distribution (other than an ordinary dividend) or other transaction, which, in the opinion of the Directors, might affect the current or future value of any Award, the Directors may allow an Award to Vest. The Award will Vest to the extent specified in rule 6.2 (Extent of Vesting) and will lapse as to the balance unless exchanged under rule 6.3 (Exchange). The Directors may impose other conditions on Vesting.

## 6.2 Extent of Vesting

Where an Award vests under rule 6.1 (Time of Vesting):

6.2.1 If the Award is subject to a Performance Condition, the Directors will determine the extent to which any Performance Condition has been satisfied as at the date of Change of Control (as determined by the Directors in the manner specified in the Performance Condition or in such manner as they consider reasonable) and the proportion of the Award which will Vest. In addition, unless the Directors decide otherwise, the Award is reduced pro rata to reflect the number of days from the

8

start of the Performance Period until the date of Change of Control as a proportion of the number of days of the Performance Period.

6.2.2 If the Award is not subject to any Performance Condition, the Award will Vest in full unless the Directors decide otherwise.

## 6.3 Exchange

An Award will not Vest under rule 6.1 (Time of Vesting) but will be exchanged under rule 6.6 (Exchange terms) to the extent that:

- 6.3.1 an offer to exchange the Award is made and accepted by a Participant; or
- 6.3.2 the Directors, with the consent of the Acquiring Company, decide before Change of Control that the Award will be automatically exchanged.

## 6.4 Directors

In this rule 6 (Vesting in other circumstances - corporate events), "Directors" means those people who were members of the remuneration committee of the Company immediately before the Change of Control.

## 6.5 Timing of exchange

Where an Award is to be exchanged under rule 6.3 (Exchange) the exchange is effective immediately following the relevant event.

## 6.6 Exchange terms

Where a Participant is granted a new award in exchange for an existing Award, the new Award:

- 6.6.1 must confer a right to acquire shares in the Acquiring Company or another body corporate determined by the Acquiring Company;
- 6.6.2 must be equivalent to the existing Award, subject to rule 6.6.4;
- 6.6.3 is treated as having been acquired at the same time as the existing Award and, subject to rule 6.6.4, Vests in the same manner and at the same time;
- 6.6.4 must:
  - (i) be subject to a Performance Condition which is, so far as possible, equivalent to any Performance Condition applying to the existing Award; or
  - (ii) not be subject to any Performance Condition but be in respect of the number of shares which is equivalent to the number of Shares comprised in the existing Award which would have Vested under rule 6.2.1 and Vest at the end of the original Performance Period; or
  - (iii) be subject to such other terms as the Directors consider appropriate in all the circumstances,

6.6.5 is governed by the Plan as if references to Shares were references to the shares over which the new award is granted and references to the Company were references to the Acquiring Company or the body corporate determined under rule 6.6.1 above.

## 9

### 7 Changing the Plan and termination

#### 7.1 Powers of amendment

Except as described in rules 7.2 (Employees' share scheme) and 7.3 (Shareholder approval), the Directors may at any time change the provisions of the Plan in any respect. Schedules may be added to the Plan rules in order to facilitate variations in the operation of the Plan in different countries.

#### 7.2 Employees' share scheme

No amendment or operation of the Plan will be effective to the extent that the Plan would cease to be an "employees' share scheme" as defined in Section 1166 of the Companies Act 2006.

#### 7.3 Shareholder approval

No amendment to the Plan may be made, which would necessitate, under any law or regulation, the Plan's approval by the Company in general meeting, until such approval has been obtained.

#### 7.4 Notice

The Directors are not required to give the Participant notice of any change made.

#### 7.5 Termination

The Plan will terminate on the Expiry Date, but the Directors may terminate the Plan at any time before that date. The termination of the Plan will not affect existing Awards.

### 8 General

#### 8.1 Terms of employment

8.1.1 This rule 8.1 (Terms of employment) applies during an Employee's employment and after the termination of an Employee's employment, whether or not the termination is lawful.

8.1.2 Nothing in the rules or the operation of the Plan forms part of the contract of employment of an Employee. The rights and obligations arising from the employment relationship between the Employee and his employer are separate from, and are not affected by, the Plan. Participation in the Plan does not create any right to, or expectation of, continued employment.

8.1.3 No Employee has a right to participate in the Plan. Participation in the Plan or the grant of Awards on a particular basis in any year does not create any right to or expectation of participation in the Plan or the grant of Awards on the same basis, or at all, in any future year.

8.1.4 The terms of the Plan do not entitle the Employee to the exercise of any discretion in his favour.

8.1.5 The Employee will have no claim or right of action in respect of any decision, omission or discretion, which may operate to the disadvantage of the Employee even if it is unreasonable, irrational or might otherwise be regarded as being in

breach of the duty of trust and confidence (and/or any other implied duty) between the Employee and his employer.

- 8.1.6 No Employee has any right to compensation for any loss in relation to the Plan, including any loss in relation to:
- (i) any loss or reduction of rights or expectations under the Plan in any circumstances (including lawful or unlawful termination of employment);
  - (ii) any exercise of a discretion or a decision taken in relation to an Award or to the Plan, or any failure to exercise a discretion or take a decision;
  - (iii) the operation, suspension, termination or amendment of the Plan.

## **8.2 Directors' decisions final and binding**

The decision of the Directors on the interpretation of the Plan or in any dispute relating to an Award or matter relating to the Plan will be final and conclusive.

## **8.3 Third party rights**

Nothing in this Plan confers any benefit, right or expectation on a person who is not a Participant. No such third party has any rights under the Contracts (Rights of Third Parties) Act 1999, or any equivalent local legislation, to enforce any term of this Plan. This does not affect any other right or remedy of a third party which may exist.

## **8.4 Documents sent to shareholders**

The Company is not required to send to the Participant copies of any documents or notices normally sent to the holders of its Shares.

## **8.5 Costs**

The Company will pay the costs of introducing and administering the Plan. The Company may ask a Participant's employer to bear the costs in respect of an Award to that Participant.

## **8.6 Employee trust**

The Company and any Subsidiary may provide money to the trustee of any trust or any other person to enable them or him to acquire Shares to be held for the purposes of the Plan, or enter into any guarantee or indemnity for those purposes, to the extent permitted by Section 682 of the Companies Act 2006 or any applicable law.

## **8.7 Data protection**

By participating in the Plan the Participant consents to the holding and processing of personal information provided by the Participant to any Member of the Group, trustee or third party service provider, for all purposes relating to the operation of the Plan. These include, but are not limited to:

- 8.7.1 administering and maintaining Participant records;
- 8.7.2 providing information to Members of the Group, trustees of any employee benefit trust, registrars, brokers or third party administrators of the Plan;

- 8.7.3 providing information to future purchasers or merger partners of the Company, the Participant's employing company, or the business in which the Participant works;

8.7.4 transferring information about the Participant to a country or territory outside the European Economic Area that may not provide the same statutory protection for the information as the Participant's home country.

The Participant is entitled, on payment of a fee, to a copy of the personal information held about him and, if anything is inaccurate, the Participant has the right to have it corrected.

## **8.8 Consents**

All allotments, issues and transfers of Shares will be subject to any necessary consents under any relevant enactments or regulations for the time being in force in the United Kingdom or elsewhere. The Participant is responsible for complying with any requirements he needs to fulfil in order to obtain or avoid the necessity for any such consent.

## **8.9 Share rights**

Shares issued to satisfy Awards under the Plan will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment. Where Shares are transferred to a Participant, including a transfer out of treasury, the Participant will be entitled to all rights attaching to the Shares by reference to a record date on or after the transfer date. The Participant will not be entitled to rights before that date.

## **8.10 Listing**

If and so long as the Shares are listed and traded on a public market, the Company will apply for listing of any Shares issued under the Plan as soon as practicable.

## **8.11 Notices**

8.11.1 Any information or notice to a person who is or will be eligible to be a Participant under or in connection with the Plan may be posted, or sent by electronic means, in such manner to such address as the Company considers appropriate, including publication on any intranet.

8.11.2 Any information or notice to the Company or other duly appointed agent under or in connection with the Plan may be sent by post or transmitted to it at its registered office or such other place, and by such other means, as the Directors or duly appointed agent may decide and notify the Participant.

8.11.3 Notices sent by post will be deemed to have been given on the second day after the date of posting. However, notices sent by or to a Participant who is working overseas will be deemed to have been given on the seventh day after the date of posting. Notices sent by electronic means, in the absence of evidence to the contrary, will be deemed to have been received on the day after sending.

## **8.12 Governing law and jurisdiction**

English law governs the Plan and all Awards and their construction. The English courts have non-exclusive jurisdiction in respect of disputes arising under or in connection with the Plan or any Award.

## **9 Definitions**

In these rules:

"Acquiring Company" means a person who has or obtains control (within the meaning of Section 995 of the Income Tax Act 2007) of the Company;

"Award" means a Conditional Award, Restricted Shares or an Option;

**"Award Date" means the date on which an Award is granted by deed under rule 1.4;**

"Change of Control" means:

- (i) when a general offer to acquire Shares made by a person (or a group of persons acting in concert) becomes wholly unconditional; or
- (ii) when, under Section 895 of the Companies Act 2006 or equivalent procedure under local legislation, a court sanctions a compromise or arrangement in connection with the acquisition of Shares; or
- (iii) a person (or a group of persons acting in concert) obtaining control (within the meaning of Section 995 of the Income Tax Act 2007) of the Company in any other way.

"Company" means Aviva pic;

"Conditional Award" means a conditional right to acquire Shares granted under the Plan;

"Dealing Restrictions" means restrictions imposed by statute, order, regulation or Government directive, or by the Model Code or any code adopted by the Company based on the Model Code and for this purpose the Model Code means the Model Code on dealings in securities set out in Listing Rule 9, annex 1 (of the London Stock Exchange), as varied from time to time;

"Directors" means, subject to rule 6.4, the board of directors of the Company or a duly authorised person or group of persons;

"Dividend Equivalent" means a right to receive cash or Shares in respect of dividends (as determined from time to time by the Grantor), on such bases as the Grantor may, in its discretion determine;

"Employee" means any employee of a Member of the Group (excluding an executive director of the Company);

"Expiry Date" means 2 December 2021, the tenth anniversary of the adoption of the Plan;

"Restricted Shares" means Shares held in the name of or for the benefit of a Participant subject to the Restricted Share Agreement;

"Restricted Share Agreement" means the agreement referred to in rule 1.9;

"Grantor" means, in respect of an Award, the entity which grants that Award under the Plan;

"London Stock Exchange" means London Stock Exchange pic;

"Member of the Group" means: (i) the Company;

13

(ii) its Subsidiaries from time to time; or

(iii) any other company which is associated with the Company and is so designated by the Directors;

"Option" means a right to acquire Shares granted under the Plan;

"Option Period" means a period starting on the grant of an Option and ending at the end of the day before the tenth anniversary of the grant, or such shorter period as may be specified under rule 4.2 on the grant of an Option;

"Option Price" means zero, or the amount payable on the exercise of an Option, as specified under rule 1.4.8;

"Participant" means a person holding an Award or his personal representatives;

**"Performance Condition" means any performance condition imposed under rule 1.4;**

"Performance Period" means the period in respect of which a Performance Condition is to be satisfied;

"Plan" means these rules known as "The Aviva Recruitment and Retention Share Award Plan", as changed from time to time;

"Shares" means fully paid ordinary shares in the capital of the Company or any American Depository Share or American Depository Receipt (ADR) representing ordinary shares;

"Subsidiary" means a company which is a subsidiary of the Company within the meaning of Section 1159 of the Companies Act 2006; and

"Vesting" in relation to an Option, means an Option becoming exercisable; in relation to a Conditional Award, means a Participant becoming entitled to have the Shares transferred to him subject to the Plan; and in relation to Restricted Shares, means the restrictions set out in the Restricted Share Agreement ceasing to have effect as described in rule 4.3.

## Exhibit 8.1

1695711 Ontario Inc.  
20 Gracechurch (General Partner) Limited  
2-10 Mortimer Street (GP No. 1) Limited  
2-10 Mortimer Street GP Limited  
A.G.S. Customer Services (India) Private Limited  
A.G.S. Lanka (Pvt) Limited  
ACM Investors, L.L.C.  
ACM Trademarks, L.L.C.  
Actis China Investment Company Limited  
Adepa Partipacoes Limitada  
AFER Immo  
AFER-SFER SICAV  
AFRP Sari  
Agents 3A SNC  
Ahorro Andaluz SA  
AI-RECAP GP, LLC

14

AIEREF Holding  
1 S.a r.l.  
AIEREF Holding  
2 S.a r.l.  
AIEREF  
Renewable  
Energy s.r.o.  
Airport Property  
GP (No.2)  
Limited  
Airport Property  
HI Limited  
Alhambra  
Barnsley Limited  
Alhambra One  
Limited  
Alhambra Two  
Limited



American Investors Sales Group, Inc.	
Ameritas Investment Corp.	
AmerUs Land Development, Inc.	Canada
Anna Livia Properties Ltd	United Kingdom
Antarius	United Kingdom
APIA Nominee 1 Limited	United Kingdom
APIA Nominee 2 Limited	India
Apia Regional Office Fund (General Partner) Limited	Sri Lanka
Apia Regional Office Fund (No.I) Limited Area	USA
Life International Assurance Limited Ark Life Assurance Company Limited Aseguradora Valenciana SA, de Seguros y Reaseguros (Aseval) Ashford Investor (General Partner) Ltd. Ashford Investor (Partnership Trustco) Ltd. Ashley Centre One Limited Ashley Centre Two Limited Ashley Epsom Limited	USA
	Mauritius
	Brazil
	France
	France
	Luxembourg
	France
	Spain
	USA
	Luxembourg
	Luxembourg
	Czech Republic
	United Kingdom
	United Kingdom
	Jersey
	United Kingdom
	United Kingdom
	USA
	USA
	USA
	Ireland
	France
	United Kingdom
	United Kingdom
	England
	United Kingdom
	Ireland
	Ireland
	Spain
	United Kingdom
	United Kingdom
	United Kingdom
	United Kingdom
	Jersey
Ashtenne (AIF) Limited	Ashtenne
Ashtenne Caledonia Limited	Industrial Fund
Ashtenne (Severnside) Limited	Nominee No. 1
Ashtenne Industrial (General Partner) Limited	Limited

Ashtenne Industrial Fund Nominee No. 2 Limited	United Kingdom
Assurances Jean-Claude Leclerc Inc.	Scotland United
Avipop Assicurazioni SpA	Kingdom United
Avipop Vita SpA	Kingdom United
Aviva (Peak No.1) UK Limited	Kingdom United
Aviva (Peak No.2) UK Limited	Kingdom Canada
Aviva Annuity UK Limited	Italy Italy
Aviva Asia Holdings Private Limited	United Kingdom
Aviva Asia Pte Ltd.	United Kingdom
Aviva Asset Management Limited	United Kingdom
Aviva Assicurazioni SpA	Singapore
Aviva Assicurazioni Vita SpA	Singapore
Aviva Assignment Corporation	United Kingdom
Aviva Assurances SA	Italy
Aviva Brands (No. 2) Limited	Italy
Aviva Brands Ireland Limited	USA
Aviva Brands Limited	France
Aviva Canada Inc.	United Kingdom
Aviva Central Services UK Limited	Ireland
Aviva Commercial Finance Limited	United Kingdom
Aviva Company Secretarial Services Limited	Canada
Aviva Consumer Products UK Limited	United Kingdom
Aviva Convertibles SICAV	United Kingdom
Aviva Credit Services UK Limited	United Kingdom
Aviva Deposits UK Limited	United Kingdom
Aviva Developpement Sicav	France
Aviva Direct Ireland Limited	United Kingdom
Aviva Director Services Limited	United Kingdom
Aviva Diversifie SICAV	France Ireland
Aviva Domains Limited	United Kingdom
Aviva Driving School Ireland Limited	France
Aviva Employment Services Limited	United Kingdom
Aviva Epargne Retraite SA	Ireland
Aviva Equity Release UK Limited	United Kingdom
Aviva Europe SE	France
Aviva Europe Services France	United Kingdom
Aviva Europe SICAV	United Kingdom
Aviva Financial Services Limited	France France
	United Kingdom

Aviva France	Unipersonal)
Aviva General Insurance LLC	Aviva Health
Aviva Gestion S.G.I.I.C SA (Sociedad Unipersonal)	Group Ireland Limited
Aviva Global Services (Management Services) Private Limited	Aviva Health Insurance Ireland Limited
Aviva Group Holdings Limited	Aviva Health UK limited
Aviva Group Ireland pic	
Aviva Group Services Ireland Limited	
Aviva Grupo Corporativo S.L. (Sociedad	



United Kingdom United Kingdom

Aviva Investors GR SPV 4 Limited	United Kingdom
Aviva Investors GR SPV 5 Limited	United Kingdom
Aviva Investors GR SPV 2 Limited	United Kingdom
Aviva Investors GR SPV 3 Limited	United Kingdom
Aviva Investors GR SPV 6 Limited	United Kingdom
Aviva Investors GR SPV 7 Limited	United Kingdom
Aviva Investors GR SPV 8 Limited	United Kingdom
Aviva Investors Ground Rent GP Limited	United Kingdom
Aviva Investors Ground Rent Holdco Limited	United Kingdom
Aviva Investors Group Holdings Limited	United Kingdom
Aviva Investors Hadrian Capital Fund SICAV-SIF	United Kingdom
Aviva Investors Hadrian Capital I Carry LLP	United Kingdom
Aviva Investors Holdings Ltd	United Kingdom
Aviva Investors Infrastructure GP Limited	Ireland
Aviva Investors Ireland Holdings Limited	Jersey
Aviva Investors Ireland Limited	Jersey
Aviva Investors Jersey Nominee Limited	United Kingdom
Aviva Investors Jersey Unit Trusts Management Ltd	United Kingdom
Aviva Investors Lion Limited	Luxembourg
Aviva Investors London Ltd	
Aviva Investors Luxembourg SA	US
Aviva Investors Mercure SICAV	A
Aviva Investors North America Holdings Inc	US
Aviva Investors North America Inc.	A
Aviva Investors Pacific Pty Limited	Australia
Aviva Investors Pensions Ltd	United Kingdom
Aviva Investors Poland SA	Poland
Aviva Investors Poland Towerzystwo Funduszy Inwestycyjnych S.A.	Poland
Aviva Investors Polish Retail GP Limited	United Kingdom
Aviva Investors Properties Asia S.A.	Luxembourg
Aviva Investors Properties Europe S.A.	Luxembourg
Aviva Investors Property Developments Limited	United Kingdom
Aviva Investors Property Fund Management	
Aviva Investors Real Estate France SA	United Kingdom
Aviva Investors Real Estate Ltd	France
Aviva Investors REaLM Energy Centres GP Limited	United Kingdom
Aviva Investors REaLM Infrastructure	United Kingdom
Aviva Investors No. 1 Limited	United Kingdom
Aviva Investors Securities Investment Consulting Company Limited	United Kingdom
Aviva Investors Social Housing GP Limited	Taiwan
	United Kingdom

Aviva Investors Social Housing Limited	Aviva Investors
Aviva Investors Students Assets GP Limited	UK Real Estate
Aviva Investors UK Fund Services Limited	Recovery
Aviva Investors UK Funds Limited	(Nominee Two)
Aviva Investors UK Nominees Limited	Limited
Aviva Investors UK Real Estate Recovery (General Partner) Limited	Aviva Investors
	UK Real Estate

Recovery (Nominee) Limited	United Kingdom
Aviva Italia Holding SpA Aviva Italia SpA	United Kingdom
Aviva Life & Pensions Ireland Limited	United Kingdom
Aviva Life & Pensions UK Limited	England
Aviva Life and Annuity Company	
Aviva Life and Annuity Company of New York	United Kingdom
Aviva Life Holdings Ireland Limited	
Aviva Life Holdings UK Limited	United Kingdom
Aviva Life Insurance Company India Limited	
Aviva Life Insurance Company Limited	United Kingdom
Aviva Life International Limited	Italy
Aviva Life Investments UK Limited	Italy
Aviva Life Services Ireland Limited	Ireland
Aviva Life Services UK Limited	United Kingdom
Aviva Life SpA	USA
Aviva Life UK Limited	USA
Aviva London Assignment Corporation	Ireland
Aviva Ltd.	United Kingdom
Aviva Nominees UK Limited Aviva Oblig International SICAV Aviva Oblirea Sicav	India
Aviva Ocean Racing Limited Aviva Overseas Holdings Limited Aviva Participations SA Aviva Patrimoine SICAV	Hong Kong
Aviva Pensii Private - Societate de Administrare a Fondurilor de Pensii Private SA Aviva Pension Trustees UK Limited Aviva pic	Ireland
Aviva Powszechna Towarzystwo Emerytalne Aviva BZ WBK S.A. Aviva Premier (SAS)	Scotland
	Ireland
	United Kingdom
	Italy
	United Kingdom
	USA
	Singapore United Kingdom France
	France
	United Kingdom
	United Kingdom
	France France
	Romania United Kingdom United Kingdom
	Poland
	France

Aviva Previdenza S.p.A	Italy
Aviva Professional Services (Pty) Limited	South Africa
Aviva Public Private Finance Limited (Policyholder)	United Kingdom
Aviva Re Iowa, Inc	USA
Aviva Re Iowa II, Inc	USA
Aviva Re Limited	Bermuda
Aviva Re USA II, Inc.	USA
Aviva Re USA III, Inc.	USA

Aviva Re USA IV, Inc.	USA
Aviva Re USA VI, Inc	USA
Aviva Real Estate Investors (Avalon), LLC	USA
Aviva Real Estate Investors (Boyette), LLC	USA
Aviva Real Estate Investors (Cedar Valley), LLC	USA
Aviva Real Estate Investors (Compson Square), LLC	USA
Aviva Real Estate Investors (Dana Point) LLC	USA
Aviva Real Estate Investors (Deerpath I), LLC	USA
Aviva Real Estate Investors (Deerpath II), LLC	USA
Aviva Real Estate Investors (Egandale Point), LLC	USA
Aviva Real Estate Investors (Elmwood Park), LLC	USA
Aviva Real Estate Investors (Falcon Landing), LLC	USA
Aviva Real Estate Investors (Jourdan Crossing), LLC	USA
Aviva Real Estate Investors (Lake Havasu), LLC	USA
Aviva Real Estate Investors (Lombard ), LLC	USA
Aviva Real Estate Investors (Marketplace), LLC	USA
Aviva Real Estate Investors (Melrose), LLC	USA
Aviva Real Estate Investors (Pinnacle), LLC	USA
Aviva Real Estate Investors (Renaissance), LLC	USA
Aviva Real Estate Investors (Trone), LLC	USA
Aviva Real Property Holdings, LLC	USA
Aviva Regional Operating Headquarters & Customer Services (Pvt) Ltd	Sri Lanka
Aviva Risk Management Solutions UK Limited	United Kingdom
Aviva Securite Europe Sicav	France
Aviva Securities, LLC	USA
Aviva Services Payment Limited	Ireland
Aviva Services Sp. z o. o.	Poland
Aviva Share Account Limited	United Kingdom
Aviva Sigorta AS	Turkey
Aviva Solutions SAS	France
Aviva Sp. z.o.o.	Poland
Aviva SpA	Italy
Aviva Special PFI GP Limited	United Kingdom
Aviva Staff Pension Trustee Limited	United Kingdom

Aviva Towarzystwo Ubezpieczen na Zycie S.A.	Aviva Vida y
Aviva Towarzystwo Ubezpieczen Ogolnych S.A.	Pensiones S.A.
Aviva Training & Services SRL	de seguros y
Aviva Trust Company Channel Islands Limited	reaseguros
Aviva Trustee Company Ireland Limited	(Sociedad
Aviva UK Limited	Unipersonal)
Aviva UKGI Investments Limited	Aviva Vie SA
Aviva Undershaft Two Limited	Aviva Vita SpA
Aviva Undershaft One S.E.	Aviva Warranty
Aviva USA Corporation	Services Inc.
Aviva USA Corporation	Aviva Wrap UK
Aviva USA Corporation	Limited
Aviva Valeurs Francaise SICAV	Aviva-COFCO
Aviva Valeurs Immobilieres Sicav	Life Insurance
	Company Ltd





Park (Nominee) Limited Cardiff Bay (CPS) Limited Cardiff Bay GP Limited Cardiff Bay Nominee 1 Ltd Cardiff Bay Nominee 2 Ltd Carillion-Igloo Limited Carillion-Igloo Nominees Limited Centaurus CER (Aviva Investors) Sari Centralife Annuities Service, Inc. CGNU Life Assurance Ltd. CGU Group BV CGU International Holdings BV CGU Project Services Private Limited Chantry Court Westbury Limited CIMB Aviva Assurance Berhad CIMB Aviva Takaful Berhad Client One Securities LLC Closed Joint Stock Insurance Company "Aviva" (ZAO) Colnbrook General Partner Limited Colnbrook Nominee Limited Commercial Union Capital Limited Commercial Union Corporate Member Limited Commercial Union do Brasil Representacoes Limitada Commercial Union Finance BV Commercial Union Life Assurance Company Ltd. Commercial Union Nominee Holdings Limited Commercial Union Trustees Limited Cornerford Limited Crane Investment Holdings Pte. Limited Creative Marketing International Corporation Croissance Immo SCPI Croissance Pierre 2 SA	Poland  Spai n Spai n  Spain Jersey Jersey Jersey United Kingdom United Kingdom United Kingdom United Kingdom United Kingdom United Kingdom Luxembourg USA United Kingdom Netherlands Netherlands India United Kingdom Malaysia Malaysia USA  Russia United Kingdom United Kingdom United Kingdom United Kingdom  Brazil Netherlands United Kingdom United Kingdom United Kingdom United Kingdom Singapore USA France France
Croissance Pierre SCI Curelife Limited CXG Aviva Corporacion CaixaGalicia de Seguros y Reaseguros, S.A. Czar Management Limited Designer Retail Outlet Centres (General Partner) Ltd /The	Designer Retail Outlet Centres (Livingston) General Partner Limited/The Designer Retail Outlet Centres (Mansfield)



4 Limited Homesun 5 Limited	United
Hong Kong Reinsurance Company Limited	Kingdom
Howgate Four Limited	Luxembourg
Howgate Freehold Limited	United
Howgate Leasehold Limited	Kingdom
Howgate One Limited	United
Howgate Three Limited	Kingdom
Howgate Two Limited	United
Igloo Regeneration (Butcher Street) Limited	Kingdom
Igloo Regeneration (General Partner) Ltd.	United
Igloo Regeneration (Nominee) Limited Igloo	Kingdom
Regeneration Developments (General	United
Partner) Limited	Kingdom
Igloo Regeneration Developments	United
(Nominees) Limited	Kingdom
Inowest Insurance Brokers Inc Insurance	United
Agency Marketing Services, Inc. Insurance	Kingdom Hong
Agent Service Inc. IQUO Limited	Kong United
Knockanevin Limited	Kingdom Jersey
Lancashire & Yorkshire Reversionary	Jersey
Interest Company Ltd. /The Liberty One	United
Limited Liberty Romford Limited Liberty	Kingdom
Two Limited	United
Lime Property Fund (General Partner) Limited	Kingdom
Lime Property Fund (Nominee) Limited Limited	United
Liability Company "GI Financial Services"	Kingdom
Limited Liability Company "InterTrust" Locamat	United
SAS Lodz B.C. Sp.zoo Logipierre 1 SCPI	Kingdom
London and Edinburgh Insurance Company	United
Limited Mall (General Partner) Limited/The Mall	Kingdom
Nominee One Limited	United
	Kingdom
	United
	Kingdom
	United
	Kingdom
	Canada
	USA
	Canada
	United
	Kingdom
	Ireland
	United
	Kingdom
	United
	Kingdom
	Jersey
	United
	Kingdom
	United
	Kingdom
	United

Kingdom Russia Russia France Poland France  
United Kingdom United Kingdom United  
Kingdom





Quercus (General Partner) Ltd.	United Kingdom
Quercus (Nursing Homes No. 2) Ltd.	United Kingdom
Quercus (Nursing Homes) Ltd.	United Kingdom
Quercus (Westbury) Limited	United Kingdom
Quercus GP Holdco Limited	United Kingdom
Quercus Housing (No. 1) Ltd.	United Kingdom
Quercus Housing (No. 2) Ltd.	United Kingdom
Quercus No. 2 (General Partner) Limited	United Kingdom
Quercus Nursing Homes 2001 (A) Ltd.	United Kingdom
Quercus Nursing Homes 2001 (B) Ltd.	United Kingdom
Quercus Nursing Homes 2010 (C) Ltd.	United Kingdom
Quercus Nursing Homes 2010 (D) Ltd.	United Kingdom
Rabbit Chojamaru TMK	Japan Japan
Rabbit Kanda TMK	Japan Japan
Rabbit Midosuji TMK	Japan England
Rabbit Nakanoshima TMK	Germany
Rabbit Otemachi TMK	Germany USA
RAC PENSION TRUSTEES LIMITED	United Kingdom
Reschop Carre Hattingen GmbH	United Kingdom
Reschop Carre Marketing GmbH	Canada
River Road Asset Management LLC	Luxembourg
Rugby Radio Station (General Partner) Limited	Luxembourg
Rugby Radio Station (Nominee) Limited	France
S&Y Insurance Company	Luxembourg
Sapphire Actipark 1 Sari	Luxembourg
Sapphire Actipark 2 Sari	France
Sapphire Actipark SCI	Luxembourg
Sapphire He de France 1 Sarl	Luxembourg
Sapphire lie de France 2 Sarl	France
Sapphire lie de France SCI	France
Sapphire Lyon 1 Sarl	Canada
Sapphire Lyon 2 Sarl	France
Sapphire Lyon SCI	United Kingdom
SCI CARPE DIEM	United Kingdom
Scottish & York Insurance Co. Limited	Jersey
Segesf i SA	France
Selborne One Limited Selborne	France
Two Limited Selborne	France
Walthamstow Limited Selectinvie	France
SCI Selectipierre 1 SCPI	
Selectipierre 2 SCPI Selectipierre	
SC	

Serviced Offices UK (Services) Limited Serviced  
Offices UK GP Limited Serviced Offices UK

Nominee Limited  
Services

d'Assurance Youville Inc. Shepperton Studios	United Kingdom
(General Partner) Limited Societe Civile	United Kingdom
Immobiliere Montaigne Societe Concessionnaire	United Kingdom
des Immeubles de la Pepiniere SA SOFRAGI	Canada
Solus (London) Limited Solus Automotive	United Kingdom
Limited Southgate General Partner Limited	France
Southgate LP (Nominee 1) Limited	
Southgate LP (Nominee 2) Limited Square	France
Brighton Limited/The Swan Valley	United Kingdom
Management Limited Terrace Center	France
Associates, LLC The Forum, Horsham	United Kingdom
(No.1) Limited The Forum, Horsham (No.2)	United Kingdom
Limited Tortise Chojamaru GK Tortise	United Kingdom
Kanda GK Tortise Midosuji GK Tortise	United Kingdom
Nakanoshima GK Traders General	United Kingdom
Insurance Company Trinity Aberdeen	United Kingdom
Limited Trinity One Limited Trinity Trustee	United Kingdom
Company Ltd Trinity Two Limited Tyne	United Kingdom
Assets (No. 2) Limited Tyne Assets Limited	USA
Ufifrance Immobilier SCPI UFF	United Kingdom
Entrepreneurs Ufifrance Gestion Ufifrance	United Kingdom
Patrimoine SAS Undershaft (AE No. 3)	Japan
Limited Undershaft (AE No. 4) Limited	Japan
Undershaft (Bonus) Limited Undershaft	Japan
(Boiler) Limited Undershaft (CGUUL)	Japan
Limited Undershaft (Hamilton) Limited	Canada
Undershaft (No.2) BV Undershaft (NUCM)	Jersey
Limited Undershaft (NUL) UK Limited	United Kingdom
	United Kingdom
	United Kingdom
	England
	England
	France
	France
	France
	France
	United Kingdom
	United Kingdom
	United Kingdom
	United Kingdom
	United Kingdom
	United Kingdom
	Netherlands
	United Kingdom
	United Kingdom
Undershaft (NULLA) Limited	United Kingdom
Undershaft (Peak No.3) UK Limited	United Kingdom
Undershaft (World) Limited	United Kingdom
	United Kingdom



haft WG Limited	United I
Unicorp Vida, Compania de Seguros y Reaseguros	United
Union Financiere de France Banque	United
Unitair General Partner Limited	United
Uzdaroji akcine gyvybes draudimo ir pensijq bendrove "Aviva Lietuva"	United
Vanwall 2 Management Company Ltd.	Spain
Victoire Immo 1SCI	France
Victoire Sirius SICAV	United Kingdom
Victor Hugo 1 Sarl	Lithuania
Victor Hugo 2 Sarl	United Kingdom
Victor Hugo 3 SCI	France
Victoria Reinsurance Company Ltd	France
Vietinbank Aviva Life Insurance Company Limited	Luxembourg
VIP Conseils SA	Luxembourg
Vivas Financial Services Limited	France
Voltaire SAS	Barbados
Wayfarer Insurance Brokers Limited	Vietnam
Welsh Insurance Corporation Limited /The	France
Wood Green London Limited	Ireland
Wood Green One Limited	France
Wood Green Two Limited	Canada
Wood Lane (Stadium) Limited	United Kingdom
Woori Aviva Life Insurance Co. Ltd	Jersey
Wroclaw B.C. Sp.zoo	United Kingdom
XEL RETAIL GROUP LIMITED	United Kingdom
Yorkshire Insurance Company Limited/The	United Kingdom
	South Korea
	Poland England
	United Kingdom

Exhibit 12.1

Certification of the Company's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

1, Mark Wilson, certify that'

- 1 I have reviewed this Annual Report on Form 20-F (the "Report") of Aviva pic (the "Company");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state  
a  
material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;
- 4 The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles,
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - (d) Disclosed in this Report any change in the Company's internal control over financial reporting that occurred during the period covered by the Report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
- 5 The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: 22 March 2013

Mark Wilson  
Group chief executive officer

## Exhibit 12.2

Certification of the Company's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Patrick Regan, certify that:

1. I have reviewed this Annual Report on Form 20-F (the "Report") of Aviva pic (the "Company");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report,
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation, and
  - (d) Disclosed in this Report any change in the Company's internal control over financial reporting that occurred during the period covered by the Report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function)-
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date. 22 March 2013

Patrick Regan Chief  
financial officer

Exhibit 13.1

Certification of the Company's Chief Executive Officer pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with this Annual Report on Form 20-F of Aviva pic (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark Wilson, Group Chief Executive of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge-

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date 22 March 2013

Mark Wilson  
Group chief executive officer

Exhibit 13.2

Certification of the Company's Chief Financial Officer pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with this Annual Report on Form 20-F of Aviva plc (the "Company") for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Patrick Regan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: 22 March 2013

Patrick Regan  
Chief financial officer